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Проблеми теорії та методології бухгалтерського обліку, контролю і аналізу

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FAIR VALUE CONCEPT IMPLEMENTATION INTO COMPANIES' ACCOUNTING PROCEDURES

Introduction. *Relevance of the research of the fair value accounting concept and implementation thereof into companies' accounting procedures is determined in the requirements of use thereof indicated in more than a half of the applicable International Financial Reporting Standards. Fair value accounting concept is a subject of the research.*

Purposes *of the research are to carry out a contextual analysis of the fair value accounting concept, to summarize the cases of use thereof as well as to develop recommendations of implementation thereof into companies' accounting procedures.*

Materials and Methods. *Contextual analysis, summarization and systematization, comparative analysis, scenario approach, method of classification and hierarchy were used as the research instruments.*

Results*. The research results are a summarization of the cases of use of the fair value concept in accounting procedures of the companies executing their financial reports on the grounds of the IFRS, proving the thesis that the main idea of the fair value concept use consists of liberation thereof from specify of a company, specification of the methods of the fair value determination within each of the allowed determination approaches, a developed algorithm of the company's actions at the fair value concept use in the accounting procedures.*

Discussion*. The new provisions included to the IFRS 13 first of all require determining of the main (or the most beneficial) markets, analysis of the beast and the most effective means of non-financial assets use, selection of the most relevant initial data and assessment methods within the frameworks of the market, income-based and cost-based approaches, extension of the list of disclosures in the Notes to the financial reports.*

Keywords*: fair value; IFRS; financial reporting; accounting procedures; measurement.*

I[illegible]hat assessments in the reports executed under the IFRS are based on the fair value. To some extent it is true by fair value is a multidimensional concept. However much they criticize the IFRS for excessive «latitude», it is a quite strict system of concepts and categories including fair value. That is why not exact interpretation thereof is unacceptable. In connection therewith accounting concepts of fair value were chosen as a subject of the research. Objectives of the research include performance of a context analysis of accounting concepts of fair value and development of the recommendations related to implementation thereof into companies' accounting procedures.

For a long time a problem of the fair value was quite acute in the IFRS system due to different meanings of this concept in the number of standards containing requirements of fair assessment of assets, liabilities, elements of capital, etc. A.I. Gorbacheva [1], F.V. Kerimov [2], A.S. Kiyatkin [3], O.V. Solovyeva [4], N.M. Tsvetkova [5], David Cairnsa, Dianne Massoudib, Ross Taplinc, Ann Tarcab [6], Jim W. Deitrick [8], Michael J. Mard, James R. Hitchner, Steven D. Hyden, Ann Tarcab [9], Alicia Novoa, Jodi Scarlata, Juan Solq [10] and others wrote their scientific works about fair value accounting concepts. Recently we have the unified and the most reliable source of the information on fair value – it is the IFRS 13 «Fair Value Assessment» (hereinafter referred to as the «IFRS 13») [7]. In fact the IFRS 13 is conceptual fundamental for fair value determination in all cases of use thereof in the reports executed under the IFRS. The said studies made a significant contribution into the fair value accounting concept, however the results thereof were received before the IFRS 13 existence what determines relevance of further studies thereof.

Purposes of the research are to carry out a contextual analysis of the fair value accounting concept, to summarize the cases of use thereof as well as to develop recommendations of implementation thereof into companies' accounting procedures.

Materials and Methods. Context analysis (in order to discover the main elements of the fair value accounting concept), generalization and systematization (in order to specify the cases of the fair value use as a due assessment of the accounting objects), comparative analysis (in order to confirm a thesis that an acquisition cost does not always correspond to the fair one), scenario approach (at development of recommendations related to implementation of the fair value concept into accounting procedures, at taking decisions on transport costs inclusion into the fair value), classification and hierarchy method (at consideration of approaches and methods of the fair value determination) were used as the research instruments.

Results. The key issues of the IFRS 13 [7] are the fair value determination, setting a common methodological approach for the fair value assessment and the related disclosure in the notes to the financial report.

