VALUATION MODELS.
FAIR VALUE – METHODS OF ASSESSMENT IN ACCOUNTING

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ABSTRACT

In this paper the issue of valuation is analyzed as the main tool in shaping accounting and preparing financial statements. Starting from the "classical" models of assessment, based on historical cost, focus is made on accounting valuation, which is based on fair value. The diversity of accounting values demonstrates the need for rules and accounting policies on accounting valuation. The referential in this regard should be sought in the fair value. All other values are variations of the fair value, their difference being determined by time and space. The following question arises: do we evaluate at historical cost or fair value? This is the question we will try to find the answer to with this paper.

KEY WORDS: *accounting assessment, modeling accounting, historical cost, fair value.*

INTRODUCTION

As a valuation model, accounting deals with identifying and valuating the items that are to be accounted, quantifying and presenting (in monetary unit) the economic value flows and accumulation processes that occur within an enterprise. In the construction of accounting theory, the central elements of knowledge are the economic resources and high demands towards the entity, and changes in economic resources. The theory is concerned almost exclusively with measuring the value of the items included in the financial statements, identifying resources and claims to be accounted for, their characteristics, under which modeling accounting is performed, correlating the effects of various transactions and events, and the impact of price changes at macroeconomic or branch level, on the entity's resources. Accounting must provide either a history of the company's transactions and the management of resources available to it (inductive theory of accounting in historical cost) or an economic assessment of the company at the present time (deductive theories of accounting in current values - theories on determining the correct result). Validation criterion of the theory is either that of objective representation of how the company was managed, or that of an economic representation of the enterprise as close to the current reality. Both theoretical sets were normative efforts initiated and developed during the

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years 1960 - 1970, their full acceptance or mostly normalization and accounting practice requiring them today as classical, unified theories of accounting.

Beyond the quantifying relations established between an accountant and the entity's resources, aimed at identifying and choosing the assessment accounting methods of resource and claims of the reporting entity, the relations between those who prepare the financial statements and their users are given a residual interest. They are alleged or perceived to be neutral, and therefore represent marginal concerns of accounting theory. As Dennis Patz notices (2004), if the accounting measurement is correct, the issue of notes accompanying the financial statements is limited to the information on valuation methods used, and possibly on the data necessary for classifying their nature and suitability. Moreover, the same marginal character in theoretical concerns is occupied by the relationships between the reporting entity and the users. They are perceived exclusively where the direct economic interest of the owners is concerned, the interests of any kind of other parties being excluded from accounting modeling. Further paradigms have included these issues in the area of theoretical concerns, however giving them a central role in the development of accounting theory. Regarding the issue of valuation, it will remain a permanent challenge in accounting modeling.

THEORETICAL CONSIDERATIONS

In order to make a fair accounting assessment, it is necessary to define relations between valuation, estimation and measurement. They are converging concepts, but their nuances lead to a differentiation. Thus, **measurement** is an assessment in monetary units and an estimation with objective determination of an economic value's magnitude in relation to a given unit. **Estimation** is a subjective measurement, by approximating the size of a value, based on interpretable or even incomplete data. Also, more generally, the **assessment** is the establishment of the price, one estimates or calculates the size of this value.

It is considered by accounting standards and regulations, that **assessment** is the process of determining the monetary amounts of transactions and events and items recognized and registered in the balance sheet and in the profit and loss account. With regard to **estimation**, it consists in assessing in monetary or non-monetary units, where applicable, the size of elements from the financial statements based on the most recent reliable information available; for example, estimation of the useful life of a depreciable asset or way of depreciation, estimating the fair value of financial assets and financial liabilities.

And yet, by resorting to the dictionary of neologisms[1], both the assessment and estimation are defined by the formula "estimating - assessing = approximate determination of a good or object, establishing prices, appreciating, measuring in monetary units the size of an economic value". In exchange[2] measuring means determining the size of a value, be it economic.

