

Essay on relevance of fair of value in the contemporary world

[Business](#), [Marketing](#)



International Financial Accounting Standard 13

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Abstract

It is without a doubt that the fair value accounting faces numerous reproaches resulting to the never ending debate about its applicability as well as effectiveness. Although un-common, the issue of fair value accounting has been taken over by the political observers, as well as politicians themselves, business front-runners, and the professional associates. Such a move would be attributed to its significance in the current market of recent times. Because of the notion that the knowledge of the market plays a significant role in the success or failure of a company, it was imperative for each and every organization to accumulate more and more information. That is why fair value accounting might as well be termed as mark to the market since it acts as the driver of transparency in the market. The paper, therefore, will be endeavoring at elucidating and giving further details on the relevance of the fair value accounting in the contemporary world. In addition, the influence of the IFRS 13 on the subprime and related crisis over the world will be expounded not forgetting to mention the current status of the fair value accounting.

Introduction

Fair value denotes the homogenous calculations of financial instruments applicable in the market as well as used as the present value of cash flows. However, the International Accounting Standard Board (IASB) defines fair

value accounting as the alternate procedure to measurement that pursues to capture the changes in asset and liability values within a certain given time frame. In other words, it denotes the amount at which an asset could be transacted between conversant and agreeable individuals with an objective of doing business. Apart from the United States where it has been in operational for over many years, the concept of fair value accounting was a new concept to a majority of countries. Nevertheless, it is an accounting concept that has taken root fast over the recent years. That would be attributed to the fact that many companies were going international something that necessitated a universal accounting technique that would allow and enable them attain the understanding effective for business. Equally, its adaptation and growth over the years would as well be attributed to the fact that markets for subprime and liability assets were separately affected by the credit crisis leaving them in disarray. It was from that rationale that this paper will be endeavoring at elucidating and giving further details on the relevance of the fair value accounting in the contemporary world. In addition, the influence of the fair value accounting on the subprime and related crisis over the world will be expounded not forgetting to mention the current status of the fair value accounting.

It is worth mentioning that the fair value accounting plays a major role in the estimation of the best possible price at which they would conduct business based on the existing information and conditions. As mentioned exceedingly, numerous applicability of the International Financial Accounting Standard would be deduced in the recent world. For instance, they are responsible in

the provision of a world-wide structure detailing how public companies ought to prepare as well as divulge their financial statements. Moreover, they go a step further in offering the formats that the companies ought to adhere to in the preparation of the financial statements. Significant to note in a given point is that the FV does not articulate the procedures for the several businesses to track, but rather, they only articulate bookkeeping measures that are comprehensible and functioning universally. Subsequently, technology and the internet have enabled the physical and geographical barriers to be eliminated especially in terms of trade reveals an additional relevance of the fair value of accounting Young, Miller and Flegm 2008. Furthermore, simplifying the accounting features ensures that international companies operating in other countries remain relevant. That would be truthful since the accounting procedures would be understood enhancing the communication that might take place between two companies from different countries. Thanks to the IFRS, the objectives of financial statements are attainable something that undeniably indicates its application in the contemporary world. Through it, there are impartial representations as well as compliance with the formats given by the IFRS/ fair of value. Similarly, the accrual basis of accounting becomes recognized resulting to satisfactory accounting transactions. The fact that the IFRS demands an annual reporting and financial presentation indicates the relevance of the body as compared to the IAS that was replaced by the Fair value accounting.

Whether fair value accounting is applicable for a wide range of organizations

It is without a doubt that the IFRS is applicable for a wide range of organization financial reporting. Financial statements are known to reveal the financial position of the organization as well as their financial performance. In other words, the financial statements provide the required financial information imperative for decision making. Such are the benefits attributed to the IFRS Müller 2008. Hence, the conclusion that the IFRS does provide a wide range of organization financial reporting does hold water. By illustration, they enable the evaluation of information to take place since they enable the accounting periods to be understood better. Note that such statements were made mandatory by the IFRS body. Hence, it becomes applicable in various financial reports within an organization. The consistency in the presentation denotes an additional organizational reporting activity brought about by the IFRS. Under this objective, it necessitates the presentation as well as classification of various items Young, Miller and Flegm 2008. Other areas that it might be applicable include the reliability of measurement, the measurement of assets, liabilities, incomes and well as expenditure of an organization, probability of future economic challenges or benefits.

