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The Changing Role of Value Accounting

Dr.A.Seetharaman, Dean Academic Affairs
Dr. Indu Niranjan, Dean MBA Programmes
Mr. ArindamBanerjee, Assistant Professor
S P Jain School of Global Management, Singapore, Dubai Sydney
A.S.Saravanan, Senior Lecturer, Taylors University, Malaysia

Abstract

Basically, there are two methods of accounting which reference is made in accounting literature. They are historical cost method and fair value method. In certain situations, accounting measurement based on historical costs fails to capture economic differences between certain and uncertain cash flows receivable at different points in time. Under fair value method, assets are carried at amounts that reflect the impact on financial position and operating results of changes in the prices of specific goods and services purchased, produced and used by the enterprise and changes in the general purchasing price of the monetary unit in which transactions are measured. Unlike the cost method, there is only one basis of accounting (the accrual basis) that can be used under the fair value method. Many who support fair value argue that current values provide a true indication of the actual resources that are available to an enterprise, in that carrying values are updated to reflect the latest information available on a reasonably neutral basis. Critics of the method argue that, in many situations, there can be difficulty in determining fair value and that it may be volatile over short periods and, consequently, unrepresentative of eventual performance and potentially misleading. Fair value accounting in banking has been under scanner for the increased unpredictability that it generates in some accounting variables. One of its advantages, though, is that it lowers the possibility of discretionary earnings management, since that all gains and losses are immediately recognized. (*Barth, Gómez-Biscarri, Kasznik, & López-Espinosa*, 2012*)*

Elements reflected at fair value were often not based on transactions that had taken place and therefore the result of valuation techniques, which may suffer from a lack of objectivity. Usually fair value of a financial instrument is always equal to the present value of its expected future cash flow discounted at expected market rates of return for the relevant period and a specific level of risk. The change from historical cost value to fair value is increasing the relevance of financial reporting in a complex and global business environment. It is clear that historical cost information is less meaningful than market value. A new paradigm emerging into the world of financial reporting that is that fair value accounting applies equal to all industries.

Introduction

The past two decades has witnessed a gradual ascent of fair-value accounting, generally defined as the practice of measuring assets and liabilities at estimates of their current values. This depicts a major deviation from the age-old tradition of keeping books at historical cost. Consequentially, its effect is observed across the business world, since the accounting basis, be it fair value or historical cost impacts investment choices and management decisions, (Ramanna, *2013).*Fair value accounting is used when dependable fair value estimates are obtainable at a lower cost and when they suggest information about operating performance (Christensen, & Nikolaev, 2013).

Fair Value Accounting (FVA) is defined as the market value of assets or liabilities (if they are traded in an active market), or if they are not traded in such a market, it has to be determined by other means. Financial Accounting Standard Board (FASB) in SFAS 107 defines fair value as the amount at which an asset can be exchanged in a current transaction between willing parties (other than in a forced liquidation or sale). This means that non-financial assets could be started at entry value (an asset's acquisition price), exit value (price at which an asset can be sold or liquidated) or value in use (incremental firm attributable to an asset.

In 1994, the International Accounting Standards Committee (IASC) issued Exposure Draft E48, Accounting for Financial Assets and Financial Liabilities which then evoke the discussion on recognition, measurement, income reporting and disclosure implication if fair value is used to measure financial instruments. The outcome proposed that fair value accounting could reflect 'true income' and provide greater transparency of firms. This reflects the true difficulties faced by banks during critical periods. In addition, it is argued that fair value of assets or liabilities is comparable at anytime, especially for capital allocation decision and it measures all economic events occurring during accounting period, which also provides up-to-date information on a firm's position.

In addition, (*Elfaki*, *& Hammad*, *2015)* states how fair value contributes in providing useful information to users of financial statements in facilitating decision-making. Further, they also establish a positive relationship between the use of fair value and the aptness of accounting information in decision-making.

The discussion on fair value accounting mainly covers three main areas, which are investment securities (for trading and non-trading securities), loans and net assets. Under this disclosure requirement, the information available in the notes to the accounts shows the investment market value as well as cost. Fair value reflects on entity performance of management's decision to continue to hold assets or owe liabilities, as well as decisions to acquire or sell assets and incur or settle liabilities.