[1] Marcu, F., *The great dictionary of neologism*, Publishing House LEXICON , Bucureşti 2007
[2] Explanatory Dictionay of the Romanian language, Publishing House Academia Română Bucureşti 2016

In theory and practice of accounting, four criteria have emerged on the valuation of assets, liabilities, equity, income and expenses, namely: **the monetary criterion, cost, fair value (FAIR VALUE) and time.**

The first criterion, the **monetary** criterion is based on the currency unit, which is retained in double situation, both as a unit of account, as well as sales/purchase unit.

Resorting to the currency as a unit of account considers using it as a unit of measurement and registration of flows and property stocks. Through money, economic values are expressed in price.

The second criterion, **the cost**, is that the input value must present the "sacrifice" consented to bring an asset to the company's property, or which would bring the asset, if we use it in the enterprise or sell it on the market. To this definition, we also add that the value of utility can be viewed through the light of **"loss"** or **"sacrifice"** that a company would incur if it did not have that good.

As regards liabilities, **cost** translates by the accepted amounts to be paid in return for obligations created or amounts expected to be paid to satisfy tax obligations.

Related to economic and financial transactions, **the cost** is identified with a value that a buyer is willing to pay for the acquisition of an asset in the state it is. In other words, the cost is the input value recognized by parties within direct transactions.

If one takes into account the moment of the assessment/measurement, **the cost can be historical**, the one shown in the above formula and it can also be **current**. This latest cost is an entry value estimated at the present time. Thus, the assets estimate the monetary value which has to be paid if the same asset or a similar one would be acquired now. In the case of debts, current cost is the settled value in cash or equivalent required to settle the obligation currently.

In another perspective, any "cost or sacrifice accepted" is an unexploited "chance" because, in order for the enterprise to operate, it has to give up, because its resources are not available for alternative uses. An example of this, "If owners pay rent for the building they use, they regard rent as payment of costs, but could not do so if the building is their property. They should do this though, because they are losing the amount which it would be obtained by renting a specific building. Cost is clear, if you do not have a building available for alternative uses.

It may be that owners use the equipment purchased and not the equipment they had in the house. If they buy equipment with a bank loan, they will include in costs the interest related to settlements to the bank. But let's suppose that they buy equipment from the savings made earlier. If they give up the income from the interest they would have made from it, claiming to someone else to use these savings, this is certainly part of the cost of an opportunity to make a deal. They may decide to include or not in their costs the current income for a prior period. The issue is that they should do so. The lost income is a cost of that business."

Fair value, representing the third criterion, is the amount for which an asset can be exchanged, settled as a liability, or traded as a granted equity instrument, all between interested stakeholders, in a transaction carried out under objective conditions. As defined

in IFRS 13 “Fair Value Measurement”, the fair value is the price that would be received for selling an asset or paid to transfer a liability in a transaction governed between market participants at the valuation date.

The definition mentioned before applies both to the initial assessment and subsequent valuation if the fair value is allowed or expected in the other IFRSs. Therefore it can be said that fair value is identified with the value based on historical cost at the time of the transaction or event and at the market price or value of use or a subjective estimated value at the balance sheet recognition of assets, liabilities, equity, income and expenses.

For assets held, the liabilities assumed and granted equity instruments, the fair value is an estimated market value, if the object of valuation may be the subject of the trading.

In another perspective, perhaps questionable, fair value is market value, used in direct transactions, is the price that can be obtained/paid on an active market, characterized by:

a) market assets are relatively homogenous;
b) there are sufficient such assets traded, so that at any time potential buyers and sellers can be found;
c) prices are available to be known by the public.

In the absence of market, by resorting to IFRS, the fair value may be substituted by a subjective value that can be a present value, use value, realizable value, recoverable value, adjusted value, intrinsic value, entity-specific value, revalued value and the list remains open.

