

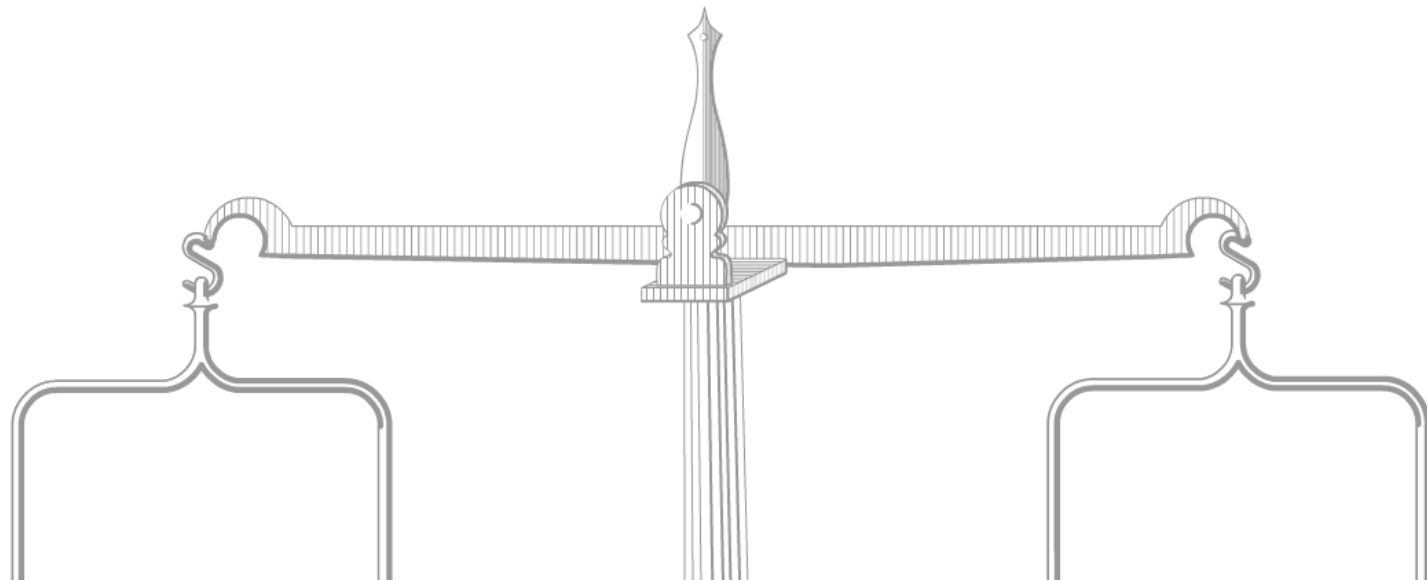
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Schon Klinik: Measuring Cost and Value



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FVM Definition:

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“The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

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Level 1 - "Observable
market inputs that reflect
quoted prices for identical
assets or liabilities"

Level 2 - "Observable
market inputs other than
quoted prices for identical
assets or liabilities"

Level 3 - "Unobservable
market inputs"

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3 Levels:

- Pros: estimates that are current, accurate, and reliable
- Cons: Risk and unreliability of Level 3 inputs

Current Issues

1. Estimation/ Measurement
2. Market Conditions
3. Regulatory Environment
4. International Aspects/Implications

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1. Estimation/Measurement

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- Information availability - Level 3
- Management estimates, "first mover" advantage
- Dependence on specialists: (AU 336)
 - Over-reliance, independence
- Auditor independence:
 - Client relationship, "auditee-pay model"

2. Market Conditions

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- Health of The Economy
- Market Complexity vs. Stagnate Regulations



3. Regulatory Environment

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SFAS 157

Fair Value Measurements

AU 328

Auditing Fair Value Measurements and Disclosures

AU 342

Auditing Accounting Estimates