In their study, (Demerjian, Donovan, & Larson, 2016) examined the affects of fair value accounting debt contract design, in the context of the use and meaning of financial covenants in private loan contracts.
Their studies revealed the positive correlation between covenant definition modification and common incentive problems, mainly credited to fair value accounting and vice versa. The results further suggested that fair value accounting is not consistently unfavorable for debt contracting and fair value adjustments are integrated when they are most likely to improve performance measurement.

Research Problem

In order to implement fair value accounting, many aspects need to be taken into consideration. In the fair value environment, preparers need to deal with attendant risks and problems. The following highlights the identified key risks and problems specific to fair value environments:

- Insufficient expertise to evaluate fair value, as they were often not based on transactions that had taken place. (lack of objectivity)
- Preparers use surrogates in the absence of active market (lack of reliability)
- Surrogates used may not be relevant in some aspects
- Complex procedures to obtain a value similar to the value recorded in transactions
- Difficulty to recognize the distinction between fair value and market value
- Information gathered regarding the item may not be meaningful

Objectives of the Research

The objectives of the research are –

- To have a clear view on the distinction between historical cost and fair value.
- To identify the need for fair value accounting and the importance of it when implemented in all enterprises and industries.
- To identify the reasons of why certain industries are reluctant to adopt fair value accounting.
- To determine the usefulness of fair value accounting compared to historical value accounting. The focus is on differences between these two accounting methods and amendments need to be taken to switch to fair value accounting.

- To identify the influences of fair value in financial reporting.

Scope of the Study

The scope of research is to identify the causes of the changes from historical cost accounting to value accounting. It covers the disadvantages and problems caused by using historical cost accounting. Besides, it also covers the advantages of using value accounting method, which implemented after problems arised because of the historical cost accounting. The scope also entails the understanding of value accounting, which is currently practicing in many industries and companies. The scope of research is also to review and evaluate the practicing and implementing of the value accounting in various industries and companies and to identify some arguments against value accounting.

Survey of Literature

Value Accounting and GAAP

Accounting based on values has been discussed more during the last forty years by accountants as providing more useful data based on economic facts than any other subject (Kapnick, 1976). The rate of change in the way business is conducted has accelerated greatly in recent decades. Today, there are large corporations (including multinationals and conglomerates), complex income taxes, lease financing, pension plans, an energy crisis, electronic computers, and transfer prices. The present business scene includes not only these but also many other far-reaching developments, plus a maze of governmental regulation, a rapid rate of technological change, world-wide inflation, and a perceived need for public financial reporting that encompasses ever shorter time intervals, i.e., quarterly.

Being man-devised and man-implemented, accounting should be expected to adjust to such changing conditions, as do social behavior, ethical standards, and the common law (Kapnick, 1976). However, since most individuals are disposed to resist change, a tendency exists, without some overriding force, for changes to lag behind the need. After making allowance for what might be described as a normal lag, accounting still is so far behind the rate of change that has occurred in the environment in which business operates that it is a source of embarrassment. How can our watchwords, "generally accepted accounting principles," receive high marks for providing relevant financial information when the business environment has changed so much in recent decades while accepted principles have changed so little?

Uniformity

An enormous investment of time and resources has gone into the quest for uniformity. This effort has essentially been within an outmoded conceptual framework, and the goal of revising and reformulating accounting principles to better meet the needs of a changing business environment has, for all practical purposes, been lost in the shuffle. Uniformity as a goal within the historical-cost framework may by hindsight have been an unfortunate decoy. The efforts of the accounting profession to improve accounting standards and principles have been dominated by CPAs in public practice, and the auditing aspects of problems have always been a significant consideration to them. When useful information for investors is our goal, what is easiest to audit may not be the most useful. In this context, studies by (Yao, Percy, & Hu, 2015) reported a significant boost in the audit fees paid when non-financial assets (PPEs, investment properties and intangible assets) are measured at fair values

Additionally, companies whose non-current assets are revalued upwards and on a regular basis have significantly higher audit fees. Further tests provide empirical proof that the strength of corporate governance has a balanced effect on the level of audit fees.

Accounting has suffered from a void attributable to a lack of agreement about the objectives of the accounting and reporting process. This subject has not been raised much above the level of an academic exercise. This lack of agreement with respect to objectives has seriously handicapped efforts to resolve accounting problems and controversies. Objectives, authoritatively supported, could provide the goal, the road map, the unifying force, and the direction needed to stimulate the process by which accounting standards could become relevant and result in truly meaningful and useful financial statements.

