EVALUATION IN ACCOUNTING. THE FAIR VALUE. PAST, PRESENT AND FUTURE

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Abstract: *In this modern era which changes rapidly, the information comprised in financial statements must be pertinent and relevant, qualities which weren't seen before within the historical cost evaluation. Because of this, another evaluation basis was imposed: the fair value.Within the pages of this article, we intend to present some important aspects regarding this value more and more used in the accounting language.We shall realize a short incursion through the specialty literature regarding the evolution of this concept and we shall present the position of the executives of financial report regarding the fair value and last but not least the effects of the financial crisis upon this evaluation basis.*

Key words*: fair value, historical cost, evaluation*

INTRODUCTION

In a period of economic instability as the present one, characterized in the first place by uncertainty and unpredictable future, the lack of predictable information is felt as a severe deficiency. The passage of time leaves its mark on economic goods entered in the patrimony, thing which is not reflected by the historical cost. An attempt was made to find a new value of evaluation for the patrimonial elements, a value as real as possible and correctly determined, taking into consideration the fact that past doesn't represent a reliable base for estimation of the future.In consequence, another evaluation base is ready to be imposed: **fair value.**

MATERIALS AND METHODS

The present article is based upon a qualitative research by using some methods as external observation, comparative method, document analysis. We shall start with a short presentation of the specialty literature regarding the appearance and development of the fair value notion.We shall present information regarding the fair value found in differentInternational Accounting Standards and we will pause a little upon the Standard IAS 41 *Agriculture.*

For the most executives of financial reporting, the concept of fair value evaluation is based upon the presumption of activity continuity by the entity without the intention or need of liquidation, significant diminution of its activity amplitude or transaction closing in unfavorable conditions. Therefore, in this case, the fair value will not be the value that the entity will receive or pay in a fortuitous transaction, involuntary liquidation or sale forced by circumstances. Yet, the entity might need to take into consideration its current economic or operationalsituation in order to determine the fair value of its assets and debts if this is asked or allowed by its executives of financial reporting and such an executive may anticipate or not the way in which the entity should proceed.

RESEARCH RESULTS

Fair value is a consequence of the true and fair view principle (true and correct image), defined for the first time in 1947 in the Companies Law fromUnited Kingdom and it replaced the syntax true and correct view, introduced for the first time in 1900.

The first standards in which the fair value is presented refer to:

- IAS 16 „Tangible fixed assets" (October 1981): this standard refers to the accounting recording of tangible fixed assets
- IAS 18 „Incomes from current activities" (June 1982): which makes reference to the accounting recording of ordinary incomes;
- IAS 20 „Subsidies" (November 1982): which presents the accounting recording of public subsidies;
- IAS 22 „Combinations of companies" (June 1983): this standard refers to the accounting recordingof groups of companies.

To the end of 2000, it appeared the terms of „market value accounting „or „fair value accounting". In the work*Fair value, stakes, techniques and policies,*the coordinatorspresent in the introduction a synthesis draft regarding the debate about the application of the fair value principle in accounting.(Casta, Colasse, 2001).

Fair value notion is found in many international accounting standards (IAS 16 Tangible fixed assets, IAS 19Employees' advantages, IAS 36 Depreciation of assets, IAS 38Intangible fixed assets, IAS 39Financial instruments: recognition and evaluation, IAS 40Real estate investments, IAS 41 Agriculture), and the accounting regulation organism IASB doesn't give up to this concept not even to the occasion of elaboration of international financial reportingstandards, using it also within IFRS: IFRS 2*Payment based upon action*, IFRS 3*Combinations of companies*, IFRS 9 F*inancial instruments*, IFRS 13 *Fair value evaluation.*

Even if it is found so often within the accounting standards, yet in the initial version (1999) of the conceptual executive IASB, the fair value is not presented as an evaluation base. There are mentioned only four evaluation bases: historical cost, current cost, realizable value and current value. The last three evaluation methods differ from historical cost by the fact that they are helped by values more virtual than effective; only the historical cost results from a real transaction made by the enterprise (Jeanjean, 2001).