An important feature of the fair value is its **market** character free from influence of a company's specifics. Similar assets shall have the same (or the closest to each other) value independent on specifics of a certain company, terms of the assets use, purposes of a company related to retention or regulation of an asset (liability), etc. As any market implies presence of risks, the fair value as a market category shall also be determined by adjusting any **risks**.

The number of assessment objects under the fair value includes, first of all, assets and liabilities. Besides if the share instruments shall be assessed in accordance with the fair value (under the requirements of the relevant standards), this value shall also be determined on the grounds of the provisions of the IFRS 13 [7].

It is important to mention that the IFRS 13 does not change the requirements related to the cases of the fair value application as a due assessment of accounting objects. During the study (using the generalization and systematization methods) there were specified the cases of the fair value application in the companies' accounting procedures in accordance with the requirements of the IFRS:

– Fair value use as a conventional appropriate cost of sales, assessment of financial assets at the first use of the IFRS (IFRS 1);

– Assets assessment in accordance with fair value in operation on the grounds of shares (IFRS 2);

– Assessment of the assets to be identified in accordance with the fair value at business combination (IFRS 3);

– Fair value use as a reference point at assessment of capital assets intended for sale (IFRS 5);

– Disclosure of the information on financial instruments and use thereof for fair values assessment (IFRS 7, IFRS 9);

– Disclosures related to the fair value assessment (IAS 1);

– Determination of agricultural products fair value (IAS 2);

– Assessment of construction contracts income in accordance with the compensation fair value (IAS 11);

– Temporary differences related to use of assets and liabilities assessments in accordance with the fair value not affecting tax base thereof (IAS 12);

– Model of reassesses (fair) value of fixed assets and intangible assets (IAS 16, IAS 38);

– Some terms of recognition of a lease as a financial based on the asset fair value (IAS 17);

– Income assessment including at exchange having a commercial character in accordance with the fair value (IAS 18);

– Assessment of assets of pension plans including fixed payments in accordance with the fair value (IAS 19);

– Model of accounting in accordance with the fair value of state grants provided as non-monetary assets (IAS 20);

– Transfer on non-monetary articles assessed in accordance with the fair value from a functional currency to a reporting currency (IAS 21);

– Assessment of fair value of the converted bonds liabilities (IAS 32);

– Presentation in interim reports of the significant amounts related to financial instruments assessed in accordance with the fair value describing changes in business and economics resulted in such changes (IAS 21);

– Calculation of recoverable value of non-financial assets in order to test for impairment (IAS 36);

– Fair value hedging (IAS 39);

– Priority model of investment real estate assessment (IAS 40);

– Biologic assets assessment (IAS 41), etc.

The fair value shall be used for all the said situations. The IFRS 13 does not add or exclude any items in the abovementioned list. The IFRS 13 shall be used in the cases when the other IAS or IFRS requires or permits to use assessments of the fair value and/or disclose information on fair value assessment. Therewith conceptual fundamentals of the fair value assessment containing in the IFRS 13 shall be applied both to the initial assessment and assessment as of the reporting date.

The IFRS 13 determines the fair value as the price which would be received at an asset sale or paid at delivery of a liability within the terms of a common transaction between the market participants as of the assessment date.

Analyzing the new definition of fair value it shall be mentioned that the fair value is an «output price» not an «input price». This means that fair value is the value arising at an asset (liability) disposal not in case of acquisition thereof. For example, the asset acquired for 1,000 monetary units may not have a fair value amounting to 1,000 monetary units is it is impossible to sell it for the same price (at the other equal conditions).

A specific asset or liability shall be an object of the fair value assessment. That is why at determination of the fair value there shall be considered those asset (liability) characteristics belonging to this asset (liability). Such characteristics may include: asset status, location, any sale (use) limitations, etc.

The IFRS 13 includes both individual and group fair value assessment. This means that a certain asset or a certain liability as well as the group thereof may be subject to assessment. Consequently, a CGU (cash-generating unit) may be an object of the fair value assessment.

