THE UTILIZATION OF FAIR VALUES IN THE PRESENTATION OF ACCOUNTING INFORMATION

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Abstract:
The accountancy of the XXI -st century requests a unique value. A solution for the amelioration of the accountancy information could be, after some of the specialist, the real value. Starting from these concepts, the users of the accountancy information had demanded the elaborating of a model for a general appliance of the real value. The implementation of International Financial Reporting Standards (IFRS) has led to frequent comments that it's present 'fair value-based standards. So, some specialists bring into question the understanding and application of existing national GAAP and historical cost accounting. Given this controversy about the use of fair values or the historical cost, this paper examines, in fact, require the use of fair values for the measurement of assets and liabilities.

Key words: *fair value, IFRS, accountancy*

JEL classification: M41

The well known evolution of the multinational companies during the last years, which affected all most every state, govern and person, the complexity of the business-management above the national frontiers (from the financial point of view, connecting to the reporting), means a dynamic change, with complex processes in different branches of a society and of course in book-keeping too.

The variety of the book-keeping practices, of the financial auditor, of the fiscal norms and rules, can have a negative impact, not only on the companies' ability in furnishing the needed and true financial information to the creditors and investors, but also on the capacity to analyze the future investment opportunities, which are vital for the economic increment.

The use of fair values in this way does not require the use of fair values for the subsequent measurement of the assets or liabilities at later balance sheet dates. The entity uses the fair values as cost. Again, the use of fair values to measure the transactions does not, in itself, require the use of fair values at subsequent balance sheet dates.

The accountancy has as essential finality the economic value-control of a company. From here comes out also the dependence of users' decisions on then quality of the accountancy information and also the necessity that those have to reflect a real image upon the company's patrimony, based on the actual market- prices.

To this adds the fact that the accountancy-write regards an economic medium without frontiers, where the accountancy information can be compared between the states and can be useful to all international users such as such her. It can be seen that the accountancy information has a more and more international character and the users are more and more sophisticated.

The assurance of the accountancy information quality, in the context of accountancy convergence, has on base the followings:

1. in the last period, there was manifested more and more less confidence into the financial measurements;
2. the need of the uniformization of the accountancy information, for the capability of answering to the requests of globalization;

3. the accountancy appears much more as a social game, in which the actors could be interpreted by the theory, norms and state- interests or by the tax liability at a given moment;
4. in most of the times th e practice can't hold the rhythm with the accountancy rules.

The accountancy of the XXI-st century requests a unique value. A solution for the amelioration of the accountancy information could be, after some of the specialist, the real value. This instrument was introduced by the accountancy-shapers as answer to degradation of the confidence into the financial measurements and regards a new system of evaluation for the assets and the debts of the entity.

This major objective of the financial accountancy, earning a real image of it, can be assured by the real value. The appliance of this concept impose the outlining of it's utility, the knowledge of attainting techniques, assures much better than the historical cost the qualitative accountancy information and gives a plus to the user's certainty, because these one will be able to avoid the negative aspects, referring to the interest-evaluations and reliability of a patrimonial entity.

Furthermore, the use of fair values, with a small number of exceptions, mirrors long-standing requirements of UK GAAP. UK GAAP has long required the use of fair values for the initial measurement of assets and liabilities or the allocation of the cost of the acquisition in a business combination to the acquired assets and liabilities. The options to measure property, plant and equipment and investment property at fair value at each balance sheet date are long-standing UK treatments that have been incorporated into IFRS. More significantly, the extensive use of historical cost-based amounts, in particular for the measurement of many financial assets, and financial liabilities and as the dominating practice for tangible and intangible assets, is common to both UK GAAP and IFRS.

The adoption of IFRS has introduced the use of fair values for the measurement at each balance sheet date of derivatives and some other financial assets and financial liabilities. It has also introduced the requirement to measure share-based payments to employees at fair value. In both cases, these are changes from existing UK practice but the lack of any accounting standards for such items was a significant deficiency in UK GAAP.

The definitions that are attachable to the concept of the real value are not much different from a theorist to another. The first definitions were concentrated on the market value. This adjunction has its origins in the patrimonial element, which demanded in the accountancy the evaluation of another value instead of that from the entrance in the patrimony.

Because the nature, the using mood inside the entity and their specific market conditions were different, it was demonstrated that it was not possible anymore to follow the properly value on the market.