According to the definition given by IASB, fair value is: *the amountto which an asset can be traded or a debt can be discounted willingly between informed parties within a transaction in which the price is determined objectively.* This definition requires the existence of a perfect market.

In September 2006, FASB published SFAS 157 „ Fair Value Measurement", which defines the notion of fair value thus: *The price which could be received after the sale of an asset or after the paymentin case of a debt transfer in an ordinary transaction between the participants on the market at the evaluation date.*

Onthe 12th of May 2011 IASB (Councilfor International Accounting Standards) published IFRS 13 *Fair value evaluation,*a new standard which replaces the existant provisions regarding the fair value evaluation included in different standards with a single definition of the fair value and a single fair value evaluation executive and with the presentation of corresponding information.InRomania, the application of IFRS 13 becomesmandatory from the 1st of January 2013.The application of IFRS 13 is related obviously to IVS (International Evaluation Standards) not only by the fair value definition form but also by the explanations given in order to obtain it.

According to IFRS 13 *Fair value evaluation*, the fair value notion is defined thus: *the price received forthe sale of an asset or paid for a debt transfer in an ordinary transaction between the participants on the market at the evaluation date*.(IFRS 9 *Fair value evaluation,* paragraph 9)

When an economic entity makes the fair value evaluation, it has to take into consideration the characteristics of the asset or debt.

An entity must evaluate the fair value of an asset or a debt on the basis of the hypothesis used by the participants on the market when they establish the asset or debt value, supposing that the participants on the market act to obtain a maximum economic benefit.

In view of improvement of consistency and comparability of fair value evaluation and presentations of connected information, IFRS 13 establishes a fair value hierarchy by which the entry data used in the techniques of fair value evaluation are classified on three levels:

- Entry data of level 1–quoted prices (unadjusted) on active markets for identical assets or debts to which the entity has access on the evaluation date.
- Entry data of level 2–entry data which are different from the quoted prices included at level 1, directly or indirectly observable for asset or debt.
- Entry data of level 3– non-observable data for asset or debt**.**

According toInternational Accounting Standard IVS *General Executive,* fair value *is the price estimated for the transfer of an asset or debt between identified, informed and decided parties, which reflects the interests of those parties.* (International Accounting Standards, 2011, p.23). 12

Fair value in agriculture

International Accounting StandardIAS 41 *Agriculture*brings up the fair value notionwithin the context of evaluation of biological assets and agricultural products.

Recognition and evaluation of biological assets and agricultural products

The conditions which must be achieved in order that an economic entity could recognize a biological asset or an agricultural product are the following:

- Entity controls the asset as result of the past events;
- It is likely that the future economic benefits associated to the asset be due to the entity; and
- Fair value or asset cost can be evaluated in a reliable way.

Regarding the evaluation of the sameInternational Accounting Standard, IAS 41,there are the following remarks:

- A biological asset must be evaluated at the initial recognition and at the end of each reporting period to its fair value less the costs generated by sale. (paragraph 12.)

- The agricultural products picked from biological assets of an entity must be evaluated to their fair value less the costs generated by sale at the picking moment. The respective evaluated value constitutes the cost on that date when it is applied IAS *2 Stocks* or another applicable standard.(paragraph 13).

Next, we shall present an example regarding the evaluation of a biological asset.

A fishing unit buys 300 kiloscarp sapling for the population of a new established hatchery with the price of 3 lei/kilo. The transport is provided and paid by the supplier. If the economic entity sells the carp sapling in the current state, it would support the cost of transport of 100 lei.

In this situation, the biological asset will be evaluated to:

- Price market, debt to suppliers: 900 lei (300kilos.x3lei/kilo)
- Cost of transport corresponding to the sale: 100lei
- **Fair value= 900-100= 800 lei**

  The economic entity will register a loss from the initial recognition of biological assets in amount of 900-800= 100 lei.

