## MEASUREMENT

### Assumptions

.08 Future-oriented financial information should be prepared using assumptions appropriate in the circumstances.

.09 Management is responsible for the process of developing assumptions and for ensuring that the assumptions developed are appropriate in the circumstances. The quality of future-oriented financial information is largely dependent on the completeness and reasonableness of the assumptions. The process used to develop assumptions would provide for relevant information that is reasonably available when the future-oriented financial information is prepared. Plans and budgets prepared for internal use may provide a basis for developing appropriate assumptions.

.10 Assumptions are frequently interdependent and one assumption may affect many parts of a business and lead to the formulation of other assumptions. The assumptions, therefore, need to be internally consistent. For example, an assumption that sales volume will increase would in most circumstances be coupled with an assumption that wages and raw material costs will also increase.

.11 A forecast is based on reasonable and supportable assumptions that management believes reflect the most probable set of economic conditions and planned courses of action. To be reasonable, these assumptions need to be consistent with the plans of the entity. Assumptions are consistent with the plans of the entity if they reflect the expected economic effects of anticipated strategies, programs, and actions, including those being planned in response to expected future economic conditions. To be supportable, assumptions need to be based on the past performance of the entity itself, the performance of other entities engaged in similar activities, feasibility studies, marketing studies or any other sources that provide objective corroboration of the assumptions used. The extent of detailed information supporting each assumption, and an assessment as to the reasonableness of each assumption, will vary according to circumstances, and will be influenced by factors such as the significance of the assumption and the availability and quality of the supporting information.

.12 As the period of time encompassed by future-oriented financial information is extended, an assumption that reflects management's judgment as to the most probable set of economic conditions and planned courses of action may no longer be supportable. In this case the assumption would be considered an hypothesis and the forecast would become a projection.

.13 A projection is based on reasonable assumptions that include one or more hypotheses. Once hypotheses have been formulated, assumptions would be developed to reflect the most probable set of economic conditions and planned courses of action should the hypotheses prove true. Hypotheses are assumptions that assume a set of economic conditions or courses of action that are not necessarily the most probable in management's judgment, but are consistent with the purpose of the projection, as in response to the question "What would happen if ...?". To be reasonable, hypotheses need to be consistent with the purpose of the projection and represent plausible circumstances. Hypotheses need not be supportable. For example, a projection might be used by an entity in its start up phase when certain key assumptions cannot be supported.

.14 Management's responsibility extends beyond ensuring that individual assumptions used to prepare the future-oriented financial information are appropriate in the circumstances, to ensuring that the assumptions taken as a whole are appropriate.

### Time period

.15 The period covered by future-oriented financial information should not extend beyond the point in time for which such information can be reasonably estimated.

.16 The length of the period for which management can present future-oriented financial information depends on factors such as the needs of users, the ability to make appropriate assumptions, the nature of the industry, and the operating cycle of the entity. The periods covered would normally coincide with those for which historical financial statements or information will be presented (e.g., on an annual or quarterly basis).

.17 Forecasts would not normally be prepared for periods beyond the following fiscal year except when there is reasonable assurance as to the operations in the forecast period. Projections may be presented for periods extending beyond the following fiscal year when there is a reasonable basis for making estimates, although the degree of uncertainty normally increases with the length of the future period covered.

### Accounting policies

.18 Future-oriented financial information should be prepared in accordance with the accounting policies expected to be used in presenting historical financial statements for the future period, except when otherwise agreed to for special purpose future-oriented financial information.

.19 Preparation of future-oriented financial information on the basis of the accounting policies expected to be used in the historical financial statements for the future period facilitates comparisons with the actual results.