SPECIFIC ITEMS
SECTION 3831
non-monetary transactions

TABLE OF CONTENTS

PURPOSE AND SCOPE

.01 This Section establishes standards for the measurement and disclosure of non-monetary transactions. It defines when an exchange of assets is measured at fair value and when an exchange of assets is measured at the carrying amount.

.02 This Section applies to non-monetary transactions except:

(a) business combinations that are accounted for in accordance with BUSINESS COMBINATIONS, Section 1582;

(b) transactions involving employee future benefits that are accounted for in accordance with EMPLOYEE FUTURE BENEFITS, Section 3462;

(c) transactions between related parties that are accounted for in accordance with RELATED PARTY TRANSACTIONS, Section 3840 or FINANCIAL INSTRUMENTS, Section 3856, unless paragraphs 3831.14-.15 apply;

(d) transactions involving stock-based compensation and other stock-based payments that are accounted for in accordance with STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS, Section 3870;

(e) transactions involving the acquisition of a subsidiary by an exchange of only equity interests when the acquisition-date fair value of the subsidiary's equity interest is more reliably measurable than the acquisition-date fair value of the enterprise's equity interests that are accounted for in accordance with SUBSIDIARIES, paragraph 1591.26A(b); and

(f) transactions involving the acquisition of an investment subject to significant influence by an exchange of only equity interests when the acquisition-date fair value of the investee's equity interests is more reliably measurable than the acquisition-date fair value of the enterprise's equity interests that are accounted for in accordance with INVESTMENTS, paragraph 3051.07A(a).

.03 A group of monetary transactions that represents a non-monetary transaction in substance (i.e., the exchange of non-monetary assets or services accomplished through the exchange of monetary consideration), is accounted for in accordance with this Section.

.04 This Section does not deal with the replacement, through insurance or expropriation proceeds, of non-monetary assets that are lost, destroyed or expropriated. These items are monetary transactions.

DEFINITIONS

.05 The following terms are used in this Section with the meanings specified:

(a) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(b) **Carrying amount** is the recorded amount of an asset or liability after adjustment, if any, for amortization or impairment in value.

(c) **Entity-specific value** is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life, or expects to incur when settling a liability.

(d) **Monetary assets and liabilities** are money or claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangement. Examples are cash, and accounts and notes receivable and payable in cash.

(e) **Non-monetary assets and liabilities** are assets and liabilities that are not monetary. Examples are inventories, investments in common stock, property, plant and equipment, and liabilities for rent collected in advance. A contractual right to receive services in the future is a non-monetary asset and a contractual obligation to perform services in the future is a non-monetary liability.

(f) **Non-monetary transactions** are either:

(i) **non-monetary exchanges**, which are exchanges of non-monetary assets, liabilities or services for other non-monetary assets, liabilities or services with little or no monetary consideration involved; or

(ii) **non-monetary non-reciprocal transfers**, which are transfers of non-monetary assets, liabilities or services without consideration. Non-reciprocal transfers include, but are not limited to:

— donations of non-monetary assets or services;

— payments of dividends-in-kind;

— stock dividends when the shareholder has the option of receiving cash or shares; and

— the distribution of assets to owners in the liquidation of all or part of an entity.

The issue of shares in a stock split and the payment of non-optional stock dividends are not non-reciprocal transfers.

MEASUREMENT

.06 *An entity shall measure an asset exchanged or transferred in a non-monetary transaction at the more reliably measurable of the fair value of the asset given up and the fair value of the asset received, unless:*

(a) the transaction lacks commercial substance;

(b) the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;

(c) neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or

(d) the transaction is a non-monetary non-reciprocal transfer to owners to which paragraph 3831.14 *applies.*

.07 *An entity shall measure an asset exchanged or transferred in a non-monetary transaction that is not measured at fair value in accordance with paragraph* 3831.06 *at the carrying amount of the asset given up (after reduction, when appropriate, for impairment) adjusted by the fair value of any monetary consideration received or given.*

.08 When an exchange described in paragraph 3831.07 involves partial monetary consideration, the carrying amount of the asset given up is adjusted by the fair value of the monetary consideration. The entity paying the monetary consideration measures the non-monetary asset received at the carrying amount of the asset given up plus the fair value of the monetary consideration paid. The entity receiving the monetary consideration measures the non-monetary asset received at the carrying amount of the non-monetary asset given up less the fair value of the monetary consideration received, unless the monetary consideration exceeds the carrying amount, in which case, a gain is recognized for the amount of such excess.