By resorting to IFRSs, the meaning of the values listed above is as follows:

- The present value as an estimated value of future net cash flows in the normal course of business;
- The present value of a debt as a form equivalent to expected future payments required to settle the obligation resulting from a benefit or good received;
- The bookkeeping value is the amount at which an asset is recognized in the financial statements after deducting accumulated depreciation and accumulated impairment losses;
- The realizable value or the settlement of a liability is an undiscounted value in cash or cash equivalents expected to be paid to pay off debts, according to the normal course of business;
- The realizable value is the amount of cash or cash equivalents that can be obtained now by normal sale of assets;
- The net realizable value represents the estimated selling price that could be obtained in the normal course of business, less the estimated costs of completion of good and costs necessary for sale;
- The recoverable value is the maximum value of the net selling price and its useful value. Or, the amount that the company expects to recover from the future use of an asset, including its residual value at the time of alienation;
- The residual value is the net amount which an enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs on disposal;

- The revalued value of an asset is the real value of an asset at the revaluation date, less the subsequent accumulated depreciation;
- The adjusted value is the diminished value of the assets that were depreciated. This is estimated depending on the company's intent to retain the asset for use or not in production. Thus, if the company intends to use the asset in the production process, the adjustment for diminishing the assets' value is determined by comparing the value of recovery to the accounting value, detaining the first. If the enterprise does not intend to use the asset in the production process, the impairment to diminish the assets' value is calculated by comparing the net realizable value to the accounting value, detaining the first;
- The entity-specific value is the present value of the cash flows that an entity expects to get from continuing use of an asset and from the disposal thereof at the end of its useful life or that the entity expects to incur when settling a liability;
- The value of use is the updated allocation of estimated future cash flows that are expected to arise from continued use of an asset and its disposal at the end of its useful life.

Directive 2013/14/EU of the European Parliament and of the Council uses and regulates the presence of the following price categories:

a) purchase price in the due price quality and any associated expenses minus any reductions of the acquisition cost;

b) production cost consisting of the purchase price of raw materials and consumables and other costs that can be directly attributable to the item in question, permissive costs (European States' decision) by including a reasonable proportion of fixed overheads or variables indirectly attributable to the object in question insofar as they relate to the production period. Distribution costs (outlets) are not included;

c) revalued amounts used to assess fixed assets;

d) fair value as a rule of alternative valuation of financial instruments, including the direct instruments and also the permissive valuation of certain categories of assets, other than financial instruments, admission possibly being restricted to consolidated financial statements.

The above described situation regarding the accounting amounts demonstrates the need for rules and accounting policies on accounting valuation. The Reference in this regard must be sought in the fair value. All other values are variations of the fair value, their differentiation being determined by the time criterion and the situation in which the valuation object is at the time of measurement.

Time refers to the time of the assessment's placement in the past, present or future. Any assessment, by virtue of the enterprise's business continuity, glides between the past tense, passes through the present tense and and cares for the reproduction of economic values in the future.

Thus, assessment of transactions and events is carried out at the present time and is based, at input, on historical cost and at output on the selling price. But in the flow of transactions and events withdrawals and stands appear, materialized in assets and liabilities. In the latter case assessment is undertaken at the present time and it moves

between values from the past and future time, when the output of exiting assets and liabilities occurs.

Indeed, assessment in accounting is done at the present time. But the objective of the valuation is assets, liabilities, equity, revenues and expenses.

As well shown in "IASB Conceptual Framework, **the asset** is a current resource controlled by the entity present, which comes as a result of past events and which brings future benefits for the entity; as **debt** is defined as a present obligation of the entity arising from past events, which, on payment, generates flows of economic benefits from the enterprise.

Between assets and liabilities there is equity, which represents residual interests in the assets of the enterprise after all obligations were paid off. From the same frame we have the definition according to which revenue is an increase in profits during the financial year (i.e. the current period) as increases (input) of assets or reductions of liabilities that result in increases in equity, other than those relating to owners' contributions to equity.