Economic Value

Economic resources are defined as those elements of wealth that possess the three basic characteristics of utility, scarcity and exchangeability, which in combination give the resources economic value. The basic characteristics prescribed for economic resources tend to exclude the wide assortment of unidentifiable intangibles or attributes of a business enterprise that may give it an advantage over others in a relatively free, competitive economic system and, hence, enable it to achieve earnings beyond a normal rate of return on capital. The attributes of unidentifiable intangibles may be extremely valuable - they may arise through deliberate effort or accidentally - but information about their quality and potential value should be conveyed primarily by earnings information rather than through direct measurement and inclusion in the balance sheet as assets.

Value based approach

A value-based approach also determines the companion earnings concept (Kapnick, 1976). If earnings are based on the measurement of economic resources, then periodic earnings will be determined by the change in the owners' equity shown by comparative balance sheets, after a provision for the maintenance of owners' capital to reflect the effects of inflation and after allowing for additional investments by owners and distributions to owners. In other words, the earnings concept is ultimately based on changes in the value of the net assets. However, unless inflation is taken into consideration, much of what is traditionally viewed as income may not exist in real terms.

Thus, making a provision for capital maintenance in terms of purchasing power should be a key factor in income measurement.

An observation made many years ago by one of my former professors, W. A. Paton, is still very pertinent:
"...it is really values that are the basic data of accounting, and costs are important only because they are the most dependable measures of initial values of goods and services flowing into the enterprise through ordinary market transactions."

The kind of fundamental change that deserves attention is a major shift to value accounting. Such a move does not require accountants to settle on one particular value concept now as the best for all or in developing different value concepts, but reliance on a single value concept will probably never be desirable. The value concept used should be one that offers the prospect of indicating the most relevant approximation of an asset's value, taking into consideration such factors as feasibility and verifiability. Because there has been relatively little use of value data in accounting, the practicing accountant has not been really challenged to search for evidence about values. More verifiable support for value information probably exists than is generally believed.

Fair Value

Accountants, as a general principle, accept actual price as a fair value in measuring transactions entered into by an entity and use it for initial recognition of assets and liabilities (Bhattacharyya, 2000). Observable market price is the fair value of an asset or liability. However it is a broader term than market value. Parks (1993) stated that there are generally three approaches to adopting market value accounting, namely (a) accounting for only certain assets; (b) linking selected liabilities to selected assets, and (c) determining market values for all on and off-balance-sheet financial assets and liabilities. Fair value can be estimated even in absence of an active market if an economic model can stimulate market price by taking into consideration those factors, including market premium for uncertainty, which market participants consider while determining the price (Bhattacharyya, 2000). This brings uncertainty in estimating fair value. However uncertainty in estimating fair value cannot be an argument against using fair value measurement, estimation is at the heart of accounting measures and every estimation is beset with uncertainty. In situations where cost or amortised cost basis of measurement fails to capture the economic reality, fair value measurement is most appropriate – the question is of drawing a balance between relevance and reliability (Bhattacharyya. A.K, 2000).

Historical cost accounting

Users of financial statements found that historical cost information provided in the financial statements quite often did not provide them with useful information for economic decision-making (Mihular, 2000). This was particularly significant in the financial sector where it was felt that investments carried at historical cost were in fact misleading to users of financial statements. Similar problems were also faced in the presentation of fixed assets in the balance sheets of entities. Other authors, for example Wolfe (1992) presented several criticisms of current Historical Cost Accounting (HCA) for instance: (a) current method of accounting gives rise to asymmetric and incomplete information; (b) in a situation where an institution is economically insolvent, the net worth and income can be positive. The weak failure indicator associated with historical cost information can slow down the reaction time of regulators. In this case, the institution continues its operations in high-risk condition and this increases the likelihood of greater loss. (c) HCA fails to recognize a decline in the value of assets due to the subjectivity involved in determining whether the impairment of the value of such assets is permanent.

On the other hand, studies by *(Campa, Donnelly, & Cao*, 2015*)* suggest that changes in future performance are positively related to the reversals of impairments. Only those reversals that are undertaken when the pre-reversal net income is not negative are reflected in stock market returns

(d) HCA method allows an abusive practice known as “gains trading” whereby banks can realize the higher values of assets that have appreciated (by selling them) and avoid recognizing the losses on assets that have depreciated. This practice would inhibit rational investment policy.

