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Introduction to the Influence of Accounting Measurement Attributes on Financial Information

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Abstract
This paper starts from analyzing the influence of coexistence of various measurement attributes on financial information. Thus, points out the coexistence of multiple measurement attributes cannot realize the organic unity of financial information's reliability and correlation but on the contrary harms them. Therefore, the paper gives a resolution of separating reliability and correlation information at last.

Key words: Financial information; Reliability; Correlation; measurement attributes

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INTRODUCTION

Financial information is mainly information used for providing useful decision-making information for users, therefore, the correlation between financial information and decisions will directly influence the quality of the information. However, correlation-related financial information bases on reliability. If there is no reliability, there is no correlation. Thus, among many requests concerning financial information quality, "correlation" and "reliability" are no doubt the two important accounting standards. However, when providing financial information in real world, correlation and reliability are not always consistent with each other and sometimes there are even irreconcilable contradicts. Therefore, how to realize the reliability of financial information in the maximum scale and correlation of information related decision is ceaseless issue for accounting standard constitutors. The choice and application of accounting measurement attributes is one of many resolutions.

1. EXISTING ISSUES CONCERNING ACCOUNTING MEASUREMENT ATTRIBUTES APPLICATION

1.1 Accounting Measurement Attributes Application

Accounting measurement attributes mainly refer to value measurement standards and methods used for assessing the amount of 6 accounting elements: assets, liabilities, owner's equity, income, cost, and profit. According to the statement of 2006 Accounting Standards for Business Enterprises (ASBE), account measurement attributes mainly include: historic cost, replacement cost, net realizable value, current value, and fair value. It also states that when measure accounting elements, commonly we should use historic cost while when apply replacement cost, net realizable value, current value, and fair value, we should make sure the sum of the decided accounting element could be obtained and reliable. The reasons that accounting standard stipulates the coexistence of various accounting attributes are: a) historic cost contains original materials of trades and therefore can greatly meet the need of the reliability; b) the coexistence of replacement cost, net realizable value, current value, and fair value is used to reflect the "current" or "predicted" market value of accounting elements when trade does not happen. If we can use proper ways to get its accurate sum, the element can provide more valuable information than historic cost which only reflects the past trade prices. That is to say, the correlation shown is much stronger. However, since the other elements apart from historic cost do not have reliable evidences and their verifiability is rather low, the "amount" of the four measurement attributes is hard to make sure the objectivity. In addition, without objectivity and reliability, correlation is difficult to believe.

1.2 Existing Problems in Accounting Measurement Attributes Application

From the analysis above we can see the reason that accounting standard insisting on using historic cost is to provide reliable financial information. The four other measurement attributes stipulated in the accounting standard are used for improving accounting information decisions' correlation. Although the constitutor of the accounting standard wants to provide correlation related financial information based on reliability, in fact the result goes to the opposite.

1.2.1 The Measurement Methods of Replacement Cost, Net Realizable Value, Current Value, and Fair Value Are Not Reliable.

First, we should take a look at the value affirmation process of fair value. When using fair value, the new ASBE has divided its value affirmation into three steps: "first, active market prices should be used to affirm fair value for assets or liabilities etc. which have active markets; second, if there is no active market, fair value should be affirmed by referencing familiar conditions and market trade prices near voluntary trade parties or referring to other substantially the same or similar assets' or liabilities' market prices; last, if there is no active market and both conditions mentioned above cannot be found, we should use valuation technique to affirm fair value."

In new ASBE, there are 17 places that can choose fair value to measure but only a few can be used to affirm their value by the first stage. In current situation in China, financial assets use the first stage to affirm its main application scope while the rest can only use the second and the third. However, in the second stage, there are a few key points such as "familiar conditions", "resource trade", "approach", and "references" etc. The new ASBE does not give further explanation on these points, for example, what is the "familiar condition"? The statements in the ASBE seem clear and understandable but hard to define in practices. Thus, it is a very "subjective" conditional restriction. Take "voluntary exchange" as example, if the parties of the trade deliberately deviate from the market value for certain purpose, can the trade be called "voluntary exchange"? In addition, "approach", "reference" and other conditions' restrictions lack of further referencing standard and all of them are very subjective behaviors. Under such circumstance, how fair the "fair value" is requires further discussion.