  In these conditions, the accounting recording will be as follows:

%	= 404Suppliers of fixed assets	900 lei
241/ carp sapling		800 lei
6571 Losses from thefair value evaluationof biological assets		100 lei

When there is no active market, an entity uses one or more from the following criteriafor the fair value determination, according to the case:

- The most recent trade price from the market on condition thatno significant modifications of economic circumstances intervene between the respective transaction date and the end of the reporting period;
- The market prices for similar assets are appropriately adjusted in order to reflect differences; and
- The reference prices of the sector, as for example the value of an orchard expressed per exported small box, production unit or hectare, or the value of the livestock expressed per kilo of meat.

There are situations whenthe fair value can be approximated through cost: when a few biological transformations took place from the moment of initial costs bearing or it is not expected that the impact of biological transformation upon the price be significant.

In case the prices or values determined on the market are not available for a biological asset in its current state to determine its fair value, an entity uses the updated value of net treasury flows estimated to be generated by the respective asset, updated to a current tax ratedetermined by the current market conditions.

The updated value of net estimated treasury flows is calculated to determine the fair value of a biological asset in the place and state in which it is at present. An entity takes into consideration this objective when establishes the adequate updating rateand when estimates the net treasuryflows. In the process of fair value determination of net planned treasury flows, an entity includes the net treasury flows which the participants on the market expect to be generated on the most important markets.

In view of estimation of cash flows which will be considered in the calculation of updated value of net treasury flows estimated to determine the fair value, we present the following example:

In the year N an economic entity with agricultural profile sells 2000 kilos of meat with the price of 11 lei/kilo. The quantity of sold meat wil rise to 2% per year and the evolution of sale price is estimated to 3% per year.

Calculations regarding the evolution of meat quantity sold annualy:

- for year N+1: 2000kilo+2000kilo x 0.02= 2040 kilo of meat
- for year N+2: 2040kilo + 2040kilox 0.02= 2081 kg de carne
- for year N+3: 2081kilo + 2081x0.02= 2123 kilo of meat.

Calculations regarding the evolution of sale price:

- for year N+1: 11lei/kilo + 11 lei/kilo x0,03= 11.33 lei/kilo
- for year N+2: 11,33 lei/kilo + 11,33 lei/kilo x 0.03= 11,67 lei/kilo.
- for year N+3: 11,67 lei/kilo + 11,67lei/kilo x 0.03= 12,02 lei/kilo.

Estimation of cash flows:

- for year N+1: 2040kilo x 11,33 lei/kilo= 23133,2 lei
- for year N+2: 2081 kilo x 11,67 lei/kilo= 24285.27 lei
- for year N+3: 2123 kilo x 12,02 lei/kilo= 25518,46 lei

CONCLUSIONS

Accounting based upon fair value estranges from the historical perspective and approaches more the current perspective of value. Yet, fair values increase the risk of misunderstanding by a part of the existing or potential investors of the enterprise. Even if the fair value can be the market value, the net value from a balance sheet doesn't equal necessarily the market value of the enterprise because of the existence of the commercial fund internally generated. In these conditions, by using the fair value, the balance sheet value approaches more the market value without equalizing it. Consequently, while the historical cost is used more often because it can be applied and verified very easily, the fair value evaluation constitutes an important step, especially in relation to investors, in view of foundation of economic decisions.

The main idea of theInternational Accounting StandardIAS 41 *Agriculture* is represented by the evaluation of biological assets and of agricultural products on the basis of fair value. Thus, the biological assets will be evaluatedat the moment of initial recognition and at each date of the balance sheet to their fair value less the costs estimated by sale while the biological products will be emphasized to their fair value less the costs estimated by sale at the moment of their picking. A gain or a loss can be recorded at the initial recognition of assets and biological products.

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