Reliably measurable fair values

.09 The fair value of an asset for which comparable market transactions do not exist is reliably measurable when:

(a) the variability in the range of reasonable fair value estimates is not significant for that asset (i.e., a number of fair value estimates are available, but all are similar); or

(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value (i.e., a number of dissimilar fair value estimates are available, but the probability of each being the best estimate of fair value can be reasonably assessed, in which case the probabilities may be used to determine the expected fair value).

.10 When an entity is able to reliably determine the fair value of both the asset received and the asset given up, the fair value of the asset given up is used to measure the asset received unless the fair value of the asset received is more reliably measurable. Additional guidance on fair value measurement is provided in IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, Appendix A.

Commercial substance

.11 A non-monetary transaction has commercial substance when the entity's future cash flows are expected to change significantly as a result of the transaction. The entity's future cash flows are expected to change significantly when:

(a) the configuration of the future cash flows of the asset received differs significantly from the configuration of the cash flows of the asset given up (see paragraph 3831.12); or

(b) the entity-specific value of the asset received differs from the entity-specific value of the asset given up, and the difference is significant relative to the fair value of the assets exchanged.

In some cases, a qualitative assessment will be conclusive in determining that the estimated cash flows of the entity are expected to change significantly as a result of the transaction.

.12 The configuration of future cash flows is composed of the risk, timing and amount of the cash flows. A change in any one of these considerations is a change in the configuration.

.13 Entity-specific value, resulting from entity-specific measurement, differs from fair value. It attempts to capture the value of an item in the context of the reporting entity. The entity uses its expectations about its use of the asset rather than the use assumed by marketplace participants. When a transaction has commercial substance, it is measured at fair value rather than entity-specific value.

Restructuring or liquidation

.14 *An entity shall measure a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation at the carrying amount of the non-monetary assets or liabilities transferred.*

.15 A non-monetary non-reciprocal transfer to owners (other than controlling shareholders) resulting from a spin-off or other form of restructuring or liquidation is measured at the carrying amount of the net assets transferred. These transfers do not give rise to a gain or loss in the financial statements of the transferor (other than an impairment loss recognized at the time of disposal if the carrying amount exceeds fair value, in accordance with DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475). Examples of this type of non-reciprocal transfer are the distribution of an operating division of an entity to the entity's owners and the distribution to the owners of an entity of shares of a subsidiary or investee that has been or is being consolidated or accounted for by the equity method.

GAINS AND LOSSES

.16 *An entity shall recognize any gain or loss resulting from a non-monetary transaction in net income for the period, except as specified in INVESTMENTS, Section* 3051*, and INTERESTS IN JOINT ARRANGEMENTS, Section* 3056*.*

DISCLOSURE

.17 *An entity shall disclose the following information in the period in which a non-monetary transaction occurs to enable users of the financial statements to understand the effects of a non-monetary transaction on the financial statements:*

(a) the nature of the transaction;

(b) its basis of measurement;

(c) the amount; and

(d) related gains and losses.

EFFECTIVE DATE AND TRANSITION

.18 Except as specified in paragraphs 3831.19-.21, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

.19 Amendments to paragraph 3831.16, issued in September 2014, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.

.20 New paragraphs 3831.02(e)-(f), issued in December 2016, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2018, and may be applied prospectively as defined in ACCOUNTING CHANGES, paragraph 1506.05(g). Earlier application is permitted.

.21 Amendments to paragraph 3831.02(c), issued in December 2018, apply to annual financial statements related to periods beginning on or after January 1, 2021. Earlier application is permitted.