METHODOLOGY OF RESEARCH

I. Generally accepted principles on accounting assessment

Value issues and implicitly of accounting valuation can only be discussed in relation to basic accounting principles. In this sense, the following principles can be mentioned:

(a) **The principle of changing the time value of money or price - for the money.** Time is money; this factor is an important variable to consider in any economic business decision. Consequently, an amount of money received today is worth more than the same amount received tomorrow or in the future. It is time to resort to the current value. Where the money time- value effect is significant, the business value should represent the present value of assets and liabilities incurred, of expenditure and revenues. The discount rates must be pre-tax rates that reflect current market of money time-value assessments and the valuation of assets' and liabilities' risks. Moreover, discount rates should not reflect the risks which future cash flow estimates have been adjusted to.

(b) The principle of historical cost recovery requires accounting recognition of assets and liabilities at the cost of origin (entry) recorded in supporting documents. This cost is included in accounting from entry to exit, being able to be substituted only by other prices or modified only by rvaluation.

The option for the historical cost, although it may have other alternatives, is based on the fact that it is the only cost recorded in the supporting documents and thus has a verifiable character and has an objective determination, being validated in the undertaken market transactions.

As shown before, the historical cost reflects the real value of assets and liabilities at their entry into the enterprise. But afterwards, any significant change tends to make historical cost misleading with the purpose of deciding and ensuring the financing capacity or purchasing power of equity. The non-synchronization effect thus appears, between valuation at input of property items based on historical cost (cost of the past) and

valuation at output based on the current value (usually the value of accomplishment, as a price of the present time).

Given that the price curve is upwards, non-synchronization effect causes an increase without a real basis of the result, as a result of price changes between the two moments of valuation: input - output. Increased results go into the carousel of taxation and distribution of profit as dividends, with indirect implications on the enterprise's disinvestment.

To overcome the above mentioned situation, the IASB general conceptual framework has formulated the general valuation model on the recoverable historical cost and the concept of nominal financial capital maintenance. Also, at the present time, the total fair value is increasingly invoked.

(c) **The principle of separate valuation of assets and liabilities.** In order to establish the overall value of each position, the value of each individual element as element of the multitude of assets or liabilities is determined separately.

(d) **The principle of exploitation activity's continuity.** It presupposes that a company continues its activity in the foreseeable future without the intent and a need to liquidate or reduce its activity significantly. Starting from this premise, valuation should be based on the actual value or the value of utility able to preserve and maintain the historical cost of capital.

(e) In the analysis of accounting principles regarding valuation two convergent principles cannot miss, namely **the maintenance of capital and the financing structure.** These principles were generated by practice and accepted by the accounting theory in order to explain and correct the situation determined by the monetary standard as a unit of measurement in accounting and by the historical cost as basis of valuation. Their adoption practically requires, as appropriate, alternatives for the historical cost, such as: the replacement value for tangible fixed assets with limited life span and for stocks; using methods that take into account inflation for items presented in the financial statements, including equity; revaluation of tangible and financial fixed assets. To these are added: revaluation, accounting for price changes, revision of financial statements and accounting for inflation.

(f) **The principle of the relationship between earnings and risk:** the more accounting methods are aggressive in overstatement of earnings, the lower the quality of earnings, the lower the quality of earnings, the higher the assessed risk, the higher the assessed risk, the lower the value of participating entity in business.

(g) **The treasury result is more important, compared to the profit based on accrual accounting**. In assessing the treasury outcome, future obtainable cash-flows are considered incomes, and not the estimated profits in accrual accounting.

Romanian accounting, as any accounting, is an accrual accounting, both in terms of revenue and expenditure. Sale of products and services derived from investment exploitation is is recorded as income upon delivery, even if collection takes place later. The same thing happens with the registration of expenses as incurred (birth of liability), even if the payment is done later. Let us add that, along with cash income and expense (with a certain maturity of receipts and cash payments) are recorded in the profit and loss

account, non-cash income and expenses (without accurate cash investment, such as income in advance, calculated amortization and provisions).

Finally, a mismatch source between cash result and commitment profit is the failure to record in the profit and loss account investment and divestment operations or the financing - lending and repayment operations. Or, the treasury outcome, although it has as potential source the profit, it is substantially influenced by payments for new investments in assets, by the collection from the sale itself of non-performing assets, by payments for repayment of loans or proceeds from capital increases or new loans.

