

## On the Accounting Measurement of Liabilities

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Present value of Liabilities on the Accounting Measurement is defined firstly by “International Accounting Standard 19, Employee Benefits” and the prescribed rules have been already applied to such obligations. But I have some irrational examples if the rule is applied widely to several liabilities, and studied the records of the discussions on the standard. I wrote this paper as a newly proposing idea or problem of present value of liabilities, because what I would like to state and develop is not recorded in such discussions and I can not find the good answer in “the basis for conclusions.”

The main contents of this paper are as follows:

- the definition of present value of liabilities in International Accounting Standard
- the present value of liabilities is derived from the “equation of value” which is based in Actuarial Science
- when any financial instrument like a bond is exchanged in secondary markets, the market value of such instrument is called as a fair value and equal to the answer of the corresponding equation of value
- on the other hand, any credit and debt with a certain contract is seldom exchanged in secondary markets and at that time the answer of the equation of value is logically derived under some assumed conditions
- I show some examples and some evil effects are accompanied upon measuring at the logical answer for such contracts which are not really exchanged in markets - for instance, those contracts come to have no place in real existence as contracts with liabilities
- my proposition or solution for this problem, i.e. the present value for seldom-exchanging liabilities is the use of the value which is settled in a original market
- I proposed how to use this idea for Employee Benefits

By the way “held-to-maturity investments” like bonds intended to hold to maturity are not measured at fair value but at amortised cost in International Accounting Standard. In Employee Benefits, the plan liability for benefit that depends on future asset returns is discussing now (in Sep. 2004) as follows: it shall be measured at the fair value of the asset or notional asset (the notion of sort of book value.) Discounting of the benefit is not therefore required. These ideas do not come from the theoretical present value. I believe my proposition is worth to discuss as a accounting standard.