It is well evidenced that banks with a greater proportion of assets reported using fair value accounting substitute LLP-based earnings management with transaction-based earnings management (i.e., earnings management achieved by timing the realization of gains/losses) to a greater extent (*Bratten, Causholli, & Myers*, 2015). Their findings proposes that banks with a greater extent of assets reported using fair value accounting have a different and likely less visible set of earnings management tools with which to accomplish desired earnings outcomes.

Consequently, there was pressure to use some form of fair value to represent more fairly these items in the financial statements. This resulted in accounting standards providing for modifications to the historical cost system to cater to this need. Thus, there is a mixed attribute model, which allows both historical cost as well as fair values.

This move to fair value, which was driven by the financial sector, has in the recent past gained momentum. A recent discussion paper issued by the International Accounting Standards Committee, on recognition and measurement of financial instruments in fact recommended that all financial assets and liabilities should be recognized and measure at their fair value (Mihular, 2000). Usually fair value of a financial instrument is always equal to the present value of its expected future cash flows discounted at expected market rates of return for the relevant period and a specific level of risk (Bhattacharyya, 2000). Among the advantages of using fair value accounting are: (a) fair values of assets or liabilities at any time are comparable, especially for capital allocation decision, (b) fair values provide no room for "gains trading", (c) derivatives instruments that are off-balance sheet under cost-basis accounting will become visible, and (d) it measures all economic events occurring during accounting period and provide up-to-date information of enterprise's position for timely action (IASC, 1997).

Mihular (2000) has presented some of the current trends towards fair value in financial reporting for fixed assets, investments, business combinations and in the agriculture system, and showed how they have contributed to improving the relevance of financial reporting to stakeholders. For fixed assets, accounting standards around the world have permitted preparers of financial statements to reflect fixed assets at values other than cost. This provision was driven by pressure from users of financial statements such as analysts who demanded a more appropriate indication of the value of fixed assets of the entity. Thus, companies resorted to either revaluing their fixed assets on a regular basis using various indices or alternatively providing the fair value of their assets as a note in the financial statements. Investments are another area where fair valuation has made inroads in a big way (Mihular, 2000). Under pressure from analysts and other users, accounting standards have gone the greatest distance towards fair valuation in this area. Most financial institutions today mark-to-market their investments, as they believe this reflects more appropriately the value of their company. While the current standards permit the range of options, the new exposure draft on financial instruments is moving towards requiring all trading investments to be market-to-market. Only investments held for the long-term will be allowed to be reflected at cost. To qualify for this, companies will have to demonstrate not only their intention to hold such investments for the long-term at the outset, but will have to prove their capacity to hold these investments for the long-term. All other investments will have to be reflected at their fair value.

In business combinations, the acquiring company is required to fair value the assets purchased with the view to arriving at the proper value for goodwill or negative goodwill as a case may be (Mihular, 2000). The rationale for this is that if the assets of the target company are accounted for at historical cost, the figure that will be reflected for goodwill or negative goodwill, as the case may be, will be misleading.
From a sample of goodwill impairments studied during the period 2002-2009, *(Chen, Shroff, & Zhang,* 2014*)* identified about a sixth of the sample firms reporting impairment charges that are most likely market-driven and not backed by fundamentals. Incidentally, the number tripled during the financial crisis when price deviations from fundamentals were more likely prevalent

Proponents of fair value argue that if assets had been reflected in the financial statements of the target company at the fair value, most of the problems companies currently face with regard to goodwill, their recognition and measurement will have been avoided. A sector where fair value accounting is largely practised by the industry although not prescribed by accounting literature is agriculture (Mihular, 2000). A recent survey conducted by a group of eminent researchers indicated that more than 70 per cent of companies engaged in agriculture used fair values to report the results of operations and the financial position. Where an active market exists, the market price will represent the fair value for those assets.