Under these circumstances, given the accounting result based on the accrual accounting, treasury result is determined based on the relationship:

- Accounting profit (loss) of the account 121 “Profit and loss” before tax

+,- Adjustments from non-cash items (for example: depreciation and provisions)

+,- Changes in working capital requirements (changes in current assets and current liabilities)

+,- Cash flows from investment activities (receipts/payments for fixed assets)

+,- Cash flows from financing activities (increases/reductions of equity and non-current debt)

\- Payable tax

= **Treasury result**

(h) **Tax influences business decisions;** respecting this rule, it is necessary to take into account the net cash-flow of taxes on the entity’s profit, especially on the capital investment of the investors.

On the other hand, the state, in a policy of economic encouragement, provides a series of tax incentives (reductions or tax allowances) or grants for actions to develop the less powerful economic sectors (as investment attractiveness) and for welfare actions. Careful analysis and full recovery of these fiscal incentives will lead to higher marginal cash flows and, consequently, to the increase of the analyzed value of the investment.

(i) **The principle of prudence.** The European Directive 2013/34 provides that recognition and valuation are carried out on a basis of prudence, i.e.: only profits made at the balance sheet date can be recognized; all debts arising in the current financial year or during a previous financial year are recognized, even if they become apparent only between the balance sheet date and the date of its establishment and all negative adjustments of value are recognized, whether the result of the financial year is a loss or profit.

This principle partially corrects the historical cost limits and consists of cautious or reasonable appreciation of assets and liabilities, expenditure and income to avoid overstatement of the result. According to the principle of prudence, overstatement of liabilities and income items is not admitted or the understatement of assets and expenditure items, taking into account depreciation, risks and possible losses arising from current year or prior to the activity. Doing so, in this way the risk of transfer in the future of present uncertainties, likely to burden assets and liabilities and implicitly the company’s results is avoided. As IFRSs require, those who “draw up financial statements

must confront uncertainties that inevitably hang over many events and circumstances, such as the collection of bad debts, probable duration of use of tangible assets and the number of potential complaints about products under warranty. Thus, some uncertainties are recognized by their nature and amount, but also by exercising prudence in preparing financial statements. Prudence means the inclusion of a degree of caution in the exercise of judgments needed to make the estimates required under conditions of uncertainty, such that assets and income shall not be overstated and liabilities and charges are not be understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or income, nor the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and therefore would not have the quality of being credible."

Moreover, an important analysis of expenses incurred should be made, in order to be defined, as appropriate, "in the cost of the product" or in the "period's costs". It is stated that the last structure shall include all costs incurred structure that cannot be fixed, stored or distributed over several years, not being recognized as assets and are therefore are directly allocated on the outcome of the financial year. This applies to the general administration expenses, to distribution expenses and sub-activity costs.

Such an analysis was materialized in the adoption of the **partial cost of production** formula in the valuation of goods obtained from own production. Such cost consists of the purchase cost of raw and consumed materials, other direct costs of production and the rate of indirect costs of production determined as rationally related to manufacture. The production cost can include interests on bank loans contracted for long manufacturing cycle production for the period.

Inherent risks and uncertainties should also be considered in the assessment methods. Moreover, the law of change requires continuous updating by recourse to fair value and recoverable amount of assets and liabilities. Our reflections cannot avoid the professional judgment or reasoning in quantitative terms for the recognition of assets and liabilities as producing economic benefits, namely: certainly: ≥ 90%; probably > 50%; possibly ≤ 50% and 10% unlikely.

II. Historical cost principle and prudence in evaluating and estimating the carrying amounts. Comparative analysis.

For a modern accounting, as the measuring instrument, and instrument of information, and more especially as the instrument of social intermediation to the present time, in the view of certain authors, prudence is not necessarily a virtue, and valuation is treated as a matter of accuracy. The amount assessed in monetary units should represent the best estimate of assets and liabilities, income and expenses.