Under IFRS, the value in use of an asset and the current value of the expected future payments required to settle a liability are based on estimates of future cash flows discounted at current market rates of interest. Therefore, the amounts are indicative of the amounts that rational, willing and knowledgeable parties would take into account when considering the exchange of the asset or equity instrument or settlement of the liability. These amounts may therefore approximate fair values but they should not be presumed to be fair values. They are not described in IFRS as fair values.

More than that, as it is determined inside the gauge, even in the regard conditions of a market value, the real value obtained in accountancy interest has to become a much larger concept than the market value.

The adherents of the real value consider the historical cost as the cause of the degradation of confidence on financial measurements. Their arguments start from the practice implications of the historical cost principle, which consists in conservation of the entrance values, at the level of the balancing structures, so that these become historical values. These values are corrected, when the case is, with the amount of the amortizations or of the provisions for degradation. Based on the hypothesis of stable money unity, the historical cost principle consists in respecting the nominal currency value, without taking in consideration the fluctuation of its buying power.

The most important slash for using of the historical cost is the absence of pertinence with consequences on editing the real financial information image. That's why the users wish information about the real value. However, the specialty literature doesn't present the evaluation of patrimonial elements in the real value, as sufficient source- information.

In practice, it was observed, that the advantages of using the real value are growing up, because of the positive influence for the quality of the accountancy information, as following:

- the superior accuracy for the result and for the cash-flow of the company;
- relevance, transparency and utility of the presented information into the financial measurements.

More and more, the basic representations of the accountancy evaluations, excepting the historical cost, are real values.

But the process doesn't stop here. After getting the accountancy information it must be furnished to the interested one and has to be interpreted in the scope to take decisions. Look, there is obtained accountancy information, based on the concept of real value, with the destination of evaluating the interest and solvability of a patrimonial entity.

Because of the high variety of information, that are requested by the users or furnished from the patrimonial entity, there are some qualitative characteristics of the financial measurements that are strictly limited. Even with an understanding of the definition and what is and what is not fair value, IFRS are unclear whether fair value should be based on an entry price or an exit price of an asset, liability or equity instrument.

IFRS 1 First-time Adoption of IFRS uses a similar approach in the limited circumstances of transition to IFRS from some other set of standards, laws and so on. It allows, but does not require, an entity to use fair value at transition date as the deemed IFRS cost of property, plant and equipment. This concession was introduced primarily to help those entities that may not have previously collected the necessary information to determine cost in accordance with IFRS. The concession is, however, available to all entities and has been used by several who could have determined IFRS costs. In such circumstance, it is again logical that fair values should be based on entry prices.

Both the IASC and the IASB have continued to require the use of fair values in such circumstances. In all these circumstances fair value is used so that non-cash transactions may be included in the financial statements. Some amount needs to be assigned to these transactions (otherwise they would be omitted from the financial statements).

An entity is sometimes faced with the need to allocate the total cost (or fair value) of a compound transaction over its constituent parts. This usually means treating one part as the residual; that is, as the difference between the total amount of the transaction and the amounts allocated to the other parts. This leads to the IASC's second use of fair values.

While the IASC frequently used fair values to measure transactions at initial recognition and to allocate the initial cost of compound instruments, it was much slower to require or allow the use of fair values for the subsequent measurement of assets and liabilities

According to the evaluation criterions of the determined accountancy information quality, inside the concept of IASB, we can speak about followings:

- Clearness – represents an essential quality in the mean that the accountancy information has to be understood easy by the user. In this purpose, there is taken the assumption that the user has enough knowledge about business management and economic activity;
- Pertinence – in which measure does it help the user?
- Liability – real image of the transactions, prevalence on the form, prudence. For displaying the information of the events and transactions in a credible mood, it is necessary to put them into the accountancy in accordance to their fond and economic reality, not only in their legal form. The accountancy information has to be neutral, without influence and has to represent in a real mood the events.
- Comparability – has to be the most evident: it presumes to be the necessity that the user might compare the information from a financial measurement of a company, during a time, with the purpose to identify the tendency and performance in the financial positions. The concordance to the International Standards of Accountancy, also to the Accountancy Policy, helps in the elaboration of the accountancy.
- Relevance - represent their capacity to be useful to the users for taking decisions. The accountancy information is relevant when there is an influence on the economic decision of the user, by helping him to evaluate the passed, present or future vents, with confirmations or corrections on his anterior evaluations.

