**VIDEO SERIES: FAST FINANCE**

**No. 11: FINANCIAL STATEMENT MEASURING ASSETS**

**Mixed Measurements**

When reading financial statements, reporters need to know how assets are being measured. U.S. accountants (who use Generally Accepted Accounting Principles, or GAAP) and International accountants (who use International Financial Reporting Standards, or IFRS) look at balance sheets and income statements in different ways.

To find out how a statement is being measured, read the first note, following the financial statement itself. Use an internet search to look up any technical language.

**Estimates and Earnings Management**

Both GAAP and IFRS both use many estimates. That may be surprising, since accounting has a reputation for precision. While estimates often reflect a management team’s best estimate, management is also prone to bias. That tendency is referred to as earnings management.

**Asset Examples**

• Long-term assets, including property, plant and equipment, are recorded at historical cost, or book value. Land purchased 100 years ago, for example, is still recorded at its original cost. While the valuation for land stays constant, plant and equipment are depreciated because they wear out.

• Financial investments are recorded at fair value. Since they are traded on an exchange, fair values for these assets are usually noncontroversial. But if a market doesn’t exhibit much trading, managers estimate fair values, which could be biased. This happened when Lehman Brothers went bankrupt. Investors didn’t trust Lehman’s estimates and would not loan it funds.

• Short-term or current assets include inventory, receivables and cash. Inventory is recorded as cost or less than cost, if the value has declined. Accounts receivable are recorded at the amount owed, minus an estimate of how much is unlikely to go unpaid.