Inherent risks and uncertainties should be considered in valuation methods. The law of change also requires continuous updating by recourse to fair value and recoverable amount of assets and liabilities.

On a more general analysis, it is estimated that the principle treats in a discriminatory manner the valuation of assets. According to the principle of prudence, only the minus

values are accounted, calculated as the difference between the values of inventory (current, recoverable) and historical cost, and not capital gains. Hidden reserves can be created through deliberate understatement of assets or income or deliberate overstatement of expenses.

Regarding the assessment of uncertainties in accounting, provisioning so as authors looked S.E. Hendriksen and M. F. Van Breda in "Accounting Theory" prudence is the "best a very mediocre to treat the existence of uncertainty in the valuation of assets, liabilities and results. Proponents of this principle considers that the determination of profit is always unpredictable and, therefore, it is better to declare minimum profit so not to reduce the tax burden, how to avoid distribution of dividends fictitious, to alleviate also a vision too optimistic.

Opponents of prudence are somehow enemies accounting value. This is because, at the moment at preparing financial statements should consider the uncertainties of the future. These uncertainties are likely, on the one hand and, on the other hand, their impact should be assessed. However, the estimate is subjective.

The principle of prudence is of great importance in estimating the amounts, because in many cases because of prudence, the values of assets reported in the financial statements are lower than the actual balance sheet date. If the net realizable value or recoverable asset balance sheet date is higher than the historical cost, the added value is recorded as a result of prudence, which makes part of the assets to be undervalued on the balance sheet.

Using current costs lead to infringement of the principle of prudence, because it requires the registration of the increase of value for assets, in particular the recognition of a holding gain, yet unrealized. A win also once came under distribution undermining the Treasury entity.

In other news, it is currently affected year result of the effect of future events. The result was the estimated future obligations incurred will be also the real, for it will take into account already anticipated loss previously recognized. As stated in the conceptual framework of the IASB (Basis for Conclusions, p. B18) for the sake of prudence, undervaluing assets and overvaluing liabilities of a period often lead to overpricing financial performance in future periods - a result that cannot be described as cautious or neutral. So prudence cannot be included in the exact representation because where prudence (conservatism) appears inconsistency neutrality.

The virtues of prudence lose their value in monetary units conservative in estimating the size of assets, liabilities, equity, income and expenses by adopting the concept of fair value in accounting standards for financial statements. Based on this concept, assets and liabilities held by an entity are measured at fair value, generating pluses / minuses of value, recognized as appropriate, resulting elements or elements of equity.

Although it is objective and reliable and no shortage of followers, assessment based on historical costs began to lose more and more ground in recent years because the body to normalize US FASB and the International IASB, promoted increasingly the concept of fair value.

If the valuation model is the adoption of the subsequent measurement of property, plant and presentation of financial instruments at fair value in the financial statements, the alternation in adopting methods of assessment, valuation and real estate investments to Adjusted such examples. In addition, in the literature are increasingly referring to the concept of total fair value (full fair value).

III. Fair value, conceptual and referential basis in the accounting assessment

Fair value is a reference value and hopes to overcome the limitations of other measurement bases used for the financial statements. In this regard it was "built" IFRS 13 Fair value measurement, which claims the quality of Framework fair value based on market transactions covered on the sale of assets and transfer of liabilities. It also provides for disclosures about fair value measurements (para. 1).

Why fair value and historical cost when there are other bases of assessment formulated and motivated conceptual framework of the IASB?

