

FASB Interpretation No. 30

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Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets

an interpretation of APB Opinion No. 29

September 1979



Financial Accounting Standards Board

of the Financial Accounting Foundation

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FIN 30: Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets

an interpretation of APB Opinion No. 29

FIN 30 Summary

This Interpretation clarifies the accounting for involuntary conversions of nonmonetary assets (such as property or equipment) to monetary assets (such as insurance proceeds). Examples of such conversions are total or partial destruction or theft of insured nonmonetary assets and the condemnation of property in eminent domain proceedings. A diversity in practice exists in accounting for the difference between the cost of a nonmonetary asset that is involuntarily converted and the amount of monetary assets received. Generally, that difference has been recognized in income as a gain or loss. In other cases, that difference has been accounted for as an adjustment to the cost of subsequently acquired replacement property. This interpretation requires that gain or loss be recognized when a nonmonetary asset is involuntarily converted to monetary assets even though an enterprise reinvests or is obligated to reinvest the monetary assets in replacement nonmonetary assets.

INTRODUCTION

1. The FASB has been asked whether gain or loss results from an involuntary conversion of a nonmonetary asset to monetary assets if the monetary assets are subsequently reinvested in a similar nonmonetary asset.¹ Generally, if a nonmonetary asset is involuntarily converted, gain or loss for the difference between the cost² of the nonmonetary asset and the amount of monetary assets received has been recognized in income in the period of the involuntary conversion. In other cases, that difference has been accounted for as an adjustment to the cost basis of a nonmonetary asset that is subsequently acquired as replacement property.

INTERPRETATION

2. Involuntary conversions of nonmonetary assets to monetary assets are monetary transactions for which gain or loss shall be recognized even though an enterprise reinvests or is obligated to reinvest the monetary assets in replacement nonmonetary assets. As discussed in paragraph 11 of this Interpretation, however, the requirement to recognize gain does not apply to certain involuntary conversions of LIFO inventories.³

3. In some cases, a nonmonetary asset may be destroyed or damaged in one accounting period, and the amount of monetary assets to be received is not determinable until a subsequent accounting period. In those cases, gain or loss shall be recognized in accordance with FASB Statement No. 5, *Accounting for Contingencies*.

4. Gain or loss resulting from an involuntary conversion of a nonmonetary asset to monetary assets shall be classified in accordance with the provisions of APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*.

5. Gain or loss resulting from an involuntary conversion of a nonmonetary asset to monetary assets that is not recognized for income tax reporting purposes in the same period in which the gain or loss is recognized for financial reporting purposes is a timing difference for which comprehensive interperiod tax allocation, as described in APB Opinion No. 11, *Accounting for Income Taxes*, is required.

EFFECTIVE DATE AND TRANSITION

6. The provisions of this Interpretation shall be applied prospectively for involuntary conversions of nonmonetary assets to monetary assets occurring in fiscal years beginning after November 15, 1979. Earlier application is encouraged in financial statements for fiscal years beginning before November 16, 1979 that have not been previously issued.

This Interpretation was adopted by the affirmative votes of six members of the Financial Accounting Standards Board following submission to the members of the Financial Accounting Standards Advisory Council and the Screening Committee on Emerging Problems. Mr. Morgan dissented.

Mr. Morgan dissents because he believes that this Interpretation emphasizes form over substance. He disagrees with the statement in paragraph 10 that the conversion of a nonmonetary asset to monetary assets is a monetary transaction that differs from exchange

transactions that involve only nonmonetary assets and that a gain should be recognized. He believes that the earnings process is not culminated simply because monetary assets are received if there is an economic incentive to reinvest the proceeds of an involuntary conversion of a productive asset. He also believes that financial statements reporting improved earnings as a result of the destruction or incapacitation of significant productive assets are misleading and therefore fail to comply with the objectives of financial reporting as described in paragraph 32 *et seq* of FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*

Frank E. Block

John W. March

Robert A. Morgan

David Mosso

Robert T. Sprouse

Ralph E. Walters

Appendix A: BACKGROUND INFORMATION

7. APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, concludes that the accounting for nonmonetary transactions should generally be the same as for monetary transactions and that the basic principle of recognizing a gain or loss based on the fair values of the assets (or services) involved should be applied for nonmonetary transactions as for monetary transactions. However, in some cases, modifications of that basic principle are required. For example, paragraph 21 of Opinion 29 provides that an exchange of a nonmonetary asset for a similar nonmonetary asset that is not essentially the culmination of an earnings process should be accounted for based on the recorded amount of the nonmonetary asset relinquished.