The third stage is to affirm by applying valuation technique. At present, the most frequent use of valuation technique is evaluating future cash flow to affirm discounted cash value which has low accuracy. That is to say, valuation technique is still a touch problem waiting for resolution. To use such unsolved problem to resolve another can only make things worse.

1.2.2 Inappropriate Introduction of Depreciation Accounting

In the assets based on the historical cost measurement attributes, in order to increase its "fair value" and correlation of financial information quality, the depreciation accounting has been introduced. One of the aims of introducing depreciation accounting is to reflect the company's financial status fairer. However, when affirm the account of impairment of asset, the affirmation standard and method contains higher "subjectivity". For example, the impairment of "long-term equity investment" is affirmed according to certain signs: "for investment of equity which has market price, the following signs are referred: the market price for two years is lower than the book value, invested enterprises have serious losses of the year, and invested enterprises have losses for two consecutive years; for investment of equity which does not have market price, the following signs are followed: the change of policies and laws influencing invested enterprises, or the consumer market that invested enterprises' products or labors in has great changes or other signs". Although there are many examples listed, the elements influencing enterprises are various and uncountable. In addition, the affirmation of decrease in value is made by the difference between the book value and recoverable amount while the recoverable amount is based on the prediction of the future so it is difficult to guarantee the accuracy.

The example above shows the judgment condition of whether decrease in value happens, the affirmation of decrease value, and methods all contain "subjective" elements. Therefore, through depreciation accounting to increase financial information correlation cannot be practiced well. In addition, lacks of the reflection of the "appreciation" part of assets. Nowadays, real estate and other assets which increase in value with the time do not reflected in financial statements. Such sing-way adjustment method which only records "decrease in value" but not "increase in value" has also influence the improvement of financial information's correlation.

From the above analysis we can see, in order to organically unite "correlation" and "reliability" of financial information, multiple measurement attributes coexistence method is adopted. However, during real practices, since the judgment methods and standards are most very subjective, the method cannot fulfill the aim that was designed in the beginning and what is worse, it may be used to realize "special financial aims" instead.

2. INCREASE *CORRELATION* AND *LIABILITY* OF FINANCIAL INFORMATION

From the analysis above we can see that under current measurement methods, the sums of accounting subjects in balance sheet adopt various measurement attributes at the same time (Table 1).

Table 1
Balance Sheet

Accounting subjects	measurement attributes	Whether adjustments by Decrease in Value
Fixed assets	Historic cost	Yes
Tradable financial assets	Fair value	No
investment property	Historic cost or Fair value	Yes (below historic cost)
…	…	…

From the table 1 we can see, in one balance sheet different measurement attributes and accounting subjects can directly add and subtract. To mix "reliability" amount with "correlation" amount makes people hard to differ which belongs to reliability and which belongs to correlation. The mixed information cannot improve correlation on the base of realizing reliability but destroyed the reliability in the circumstance that correlation was not increased.

CONCLUSION

Therefore, the author gives the following resolutions:

First, divide the balance sheet into two sheets. One of the balance sheets is used to reflect "reliability" information. All accounting subjects totally use historic cost as measurement attribute to guarantee the reliability and verifiability of information. The other sheet is the adjustment sheet based on the first sheet and is mainly used to reflect correlation information: firstly, choose related measurement attributes which can reflect "correlation" most such as replacement cost, net realizable value, current value and fair value; secondly, not only depreciate the impairment of asset but also the increased parts of asset. That is to say, change from one single direction decrease in value to double ways decrease and increase. We should try our best to formulate "objective, applicable, and indentified" judgment standard and condition during adjustment and avoid subjectivity. Therefore, expressing reliability and correlation separately can not only serve the two aims better but also expressing clearer information.

Second, decrease and increase in value of assets should be expressed equally and synchronously. If the decrease in value is recorded in current profit and loss according to current way, then the increase part should also be recorded; if the increase in value is recorded in capital surplus in accordance with current method, then the decrease part should also be recorded. No matter which accounting method is used, there will not be great influence in expressing information. Therefore, equal expression and synchronous treatment is important.

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