Despite these advantages, it is not easy to change from current historical cost convention to fair value. Before changing to fair value accounting, the regulatory bodies concerned, academicians and practitioners in Malaysia have to discuss the issue of fair value measurement of certain items in the balance sheet, and what the likely impact of implementing it are (Norman, Mohamat and Abdul Ghafar, 1998). The cost basis is frequently defended by pointing out the complexity of value concepts and the extensive differences of opinion that exist about values. Cost is not greatly different from value in this regard because cost concepts are also complex (Kapnick, 1976). There can be many differences of opinion about the computation of cost. Not only does cost-based accounting result in differences of opinion about the initial recording of cost but, in the case of depreciable assets, estimates must be made about useful life and salvage value. Hence, this is introduced into the present system of accounting the opportunity exists for using a variety of amounts in accounting for similar, even identical, assets. In other words, differences of opinion will exist in accounting whether it is cost-based or value-based.

Research Methodology

This research is a descriptive study based on journals, articles, magazines, and textbooks. Information and data of the research project were gathered from various sources of secondary data. Sources of secondary data include journal articles published in magazines such as the CPA Journal and on-line articles downloaded from the Internet websites and search engines such as Google, Yahoo, and Excite. Some information that are used in the research were also obtained from international audit association and accounting standard board site, for example, Financial Accounting Standards Board and additional descriptive details of the research topic were obtained by exploring into various chapters of reference books from the library of universities. Some of the information was obtained by exploring reference books and accounting profession magazines and journals from the library.

Discussion, Analysis and Finding

The objectives of financial reporting are based on the premise that investors and creditors are primarily interested in assessing the amounts, timing, and uncertainty of future net cash inflows to the entity, and eventually to them. Information is relevant if it has the capacity to make a difference to that assessment. While descriptive and quantitative information about the nature and risks of a financial asset or liability is important, a measure of its amount clearly is needed if the asset or liability is to be included in financial statements. But, it is the question of the measurement of value or cost.

Lachmann, Stefani, & Wöhrmann, (2015) finds that participants are more likely to obtain the information on changes in credit risk if that information is included in OCI. The apparent importance of credit risk information for the assessment of firm performance is only a little lower under the OCI presentation format, and the risk of misinterpreting a credit risk gain is unaltered by the presentation format.

The fair value of a financial instrument represents the amount at which the instrument could be bought or sold in a current transaction between willing parties. Fair value is measured based on a quoted price in an active market, if one is available. If a market price is not available, fair value is measured based on the information and techniques that provide the best available estimate of a current market price. A market price of a financial instrument reflects the market's assessment of the present value of the future cash flows embodied in it, based on current interest rates and the market's assessment of the risk that the amount or timing of the cash flows will differ from expectations.

No one questions the relevance of information based on market prices - the controversy about fair values versus historical cost based measures involves only the date of the market prices on which accounting measures are based. Historical cost information is based on market prices at which assets were acquired and liabilities incurred. Fair values, in contrast, are based on current market prices. It seems logical that information based on prices that reflect the market's assessment, under current conditions, of the present values of the future cash flows embodied in an entity's financial instruments would be more relevant for investors' and creditors' decisions than information based on old market prices. Those older market prices reflect both an old interest rate and an outdated assessment of the amounts, timing, and uncertainty of future cash flows.

In today's mixed-attribute model, some financial assets and liabilities are measured at fair value, but many others - especially liabilities - are measured at amounts based on historical cost or proceeds. Many argue that sometimes historical cost or proceeds is the appropriate attribute while fair value is appropriate in other situations because the most relevant measure of a financial instrument is the one that reflects management's intent for the item.

Most people agree that fair values are the most relevant measure for assets and liabilities that an entity actively trades. Some also acknowledge the relevance of the fair values of assets held for (or available for) sale, although they often question the significance for evaluating an entity's performance of changes in the values of assets and liabilities that the entity does not intend to trade. But if management intends to hold an asset or to owe a liability until its maturity, or just has no present plans to sell or settle it before maturity, advocates of today's measurement model contend that the most relevant measure is one based on the amount initially paid or received.

The General Accepted Accounting Principles (GAAP) accounting is primarily retrospective whereas value is realized in the future. Only to the extent that the past indicates the future will retrospective accounting measure value. Often the past is a backward indicator of the future, in the

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sense that expenditures have a current cost and a future benefit and that lack of current investment forestalls future benefits. Some expenditure may be capitalized which is tantamount to recognizing future benefits up to the limit of the expenditure. In that case the GAAP measure is at least non-negative, but it still doesn't measure positive value.