The IFRS 13 requires that a fair value shall be developed within the terms of an ordinary operation. An ordinary operation is an operation providing an open offer at the market within the period until the assessment date in order to perform marketing activity being ordinary and usual for the operation with such assets or liabilities. Defining the ordinary operation the IFRS 13 underlines that it is ***not*** a forced operation (i. e. NOT a forcible liquidation or sale in a difficult situation) which may specifically influence the «output price» but, as was previously said, the fair value shall be free from specific influence of a certain business entity.

On the practice forced sales are quite common especially in the terms of financial crises requiring increased attention to this issue. If a company possesses evidences of the «involuntariness» it is necessary to refuse using the operation price as the fair value reference point. Otherwise, i. e. when an operation does not have attributes of «involuntariness», an operation price may be used as the reference point however therewith you shall consider the operation volume, comparability of the operation with the assessed asset or liability and proximity of the operation date to the assessment date. If a company does not possess enough information allowing making conclusions if these operations are voluntary, it shall draw less attention to such operations comparing to the other operations known as operations on the voluntary basis.

So an ordinary operation is an operation performed at the general (main) market for the asset (liability) and if there is no such market it shall be performed at the most advantageous market for the asset (liability).

The main market is deemed those having the biggest volume and level of activity related to the asset or liability. It means the most active market where operations with the asset or liability are performed quite often and in sufficient volume allowing receiving information on assessments on the regular basis. If there is no main market for the fair value determination, the IFRS 13 recommends using the data of the most beneficial market allowing maximal increasing the amount which would be received at the asset sale or decreasing the amount which would be paid at the liability transfer after consideration of all expenses related to the transaction and transport costs. It is important that the most beneficial market is used after the main market.

Expenses for the transaction with an asset (liability) at the main (or the most beneficial) market for this asset or liability are expenses directly related to the asset retirement or the liability transfer being direct result of the operation and essential for such operation as well as the company would not incur them if a decision to sell them was not taken. These expenses are not features of a certain asset (means they release the fair value from a company's specify) and are accounted in accordance with the other IAS and IFRS.

At the same time the IFRS 13 separately considers the transaction expenses and transport costs focusing on the fact that a character and result of these expenses and different. For example, is a certain asset acquires its purchasing value (i. e. may be sold) in a certain place requiring delivery from the asset location to the main (or the most beneficial) market, the transport costs shall be accounted at the fair value determination.

Search of the main the most beneficial market is not the ultimate goal. If it is impossible to make a conclusion on the grounds of the available information that a company performs operations at the market other than the main or the most beneficial market, the market whereat a company performs the transactions shall be deemed as the main and the most beneficial.

It is important that a fair value shall be deemed a price formed at the main market independent whether this price is observed (open) or otherwise calculated. Therewith any other market may exist for the asset or liability where the price may be more beneficial as of the assessment day. But if the other market with the most beneficial price is not main for the company than the most beneficial price cannot be deemed a fair value.

A company's access to the main (or the most beneficial) market at fair value determination is critical part. Despite of the main idea of the IFRS 13 to free the fair value from specifics of a certain company, in this issue specificity cannot be escaped. Different companies may have different access to a certain market or have access to different markets. Nevertheless, at fair value shall be determined on the grounds of the situation at the main (or the most beneficial) market for a certain company.

Possibility of the asset (liability) disposition is not influencing selection of the main (of the most beneficial market). A fair value shall be determined on the basis of the term «what would be the price if possibility of sale was high».

Any operation includes two participating parties – they are market participants. Participants of the market are buyers and sellers at the main (or the most beneficial) market for the asset or liability having the following characteristics:

- Independence, absence of relations between related parties;
- Sufficient knowledge on the subject of a transaction;
- Possibility to take part in the transaction;
- Reasonable desire (but not forcible!) to take part in the transaction.

The IFRS 13 underlines that at fair value determination each participant of the market shall act for personal economic benefits. Consequently, a determined fair value shall be based on the terms on a transaction economic profitability. This does not mean that a company shall identify a certain buyer but there shall be considered all the circumstances which a potential buyer would take into account.