The following theoretical motivation concerning fair value is presented in the content of IFRS 13

„ Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an *orderly transaction* to sell the asset or to transfer the liability would take place between *market participants* at the measurement date under current market conditions (ie an *exit price* at the measurement date from the perspective of a market participant that holds the asset or owes the liability). ”. (para.2)

„When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximizes the use of relevant *observable inputs* and minimizes the use of *unobservable inputs*. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value". (para. 3)

„The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this IFRS shall be applied to an entity's own equity instruments measured at fair value". (para. 4)

Regarding the scope of IFRS, it applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (e.g. valuation at fair value less costs to sell). The provisions for valuation and presentation are not applicable in the following cases: payment transactions based on shares (IFRS 2 Share-based Payment shares) lease transactions (IAS 17 Leases), assessment of stocks to net realizable value (IAS 2 Inventories) valuation s on the usefulness of impairment of assets (IAS 36 impairment of assets). Also disclosures at fair value are not required for plan assets at fair

value in accordance with IAS 19 Employee Benefits, investments in pension plans at fair value in accordance with IAS 26 Accounting and reporting by retirement benefit plans, and assets whose recoverable amount is fair value less costs disposals in accordance with IAS 36 Impairment of assets.

The following 13 elements from IFRS fair value of interest for personalization:

a) **Definition of fair value**: the price that would be received to sell an asset or paid to transfer a liability in a transaction governed between market participants at the valuation date;

And for this definition to be more relevant, it is associated:

- **Cost model**: the amount that would be necessary at the time to replace the service capacity of the asset, often referred to current replacement cost.

  a) **Asset or liability as object of the assessment (para.** 11), and the characteristics that determine the value of the asset or liability at the date of assessment, such as, for example, if the asset condition and location, of the existence of restrictions sale or use.

It also assessed the asset or liability may be in one of the situation:

- an asset or liability in its own right (standing), for example, a financial instrument or a non-financial asset; or
- a group of assets, a group of liabilities or a group of assets and liabilities (for example, one unit).

b) **Fair value at initial recognition:**

„When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an *entry price*). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them”. (para. 57)

„ In many cases the transaction price will equal the fair value (eg that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold)”. (para. 58)

„When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph B4 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition. (para. 59)

„If another IFRS requires or permits an entity to initially measure an asset or a liability at fair value and transaction price is different from fair value, the entity shall recognize the resulting gain or loss (a) in profit or loss, unless the IFRS provides otherwise”. (para. 60)

entry price: the price paid for an asset acquisition or collection, or assumption of debt in an exchange transaction;

exit price: is the price that would be received to sell an asset or paid to transfer a liability.

c) **Transaction**: the assumption that „that the asset or liability is exchanged in an orderly transaction between market participants at the measurement date under current market conditions" (para. 15)

The transaction to sell the asset or transfer the liability takes place either (d1) „ in the principal market of the asset or liability", or (d2) „ in the absence of a principal market in the most advantageous market for the asset or liability" (para. 15, 16)

d) **Market participants**: „an entity shall measure the fair value of an asset or liability using the assumption (…) that the market participants act in their economic best interest" (para. 22)

e) **Price**: "**Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique".** The price in the principal (or most advantageous) market shall not be adjusted for *transaction costs* and Transaction costs do not include *transport costs* (para. 25 and 26).

f) **Time of assessment**: The fair value measurement framework described in this IFRS applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs (para. 8).

g) **Valuation techniques**: mainly, three techniques are used:

h1) **market approach**: uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business. (para. 85).

h2) **cost approach:** according to IFRS 13, „ reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost). " (para. B8). From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence (…)" (para. B9). Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes

h3) **income approach**: converts future amounts (eg cash flows or income and expenses) to a single current (i.e. discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts. (para. B10)

Those valuation techniques include, for example, the following

- present value techniques (para. B11 and B12);
- option pricing models, such as the Black-Scholes-Merton formula or a binomial model (i.e. a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; (para. B11, b)
- the multi-period excess earnings method, which is used to measure the fair value of some intangible assets (para. B11, c).

What concept of capital is associated with fair value? It is a question that to date, accounting theory and modeling have not made a definitive answer.

Despite this unfinished cost model and spectrum shaping values differentiated accounting elements. This despite the fact that over time the benefits have been formulated and supported models accounting measurement bases unique consistently applied to all balance sheet items. The current model seems to value much more significance than other aspects of a balance sheet total and unitary existence of a coherent concept of capital maintenance. There may be much higher benefits to choose different valuation bases depending on the items measured, assessing each alternative in terms of the relevance, credibility and reliability of the corresponding user needs.