The strongest argument for historical cost accounting is that the values reflected therein are the results of transactions that had taken place and therefore were reliable and objective. On the other hand, elements reflected at fair value were often not based on transactions that had taken place and therefore the result of valuation techniques, which may suffer from a lack of objectivity. While this may be true, the historical costs reflected for the items in the financial statements, did not in most instances reflect their actual value and therefore suffered from lack of relevance. In the current financial reporting climate, where the users of financial statements are varied, these items reflected at historical cost did not convey relevant information to these users for optimum economic decision-making. Consequently, there has been immense pressure by these users requiring general-purpose financial statements to reflect fairly the results of operations as well as their financial condition at values that are relevant and therefore useful for economic decision-making.

Other arguments against fair value accounting have revolved around the lack of reliability surrounding the techniques available for fair valuation. This problem particularly manifests itself when there aren't active markets for the elements being fair valued.

(Smith-Lacroix, Durocher, & Gendron, 2012) argue that fair value accounting makes it more and harder for auditors to feel and actually be in charge of their own expertise.

Critics say that in the absence of active market, preparers may use surrogates, which may lack objectivity and therefore subject to manipulation. While conceding that this argument has some substance, techniques for fair valuation have developed rapidly increasing the objectivity associated with the process. An examination of the issues involved supports the need to balance the call for relevance against reliability. Critics of the historical cost accounting methodology contend that while transaction based historical cost accounting does provide some comfort regarding reliability, it often involves complex allocation and apportionment of costs, which reduces the level of reliability associated with the ultimate result.

This is particularly reflected in accounting for agricultural products where the recognition and measurement of the costs of progeny of cattle, under the historical cost system, results in a complex system of apportionment which ultimately results in cost of progeny being stated at absurd amounts which have no relationship to their actual costs. Consequently, it has been found that in practice farmers use fair values to reflect the value of progeny in their financial statements. Proponents of fair value argue that the fair value of progeny of cattle in fact gives a better indication to users of financial statements of their intrinsic value than their cost arrived at through a complicated system of cost allocation.

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The danger of accounting for unrealized gains in income and the possibilities for distribution of dividends out of capital are often-quoted criticisms against this model. This is influenced by our concept of regarding dividends as a mere function of profitability. This concept has been increasingly criticized by experts of finance theory who have developed techniques such as free cash flows to influence decisions relating to dividend distribution. In a fair value model, realization of gains or losses through transactions is not required for their recognition and decisions such as dividend distribution are considered as functions of liquidity rather than mere profitability. The trend in several countries requiring mandatory solvency tests before decisions regarding distribution of profits are permitted buttresses this concept.

For fixed assets, accounting standards around the world have permitted preparers of financial statements to reflect fixed assets at values other than cost. This provision was driven by pressure from users of financial statements such as analysts who demanded a more appropriate indication of the value of fixed assets of the entity. Thus, companies resorted to either revaluing their fixed assets on a regular basis using various indices or alternatively providing the fair value of their assets as a note in the financial statements.

Investments are another area where fair valuation has made inroads in a big way. Under pressure from analysts and other users, accounting standards have gone the greatest distance towards fair valuation in this area. Currently accounting standards permit investments to be either measured at cost, lower than cost and market value or market value. Most financial institutions today mark-to-market their investments, as they believe this reflects more appropriately the value of their company. While the current standards permit the range of options, the new exposure draft on financial instruments is moving towards requiring all trading investments to be marked-to-market. Only investments held for the long-term will be allowed to be reflected at cost. To qualify for this, companies will have to demonstrate not only their intention to hold such investments for the long-term at the outset, but will have to prove their capacity to hold these investments for the long-term. All other investments will have to be reflected at their fair value. I believe this is a trend that will increasingly become more common in the future.

We are all quite familiar that in business combinations, the acquiring company is required to fair value the assets purchased with the view to arriving at the proper value for goodwill or negative goodwill as a case may be. The rationale for this is that if the assets of the Target Company are accounted for at historical cost, the figure that will be reflected for goodwill or negative goodwill, as the case may be, will be misleading. Proponents of fair value argue that if assets had been reflected in the financial statements of the Target Company at the fair value, most of the problems companies currently face with regard to goodwill, their recognition and measurement will have been avoided. (Zhang, & Zhang, 2015) found that the allotment of purchase price to goodwill and certain intangible assets are related to the economic determinants of the valuation. Though, it is also considerably

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impacted by managerial incentives stemming from the differential treatments of goodwill and particular intangible assets under Statement of Financial Accounting Standards (SFAS) 142.