The IFRS 13 establishes three approaches for fair value assessment:

– Market;
– Cost-based;
– Income-based.

Selection of one of the three methods allowed shall be based on their acceptability in certain circumstances and shall consider availability of the data on the grounds of which a fair value will be assessed. It is not improbable that different sources of information may be used in order to assess a fair value. However, a company shall maximize use of relevant observable initial data and minimize use of those non-observed. Besides, within the frameworks of each approach the IFRS 13 allows using of additional assessment methods.

Use of the market method supposes use of the prices and other relevant information the sources of which may be similar market transactions with the same or comparable assets, liabilities or group of assets and liabilities such as business. As methods comparable to the market approach may be used the following:

– Method of the market coefficients;
– Method of matrix pricing.

Use of the cost-based approach supposes use of the amount which would be needed at the present in order to change the asset productive capacity. On the grounds of the IFRS 13 a fair value under the cost-based approach shall be the price which would be received for the asset equal to the amount which a buyer as a market participant is ready to pay in order to acquire or create substituting assets having a comparable benefits considering functional depreciation. The above described method is the method of current cost substitution.

Use of the income base approach supposes putting of deferred cash flows (expenses) up to date. Use of the income-based approach requires accounting of the current market expectations related to the deferred amounts. As methods comparable to the income-based approach can be used the following:

– Method of assessment in accordance with the indicated cost;
– Method of warrant assessment models;

– Methods of discount monetary flows used for assessment of fair value of some intangible assets.

Selection of assessment approach is an accounting policy, and selection of assessment method is an accounting assessment. Use of assessment approaches and methods requires a sequence. Nevertheless, if change of the method allows receiving the assessment result equal to the a fair value or the most exact presentation thereof in the circumstances occurred, such change is justified on the grounds of the IFRS. Factors causing change of the accounting policy concerning the used approaches to a fair value assessment may be the following: new markets development, new information availability, previously used information non-availability, assessment methods improvement, and market conditions change.

Definitely, one of the most important issues of the IFRS 13 is the issue on sources of information for fair value determination. The IFRS main idea related thereto is the requirement to maximally use the relevant observed initial data and minimally use non-observed initial data in all the cases in order to achieve the purpose of the fair value assessment.

Summarizing the above, algorithm of a company's actions at use of the concept of fair value in accounting procedures may as follows:

1) Selection of the asset/liability for assessment and establishment of possibility of assessment thereof in accordance with the fair value on the grounds of the requirements of the corresponding IFRS and field of activity of the IFRS 13;

2) Identification of accounting unit (asset/liability) subject to assessment in accordance with the fair value;

3) Analysis of the means of the asset use (in relation to non-financial assets) in order to determine the best and the most effective means of use;

4) Market assessment in order to determine whether it corresponds to the main (or the most beneficial) one and a company's access to such market;

5) Assessment of specific characteristics of the assessment object which the market participant may take into account;

6) Analysis of available initial data in order to determine the hierarchy level;

7) Correction of initial data (if necessary);

8) Selection of the most reasonable method of the fair value assessment on the grounds of the initial data availability;

9) Performance of the assessment procedures using the method selected;

10) Testing of the assessment results in order to determine whether it corresponds to the output price, market participants' expectations and assumptions.

Scientific and practical novelty of the research results includes the following:

– Summarized the cases of the fair value concept use in the accounting procedures of companies executing their financial reports on the grounds of the IFRS;

– Proved that the main idea of the fair value concept use consists of liberation thereof from a company's specificity;

– Specified the methods of fair value determination within the frameworks of each allowed approach to determination thereof;

– Developed an algorithm of companies' actions at fair value concept use in accounting policy.

Discussion and Conclusion. Summarizing the above, it can be said that there are no global changes in fair value assessment but the requirement became more exact, systematized and transparent. But the new provisions included to the IFRS 13 first of all require determining of the main (or the most beneficial) markets, analysis of the beast and the most effective means of non-financial assets use, selection of the most relevant initial data and assessment methods within the frameworks of the market, income-based and cost-based approaches, extension of the list of disclosures in the Notes to the financial reports.

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