

The applicability of fva in an economy with small active market (agricultural, in...

[Finance](#), [Investment](#)



In the Pacific, fair value accounting is one of the major challenges faced as there is existence of small active market. In Fiji's context even though it's a small country but they were able to adopt fair value accounting. Talking about the fair value hierarchy, Fiji is using level 3 which is based on management estimation and assumption although these assumptions base on the entity's own data. Generally mark to market is considered more relevant in terms of information produced within the company and to the stakeholders as well.

Looking at Fijis context, fair value accounting is useful and relevant to all sectors like agricultural, investment and manufacturing companies. Fair value measurement in less active market can affect expected cash flow with these it would be difficult to get hold of continues flow of cash due to the fact that predicting economic and political state of the government is much more difficult. For instances, the central bank takes time to release the interest together with inflation rate. With these business entity had to make prediction using the discount rate of that particular entity for which it caters certain problems in relying on assumption that's being used to decide the fair value based on the expected income flow. Mark to market accounting is a significant aspect to most companies and also seen as a basis of preparation to entities. In agricultural sector, IAS 41 Agriculture use the concept of fair value less cost to sell to measure biological assets related to agricultural activities. Thus this is based on the transformation of biological assets and liabilities that went through for the period of their duration which is considered to be best reflected by mark to market measurement. On the other hand for every end of financial year biological assets are to be at fair

value amount as this will determine either gain or losses will be obtained. Thus using fair value is more relevant in terms of making wise and good decision especially for stakeholders and other relevant financial end user. From banking perspective towards fair value it is more relevant for the trading book of financial institution whereby the trading of financial instrument like marketable securities deliberately earn or make profits from short term cost variations. With these using mark to market accounting on these financial instrument is consistent due to the availability of market value and short term prospect. Hence fair value helps in recognizing gains and losses. Nevertheless using fair value on banking industry might not be relevant as well in terms of banking book of financial institution and these refers to loans considered to be non-negotiable.

Moving on, in manufacturing industry fair value is often used and also measurement basis for assets, liabilities and earnings as well. Looking at the use of fair value it is more superior then the use of historical cost in which it reflects competition in the market that ends up showing available information up to their measurement date. Thus mark to market accounting is also relevant in market where there is less trading or small active market like Fiji for which it may not be reliable but the information produced is highly relevant.