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Example 1 — Exchange of assets for an interest in an entity — change in cash flow configuration due to a change in the risk of cash flows

Example 2 — Exchange of tangible assets — change in cash flow configuration due to a change in the timing of cash flows

Example 3 — Exchange of intangible assets — change in cash flow configuration due to a change in the amount of the cash flows

Example 4 — Exchange of intangible assets — change in entity-specific value

Example 5 — Exchange of tangible assets — change in entity-specific value, calculation not required

Example 6 — Exchange of tangible assets — change in entity-specific value, calculation required

Example 1 — Exchange of assets for an interest in an entity — change in cash flow configuration due to a change in the risk of cash flows

Entity A transfers its fleet of trucks to Entity B in exchange for a 25 percent interest in the company. The transaction has commercial substance because the change in the type of asset owned represents a change in the risk of the cash flows from the asset. Entity A measures the transaction at the more reliably measurable of the fair values of the fleet of trucks or the interest in Entity B received and recognizes a gain or loss on the fleet of trucks transferred.

Example 2 — Exchange of tangible assets — change in cash flow configuration due to a change in the timing of cash flows

Entity C has recently upgraded its production line and has a conveyor belt that is no longer required. It offers the equipment for sale. Entity D has a surplus dryer that it offers in exchange for the conveyor belt. The two pieces of equipment have comparable fair values. Entity C agrees to the exchange because the additional dryer will enable it to increase the speed of its line by 25 percent, an increase that will enable it to meet its current and forecasted demand. However, the line will require refurbishing sooner as a result of increase in speed (i.e., the exchange will not increase the capacity of the business expressed in units).

The transaction will have commercial substance due to the changes in the timing of its cash flows. Entity C records the transaction at the more reliably measurable of the fair values of the acquired or traded machine and records a gain or loss on the disposition of the traded machine.

Example 3 — Exchange of intangible assets — change in cash flow configuration due to a change in the amount of the cash flows

Entity E exchanges its franchise rights for a fast food restaurant for the rights to a comparably branded fast-food restaurant in another location owned by Entity F. Based on current performance, the franchise being transferred to Entity E has higher cash flows than the franchise being transferred to Entity F; however, Entity F is willing to make the transfer because it owns several other franchises in the same geographic area as the franchise that it is acquiring and will realize cost savings through its new set of franchises. Entity E is eager to make the transfer because it will increase the amount of its cash flows and has no synergistic opportunities for the transferred restaurant.

Entity E records the transaction at the more reliably measurable of the fair values of the acquired or traded franchise and records a gain or loss on the disposition of the traded franchise.

Example 4 — Exchange of intangible assets — change in entity-specific value

In the exchange described in Example 3, Entity F will benefit from the ability to pool staff, and consolidate inventory and restaurant management. Assuming Entity F calculates the net present value of the synergistic cost savings as significant relative to the fair value of the franchise, it recognizes the new franchise at its fair value and records a gain or loss on the disposition of the franchise rights given up.

Example 5 — Exchange of tangible assets — change in entity-specific value, calculation not required

A real estate developer trades a parcel of land with another developer for a second parcel that is contiguous to land it already owns and on which it has built a rental apartment building. As a result of the transaction, it will be able to construct a second apartment building and a recreation facility available to tenants of both buildings. With the additional features, it will be able to increase the rents on the existing building.

Entity-specific value includes all of the cash flow effects of a transaction on the entire entity. Assuming the present value of the increase in rent is significant relative to the fair value of the land, this transaction has commercial substance. The developer records the acquired parcel of land at the more reliably measurable of the fair values of the land acquired and land given up. It recognizes a gain or loss on the disposition of the property given up.

Example 6 — Exchange of tangible assets — change in entity-specific value, calculation required

Entity G, in the shipping business, acquires a cargo ship from Entity H in exchange for a ship from its fleet, plus a small amount of cash to balance the fair values of the ships exchanged. The ships are registered in different jurisdictions. The entities agree to the exchange because each can make better use of the tax incentives available to the owner of the other's ship.

Each entity will first assess whether the cash transfer is significant. A "small" amount of cash is assumed to be insignificant so the transaction does not have commercial substance on the basis of the configuration test (i.e., there is no significant change in the risk, timing or amount of the cash flows). Each entity next assesses the significance of the tax benefits available by calculating the entity-specific values of each ship. This assessment is made by comparing the net present value of the future after-tax cash flows the entity expects from the operation of each ship. The transaction has commercial substance if the difference in entity-specific values is significant relative to the fair value of the ships exchanged. If either entity determines that the exchange has commercial substance, it measures the transaction at the more reliably measurable of the fair values of the ships exchanged, adjusted by the cash payment, and recognizes a gain or loss on the disposition of its old ship.