

Including Estimates of the Future in Today's Financial Statements

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This paper explains why the question is how, not if, today's financial statements should include estimates of the future. Including such estimates is not new, but their use is increasing. This increase results primarily because standard-setters believe asset and liability measures that reflect current economic conditions and up-to-date expectations of the future will result in more useful information for making economic decisions, which is the objective of financial reporting. This is why standard-setters seem focused on fair value accounting. How estimates of the future are incorporated in financial statements depends on the asset and liability measurement attribute, and on financial reporting definitions of assets and liabilities. The present definitions depend on identifying past transactions or events that give rise to expected inflows or outflows of economic benefits and, for inflows, control over the expected benefits. Thus, not all expected inflows or outflows of economic benefits are recognized. Disclosures in the notes can help users understand recognized estimates and can provide information about unrecognized estimates. Including more estimates of the future in today's financial statements would result in an income measure that differs from today's income, but such a measure arguably provides better information for making economic decisions.

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