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THE FAIR VALUE DILEMMAS

Summary: The author attempted to give an answer to a question why the concept of fair value is so much controversial. Observation of the Polish and international economic practice allows, in the author's opinion, stating that the concept of assets measurement in fair value itself is not controversial. It is the purpose of fair value measurement that causes different, extreme opinions. Based on deceitful financial reporting, it is possible to state that it constitutes a way of manipulating financial information. Managers choose measurements methods so that a financial result is a sufficient basis for their activities' evaluation. It makes the financial result (profit) and the value of a company (measured by owners' equity) not a result of business activity but a result of made decisions (the choice of a measurement method which results in a more attractive net financial result). The financial result (and resulting company's value) is an estimate. This is stirring up controversy as this could be considered unethical behavior which jeopardizes investors' interests. This value has no confirming (legitimizing) attribute and no neutrality attribute either.

Key words: qualitative features of reporting information, qualitative fundamental features, ethics, best practices.

1. Introduction

Fair value is for the contemporary economy a classic problem of the invisible hand of the market. It refers to only one aspect of "unwantedness": the unwanted results of certain actions. Fair value is an amount for which an asset could be exchanged and liability transferred (settled) in a market transaction between willing, well-informed and independent market participants. We may conclude that fair value's definition determines the following feature (characteristic): objectivity of measurement in spite of included estimations and market usefulness.

The evaluation of assets at fair value is an effect of information requirements of investors. The evaluation of assets according to the prudence principle in the historical cost limits the usefulness of reporting information. Globalization, new economy – they challenge the qualitative information regarding reporting of trademarks. Present or potential investors, lenders and other creditors when making decisions use information included in financial statements.

2. Why does the concept of fair value arouse so many controversies? The identification of the problem

According to the conceptual framework of international financial reporting standards with fundamental features of quality of information, there are useful and faithful presentations. Information is useful if it has a predicting, confirming value or both of these values. Therefore, fair value, being a substitute for market value [Hasik 2007] and being applied in assets measurement, is used by users of reporting information because it predicts future results and as such has a predictive value in this case.

Against this background, there arises a question why the evaluation in the goodwill constituted (among others) a cause of the financial crisis in the United States. Thus usefulness of reporting information is a fundamental qualitative feature of reporting information. It determines faithfulness (credibility and reliability) of presentation in financial statements. This feature must be made rich for the three following features: completeness, neutrality, correctness (in the description of a phenomenon). This last feature broadens the fundamental feature, i.e. correctness should be understood as the procedure of a correct description of estimates detected and presented in a financial statement among others.

According to paragraph (CJ15.) Conceptual framework – Qualitative features of useful financial information “appraised value possible for observing the price or the value not perhaps to be determined as accurate or inaccurate. **However the presentation of this appraised value can be faithful, if the amount was described in the intelligible and accurate way as the appraised value, character and restrictions of the process of estimating were explained. For example: “explained. For example: “what balance value of the component of assets estimating the amount should be corrected in order to reflect the depreciation of this element for”.**

This appraised value can constitute a faithful presentation if a reporting unit appropriately applied the due process of estimating, properly described the appraised value and clarified all the uncertainties which influence it in a significant way.

But if the level of uncertainty associated with this appraised value is high, the appraised value probably will not be particularly useful... (Paragraph CJ16 – Conceptual framework – Qualitative features of useful financial information).

From above it is possible to deduce, quoting the regulations of international financial reporting standards, omission of which principles is unethical.

Contemporary economic practice (especially American) proved, that rules and, principles (coded in financial reporting standards) aren't a perfect way to govern the economic life. Strict rules are no solution to these problems.

3. The subject and the object of the problem

Fair value is present in the concepts of thirteen International Accounting Standards: IAS 12 “Income Taxes”, IAS 16 “Property, Plant and Equipment”, IAS 17 “Leases”, IAS 18 “Revenue”, IAS 19 “Employee Benefits”, IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, IAS 21 “The Effects of Changes in Foreign Exchange Rates”, IAS 32 “Financial Instruments: Presentation”, IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 40 “Investment Property”, IAS 41 “Agriculture”.

Fair value measurement of assets results from investors’ informational demands. Measurement based on historical cost with prudence limits the usefulness of financial information. Globalization and new economics pose a challenge for the enrichment of the qualitative features of financial information.

4. Conclusions

Accounting is not an “invention of one man” or a “product” of one economic or social system. It is a result of constant evolution, a reflection of its development. The turn of millennia is disgraceful experience resulting from applying the value theory to global accounting. According to it, entity’s market value is an overarching objective of this entity, especially in the case of listed companies. In turn, it results in increasing owners’ assets (e.g., the amount of paid dividend and the like).

The paradigms of accounting are changing because the goals of management are changing. The process of capital accumulation, manifesting itself in achieving favorable financial results, is a fundament of business activities.

These results considered as the evolution result (evolution of management goals) are: deriving profits, “holding” of financial liquidity, maximizing the market value of a determined economic organization [Jackson 2008; Hasik 2007; Kwiecień, Hasik 2008]. The measurement of both profit and capital (depending on the concept of capital maintenance) are unprecedented in the contemporary economy. They are and always have been the purposes of accounting as the informative and control system. The basic product of accounting is a financial report which is essential in a decision-making process.

Accounting as the business language is based on a language of “symbols”. Reporting information as the product of accounting data transformation can be considered in three aspects, that is:

- of syntax, enabling to give an answer to the question in what way information was formally described (it is the issue of accounting as the business language and the code applied for expressing information – in our belief it is money measurement),
- of semantics, which lets us determine in what way and what scope designators of information’s formal description express its features (in the case of accounting the business language would be the measurement methods, including fair value),

- of pragmatics, which delivers an answer to a question how information influences addressee's behavior.

Measurement (in monetary units) has always been and will be an axiom of (financial) accounting. However, at present measurement has a greater and greater significance in the case of managerial accounting, as well, which is orientated to multifaceted conditioning of making business in competitive environment and changing economic conditions. Therefore, the concept of fair value measurement does not arouse any reservations. They are caused by the purpose to which it is used (manipulation of reporting information).

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DYLEMATY WARTOŚCI GODZIWEJ

Streszczenie: Autorka podjęła próbę udzielenia odpowiedzi na pytanie, dlaczego koncepcja wyceny w wartości godziwej budzi tak wiele kontrowersji. Obserwacja polskiej i międzynarodowej praktyki gospodarczej upoważniają zdaniem Autorki do stwierdzenia, że koncepcja wyceny w wartości godziwej nie budzi kontrowersji. Kontrowersyjny jest cel, jakiego ta koncepcja służy. Na podstawie oszukańczej sprawozdawczości finansowej można zaryzykować stwierdzenie, że stanowi ona narzędzie manipulacji informacją sprawozdawczą. Zarządzający dokonują wyboru takich metod wyceny, aby wynik finansowy był zadowalający dla oceny ich działania, czyli wynik finansowy i wartość spółki nie są skutkiem działalności gospodarczej, ale przyczyną podejmowanych decyzji (wyboru tej metody wyceny, która „da” korzystniejszy wynik finansowy). Wynik finansowy – wartość firmy – jest ustalany szacunkowo, co budzi wiele kontrowersji, jest bowiem działaniem nieetycznym narażającym interesy inwestorów itp., gdyż informacja ta nie ma wartości potwierdzającej, a przede wszystkim neutralności.

Słowa kluczowe: cechy jakościowe informacji finansowych, założenia konceptualne sprawozdań finansowych, etyka, dobre praktyki.