The role/influence of fair value of accounting on the subprime and related crisis globally

Evidently, the fair value accounting was held to have great influence on the subprime as well as other related crisis globally. Although such assumptions were noticeable from the side of the non-enthusiasts, various points put

forward were satisfactory. One of the reasons for its denunciation and henceforth, the influence on the global crisis was the unrealized gains as well as reverse losses. The systemic risk was another way that fair value accounting brings about crisis. Through the unrealized gains and losses, the income and loss recognition pushes forward the time of the amortized cost accounting. Such an undertaking results in the over/under costing since the decisions would as well be affected Akgun 2011. The significance of the market for subprime financial standing in terms of investments was noted to have dropped suddenly towards a down-ward level. It was a situation that necessitated a financial raise in terms of capital to ensure the volatility of the situation was well handled and eliminated. Although many held that the situation was aggravated by the accounting method, others held that their predicaments were worsened through imperfect valuations in the methods that they used Zülch 2014. As a result, the subprime experiences with the fair value accounting would be held as a better experience that would be of great benefit if adopted.

When there was trade involved in active markets, relating to subprime, nobody considered valuation to be a threat. The disappearance of these markets led to an increase in valuation to a higher level. Valuation, therefore, needed to be used. Its effects would affect the price of houses and interest rates. Homeowners were outraged by this because it meant more expenses for them. However, there was a need to use valuation and replace models in order to have something to say to investors, who were beginning to worry. Models were, therefore, adjusted to suit the current needs of the investors. The valuation had to be made fair to counter the demands caused

by the disappearance of markets. In this way, one can argue that fair valuation did have an influence on the subprime.

Even so, critics have argued that fair value accounting has not been the reason for any world crisis. The reason cited was that it only served to give the real value of the assets in the market at a given time. It provides a clear value for the measurements of assets. Fair value accounting contributed but only as a reflection of the underlying problems in the investment and market world. Subprime can be accrued to many issues. Such issues include bad operations from investment firms, fraud, and wrong decision-making. Fair value accountancy may have become a problem because it is an advocate of transparency. Through the concept, investors can know the truth behind the value of an asset. Therefore, they have a chance to pay the exact money for the value. Business is affected by such remarks, but investors could find them useful. Indeed, the measuring of assets created difficulties in the subprime, but the overall issue was not entirely caused by fair value accounting.

Current status of fair value accounting

As mentioned exceeding, fair value accounting denotes the adaptation of financial reporting techniques that allows organizations to measure as well as report an ongoing basis as estimates of the prices that might be expected. Moreover, the fair value accounting enables the same organizations to accept losses in case the fair values of their assets diminish or during periods when their liabilities prosper Laux 2009. In recent times, therefore, the fair value accountings do exist without a doubt, and they are

formulated in a manner that reflects the market conditions. Imperatively, the objective considered in the whole process remains to be the attainment of certain criteria that would be of importance to the financial users. As mentioned herein, financial statements are of importance in decision making. Hence, it enables the evaluation of risk structures of financial statements to be evaluated effortlessly.

Consequently, it would be termed as a major transference from the historical cost approach that was not only cumbersome to apply, but also less understandable by various individuals from divergent countries. Thanks to the current fair value accounting, there was homogeneous interpretation of accounting concepts. Hence, better applications and decision making Laux 2009. Although many consider this point controversial, it might be held that the fair value accounting stands a better chance of reducing the occurrence of the financial predicament and emergency. Such were encountered several years back with the calamity of 2008 being held as an example Masood and Bellalah 2014. Additionally, the fair value accounting adaptation in recent times allows for the evaluation and appraisal of assets with the contemporary market rate. Hence, there is a leverage effect that would result especially in the affluent economic times the same way it would intensify the depth of diversity when the capital are diversely exaggerated.

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