A second critical perspective on modeling the fair values aimed at validating empirical model itself on fair value accounting. In doing the analysis theory of efficient markets hypothesis is given. The methodology most commonly used lead to research the influence of accounting method of fair value on shareholder value of a sample of companies, the being perceived as an aggregate measure of estimated future cash flows (method employed appealed for assessing the model in costs historical). Usefulness of the information associated with a hypothesis accounting elections will be validated if Oneness is possible to establish a significant relationship between it and its variation rate movements or the stock / book value.

In the information contents of the new accounting rules for the market, empirical studies do not allow the general idea is still significant superiority of the model relative fair values of the historical cost valuation model. But some work shows connections between the fair value measurement and exchange rates. Thus, the issue of securities portfolios assessment, Eccher (1996) establish that a strong correlation between the fair value of the securities and exchange value of the company. But given that the fair value of financial instruments not separately report explains only partially course stock value / book value, the results of those studies are not generalized to all BSI.

Moreover, the issue amplifying volatility results through valuation at fair value (outcomes entities, particularly banks, are significantly more volatile than when they were determined to historical costs) may not have a significant effect on yield stock (Barth, and Wahlen Landsman, 1995). Moreover, this conclusion is reflected in a fundamental test of the accounting model. This is because the foundation of the model should be a basis for assessing risks to filter - that is built to reduce the entropy of the system - or to be totally neutral information users transmit financial risks.

Despite its still part of such empirical research, their results still launches doubts on the usefulness of fair value accounting information. Experience (in) validation of complex techniques of accounting practice in operating costs, support the importance of such

concerns. Regarding the hypothesis utility for decision looms contractual interpretation privileged role of accounting figures.

In conclusion we can say that the issue of the introduction of fair value accounting model exceeds the accounting of financial instruments and that of the banking sector. Furthermore, this conceptual shift is central to the future of financial reporting standards. The emergence of the new model of fair value accounting will certainly require changing communication practices and financial analysis, financial statements and redefining the role and usefulness in terms of their objective. It has the merit of placing the debate on the development of accounting rules above considerations purely technical (historical cost is a better way or not than fair value) and place it in terms of impact on resource allocation and economic models of management (to whom and for what decisions need accounting information).

CONCLUSIONS

IASB's conceptual framework makes reference model valuation sheet based on historical cost recoverable and the concept of nominal financial capital maintenance.

It is a general model which calls for the search for other models and concepts that might be better suited to meet the objective of providing informed useful in making economic decisions, but currently there is no consensus in favour of a change. This conceptual framework was created so that it can be applied to a range of accounting models and concepts of capital and capital maintenance.

The same framework provides that the choice of the measurement bases and concept of capital maintenance determine the accounting model used for preparing financial statements.

The entire speech presented before accounting theory on the valuation reveals a truth no return "accounting valuation and estimation of fair value does not escape." Market approach to assessing the accounting has become a rule for measuring and recognizing assets, liabilities, equity, income and expenses as elements of economic resources and claims empower the economic entities. However, the fair value as the market approach to product price and cost accounting has become one of the most difficult approaches to our domain.

At the present time with recourse to IAS 13 "Fair value measurement" fair value calls to return to a pragmatic approach to costs and prices, and on this basis to measure and estimate in accounting. As rightly in the conceptual framework of the IASB, version 2011 is issued argument that largely build financial statements are based on reasoning, estimation and modeling, market approach to value accounting raises a fundamental issue, namely, how as accountants are trained.

Market approach is dynamic, especially in terms of data sources. To the extent that fair value (MARKET VALUE) cannot find a market value wanting / not wanting to call the amount of use (USE VALUE). And yet the usefulness and market approach requires estimation and measurement.

Open the question remains for us theories and methods of presenting a relevant and accurate approach their book value by the market. It is a challenge that requires you as a new paradigm for accounting measurement tool.

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