8. Paragraph 4 of Opinion 29 states, in part:

For purposes of applying this Opinion, events and transactions in which nonmonetary assets are involuntarily converted (for example, as a result of total or partial destruction, theft, seizure, or condemnation) to monetary assets that are then reinvested in other nonmonetary assets are monetary transactions *since the recipient is not obligated to reinvest the monetary consideration in other nonmonetary assets*. (Emphasis added.)

Paragraph 22 of Opinion 29 addresses exchanges of nonmonetary assets that involve some monetary consideration. That paragraph requires the recipient of monetary consideration to

recognize a gain on the exchange to the extent that the amount of monetary receipt exceeds a proportionate share of the recorded amount of the asset surrendered.

9. A draft of a proposed Interpretation on *Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets* was released for comment on April 11, 1979. The Board received 31 letters of comment on the proposed Interpretation.

10. Some respondents disagreed with the proposed Interpretation, suggesting that the difference between the cost of a nonmonetary asset that is involuntarily converted and the amount of monetary assets received should be accounted for as an adjustment to the cost of subsequently acquired replacement property. For the most part, those respondents expressed the view that an involuntary conversion of a nonmonetary asset to monetary assets that are reinvested in replacement property is, in essence, an exchange transaction, as described in paragraph 21 of Opinion 29. Some of those respondents also noted that an involuntary conversion should be accounted for as an exchange transaction rather than as a monetary transaction if the recipient of monetary assets is obligated to reinvest the monetary assets in a nonmonetary asset similar to that which was destroyed. They contended that the position was consistent with paragraph 4 of Opinion 29, which states, in part, ". . . events and transactions in which nonmonetary assets are involuntarily converted. . . to monetary assets. . . are monetary transactions *since the recipient is not obligated to reinvest the monetary consideration in other nonmonetary assets.*" (Emphasis added.) However, the Board does not believe that an involuntary conversion of a nonmonetary asset to monetary assets and the subsequent reinvestment of the monetary assets is equivalent to an exchange transaction between an enterprise and another entity. In the Board's view, the conversion of a nonmonetary asset to monetary assets is a monetary transaction, whether the conversion is voluntary or involuntary, and such a conversion differs from exchange transactions that involve only nonmonetary assets. To the extent the cost of a nonmonetary asset differs from the amount of monetary assets received, the transaction results in the realization of a gain or loss that should be recognized. Furthermore, the cost of subsequently acquired nonmonetary assets should be measured by the consideration paid and not be affected by a previous transaction.

11. A question was raised as to the application of this Interpretation to an involuntary conversion of a LIFO inventory if the monetary assets are expected to be reinvested in replacement inventory. APB Opinion No. 28, *Interim Financial Reporting*, addresses that situation if the LIFO inventory replacement is expected before year-end, and footnote 3 has been added to provide an exception to conform with Opinion 28. If the LIFO inventory replacement is not made by year-end and a taxpayer does not recognize a gain for income tax reporting purposes, it has been asserted that application of this Interpretation might invalidate a taxpayer's LIFO election. The Board concluded that issuance of this Interpretation should not be delayed to resolve that matter and has exempted it from the provisions of this Interpretation. Accordingly, the requirement of this Interpretation with respect to gain recognition does not apply to an involuntary conversion of a LIFO inventory for which replacement is intended but not made by year-end and the taxpayer does not recognize gain for income tax reporting purposes.

Footnotes

FIN30, Footnote 1--The terms "nonmonetary" and "monetary" as used in this Interpretation have the same meaning as those terms have in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*.

FIN30, Footnote 2--As used in this Interpretation, the term cost refers to the cost of a nonmonetary asset or to its carrying amount, if different.

FIN30, Footnote 3--Paragraph 14(b) of APB Opinion No. 28, *Interim Financial Reporting*, provides an exception for the liquidation of a LIFO inventory at an interim date if replacement is expected by year-end. Accordingly, that exception applies to an involuntary conversion of a LIFO inventory if replacement is expected by year-end.