In the process of evaluating the real value, a significant contribution has the experts, which are involved in the accountancy evaluation. The quality of the accountancy information depends on the mood how it was calculated.

Although many of the authors are presenting the advantages of the real value, there are voices which contest this concept, because of its volatility and the tendency of subjectivism, of the manipulation of used models for the evaluation.

Among the advantages of the real value there can be named: Utility, relevance, transparency and superior accuracy of the results and cash-flow of the company, it brings more clearance to the financial statements, it does a total accounting of the comparable value and it gives more liability to the manager.

The credibility regards a reasonable evaluation, the using of market information in all possible situations for evaluating and justifying the subjective arguments. The neutrality presumes evaluations that were done in an adequate context and without a selective presentation.

From this presentation there can be retained the idea that every evaluation might have no signification for medium or long term. The performance analyze can be done only on base of the significant account values from the present, which tomorrow can’t be anymore useful. But on long term, the evaluation in historical cost will retain its validity.

Starting from these concepts, the users of the accountancy information had demanded the elaborating of a model for a general appliance of the real value.

The use of fair values in IFRS financial statements is nowhere near as extensive as many simply. In particular’ it is not true to say that IFRS require that all assets and liabilities should be measured at fair value. It is also far from true to say that IFRS require all financial assets and financial liabilities to be measured at fair value. The reality is that the use of fair values in IFRS for the subsequent measurement of assets and liabilities is very limited - both in theory and in practice.

The fourth use of fair value in IFRS forms part of the process of impairment testing. One of the oldest accounting principles in most jurisdictions is that assets must not be carried at more than the amount that the entity expects to recover from their use or sale (for convenience referred to as 'recoverable amount', although this term is used in only some IFRS).

It is true to say that IFRS are placing much more emphasis on the use of fair values to record transactions and to allocate the initial amount of transactions among its constituent parts. This process began almost twenty-five years ago and reflects the practice in many national standards. The growth in such requirements also reflects the increasing complexity of many business transactions as well as the IASB's desire (and that of business entities and their auditors) to ensure that IFRS deal with a large proportion of these transactions. Fair values, or some other estimates of value, must be used; otherwise non-cash transactions will be omitted from the financial statements and compound transactions will not be disaggregated. If the use of fair values in such circumstances is new, the previous financial statements lacked relevant information.

It is therefore surprising that there is some uncertainty about its meaning and some confusion about what amounts are, and what are not, fair values

Before considering further the use of fair values in IFRS, some clarification of its meaning may be useful. The first point to recognize is that, as with some national standards. IFRS use the term 'fair value' as a generic term that may be applied to all assets, liabilities and equity instruments irrespective of whether they are quoted or traded on active markets. In other words, IFRS use market value as a subset of fair value - it is fair value as determined in an active market.

In the absence of quoted prices in active markets, the IASB requires the use, when possible, of market information and favors widely used and accepted valuation techniques. Therefore, for assets, liabilities or equity instruments that are not traded in active markets or for which current quotes from such markets are unavailable, the entity must estimate fair value using market information (e.g. market rates of interest when determining the fair value of a debt instrument). This reflects the fact that any rational, knowledgeable and willing party would take into account market information when exchanging such an asset or equity instrument or, in settling such a liability, the estimate of fair value takes into account market prices. The IASB is also unlikely to change this principle but it is likely to issue further guidance on its application.

In conclusion is likely that the IASB will continue to use fair values as the means of ensuring that transactions are represented faithfully in the financial statements and in impairment testing. Any significant extension of the use of fair values for the subsequent measurement of assets and liabilities is likely to meet strong resistance both in the IASB itself as well as its constituency Those who resist, however, should bear in mind that the current reliance on historical cost-based amounts provides less relevant information and omits some assets and, possibly, liabilities from the financial statements. And those who criticize the limited use of fair values in IFRS should question their application of national GAAP and whether previous financial statements really had the qualities they claimed.

The conclusions refer to possible areas in which the IASB might provide further clarifications and guidance or extend the use of fair values. Another obvious conclusion is that, as explained in more detail below, the primary use of fair value has been for the measurement of transactions or the components of transactions on initial recognition.

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