In this era of fair value accounting, standard setters are faced with an interesting dilemma: Should fair value accounting standards apply on a general level to all firms or should rules be shaped by the economics of specific industries? This dilemma is evidenced in the study of FASB 115 and its unjustified uses in the banking industry. One might argue that Held To Maturity (HTM) dies have some relevance in industries where these trends are not as evident; however the pervasive use of the HTM standard in a deregulating, consolidating, and converging financial services industry simply does not reflect economic reality. HTM for banks is simply bad accounting; it does not reflect a bank's economic reality, and thus does not assist global investors in their evaluation of a commercial bank's financial statements.

At a minimum, accounting information must reflect indigenous industry conditions, which are not the same for all businesses. We should not cling to the questionable notion that what is economic reality for one industry is commensurate with another. Fair value accounting is the proper model to improve information for decision-makers, regulators, and other users of financial statements. The combination of fair values and industry-specific standards would further strengthen the accounting framework that is crucial to the development of the global business environment.

Limitations of Research

The limitations of this research are:

- Issue to be discussed in value accounting is too broad and general, it is difficult for us to choose and decide for a specific topic to discuss and progress on the study.
- It is difficult for us to look for the specific information or sources that suitable for our research study from magazines and online sources because the issue discussed by the professions or authors are too broad.

Conclusions

Relevant information that is appeared in financial reporting is useful for investors and creditors, especially the descriptive and quantitative information about the nature and risks of a financial asset and liability. A clearly measure of its amount is very important to give a relevant and accurate information to them. Therefore, the method of measurement for the assets and liabilities is very important to give an accurate amount. The inefficiency of the method of measurement by historical cost has caused some problems in giving accurate information to investors and creditors. Many arguments against historical cost measurement have been arisen. Therefore, a new basis of measurement for the assets and liabilities is developed and practicing in many industries and companies currently. This basis is value accounting. It is measured based on fair value or market

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value of the financial instruments. Historical cost information is based on market prices at which assets were acquired and liabilities incurred. Fair values, in contrast, are based on current market prices. It seems logical that information based on prices that reflect the market's assessment, under current conditions, of the present values of the future cash flows embodied in an entity's financial instruments would be more relevant for investors' and creditors' decisions than information based on old market prices. Empirical evidences suggest that changes in fair values seem to be proxied in capital market evaluations of debt and equity values. Thus, it is suggested that the provision of fair value information would make markets more “efficient” and capital market valuations would be more consistent with the fundamentals of the firm. (*Gigler, Kanodia, & Venugopalan,* 2013)

However, there are arguments against the fair value accounting basis too. Arguments against fair value accounting have revolved around the lack of reliability surrounding the techniques available for fair valuation. Fair value is the price at which an asset or liability would move from one holder or obligor to another. That amount is easy to see in established markets but may be hard to estimate when those markets do not exist. However, many of the elements can be estimated based on the entity's expectations using familiar techniques and information. In the absence of evidence that market place participants would have different expectations about cash flows, the result is the best estimate of fair value available. Anyhow, fair value accounting is the proper model to improve information for decision-makers, regulators, and other users of financial statements. Finally, some improvements and changes have to be done in order to minimize the incompleteness and inefficiency of the value accounting, which is practicing in many industries and companies in current business environment. Measuring financial instruments at fair value should not necessarily mean abandoning historical cost information. To accomplish these tasks, some actions should be taken to address the practical issues. Standard setters must provide more detailed, how-to-accounting, valuation, and auditing guidance. The profession must work together and with others outside the profession including users and valuation experts. Besides, preparers, auditors, and users must become better educated about fair value accounting. The combination of fair values and industry-specific standards might further strengthen the accounting framework that is crucial to the development of the global business environment. Proponents of fair value accounting, (Ramanna, *2013)* argue that it makes accounting information more relevant. At the same time, however, it is also believed that historical cost accounting is more conservative and reliable. In spite of this, the continued use of fair value both by users of Generally Accepted Accounting Principles in the United States and International Financial Reporting Standards, by nearly 100 countries globally, in areas of derivatives and hedges, employee stock options, financial assets, and goodwill impairment testing sustains its popularity.

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