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International Financial Reporting Standards (IFRS): Fair Value Measurement for Investors

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Abstract: *The purpose of the article is to discuss the core element in the International Financial Reporting Standard as it relates to the question of using fair value measurement in the valuation of the aassets, tangible and intangible assets of companies. There is the conceptual framework of financial International Reporting Standard;13 for fair value measurement. The fair value measurement of Assets of companies will have lots of challenges especially in the developing economy. The developed economy have well defined capital markets for transactions in shares and financial instruments and organized markets for second-hand Assets like Buildings, Plants and Machinery etc. But in the developing economy where the capital markets are not fully developed and with unorganised markets for second-hand items. (Buildings, Plants and Machineries etc.), but despite the latter, the fair value accounting, will still benefit the developing economies for interaction to the global market for generation of foreign capital into their countries. In effect, the introduction of fair value measurement makes net capital converge towards its market value, will be the same for developing economies as well as in developed economies.*

Keywords: *Fair value assets, financial reporting, companies*.

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I. Introduction

The essence of the introduction of the International Financial Reporting Standards is to present a financial statement that is transparent, reliable and comparable, (Palea V, 2013, EC 2002, Ball 2006, Barth 2001). The studies/researches done by Zeff 1978, Holthausen and Leftwich 1983, UIF Bruggemann et al.,2012, had stated that the term economic consequences is used to show the effects of financial reporting on firm values and wealth for those who are interested and use them to make decision on accounting information.

Therefore, there are many potential benefits for the adoption of International Financial Reporting Standard, both for investors, regulators/standard setters and policy makers. They are as follows; contribute to better functioning of capital markets, (Quigley 2007), facilitate cross-border comparability, increase reporting transparency, decrease information costs, reduce information asymmetry and thereby increase the liquidity, competitiveness and efficiency of markets. (Ball, 2006, Choi and Meek, 2005).

Apart from these benefits, many studies had enumerated other problems envisaged in the implementation of the International Financial Report Standard. Some had stated that the costs of implementing of the adoption of International Financial Report Standard, that is, the compliance and adoption, impact on audit costs and also the concern that it is a rule-based and the complex nature of the International Financial Report Standard, (Pawsey, N.T, 2017) and, the EFRAG, 2012 had also stated about the growing International Financial Reporting Standard disclosure overload. Also, many researchers agreed that adoption of International Financial Report Standard had resulted in ongoing increases in cost of staff training and development, fees paid to external auditors and other external specialists like revaluation of fixed assets.

Ball, 2006 also noted that the fair value orientation of International Financial Report Standard would add volatility to financial statements. He further stated that the volatility could be in the form of both good and bad information, the latter consisting of noise that had implications of estimation error and possible manipulation by management. Leuz also stated that inspite of high quality standards, there could still be risk of having relatively low quality accounting numbers when firms have incentives and opportunities to manipulate financial statements.

The fair value measurement also relates to value relevance literature or concept/research and cash flow from the existing resource base. Palea V.,(2007). Also, the essence of fair value measurement is to reflect the real economic conditions of the firm or government enterprises. (Barth et al., 2008.) International Financial Report Standard, 13, also releates to the firm’s ability to generate cash flows in the future, which is the main stake of financial management of companies. In this regard,Brighan et al, 2010 in thier book describles cashflow generation as one of the key attributes of successfull companies. They define the firm objective is to maximise shareholders wealth ,explaining that using the intrinsic value of the firm. In this regard they stated that the market price is the stock price in the capital market which reflects all relevant information ,Then the observed price is the intrinsic value of the firm.

The paper discusses the fair value measurement of IFRS, in the context of its being able to generate cashflow needs of the company and a good measure of firm value and being a principle- based standard provide readers with sufficient information to effectively understand any company's financial statements or government accounts.

This paper is divided into 5 sections; section two reviews the background to the adoption of IFRS, section three states the existing literature concerning the IFRS adoption. Section four discusses the IFRS 13 fair value measurement with respect to being able to present the firm value at market value. Finally, the conclusion from the study are presented in section five.

Section 2: Background to the adoption of the IFRS

The International Accounting Standard Board,s aim in articulating and putting in the IFRS among other benefits is to provide a single set of high quality, statements that provide information about the financial position, performance, and cash flow of an entity that is useful to a wide range of users in making economic decisions. (IASI, IASB 2015, Presentation of Financial Statement)

Countries world over had started keying in, into adopting the IFRS standards, by either adopting them verbatim or with minor modification as their own national standard. (Ball, 2006). In 2006, more than 120 countries had allowed the use of the IFRS. (Deloitte and Touche up, 2006) In adopting IFRS process ,some countries make regulations so that the companies use the IFRS as issued by the IASP,Isreal is among the countries that had done this .While some countries implement the IFRS for some listed companies but others are allowed to use GAAP ,South Africa allows the listed companies to use IFRS while others use GAAP (Nobes,C.2011).The European Union has thier own method of adopting IFRS, they follow detailed scruting which they take their time in verifing.at the end of scuting a whole or parts of the standards may not be endorsed

One of the developing countries in West Africa, Nigeria, developed their NHSB roadmap for adoption of their IFRS Phase I: January 1, 2012, publicly listed countries and significant public interest entities, Phase 2: January 1, 2013, other public listed entities and those 3 small and medium sized entities.

Section 3: Literature Review

Pawsey, N.L,(2013), studied the adoption of the IFRS, how costly change that kept on costing. He found out that IFRS was costly to firms both befour and after introduction. This was as he stated that the transition to IFRS imposed significant cost on the following; staff training and development, financial users education development and financial statement adjustment costs on firms. And that many firms perceived that IFRS adoption had resulted in the ongoing increase of 20% in the compliance cost and on annual accounting costs.

Houqe et al., (2016), they numerated the benefits of the introduction of IFRS for listed companies in New Zealand to include the followings, cross-border comparability of financial reports, increased reporting transparency, decreased information costs, reduced information asymmetry and consequent reduction in cost of capital. Also, that the information quality was greater the lower the strength of investor protection. They stated that the implication of the result should be that standard setters should not delay IFRS adoption even if the regulators had not implemented investor protection.

Yurisandi and Evita Puspitasari, (2015) ,evaluating whether there were any increasing in financial reporting quality after the IFRS adoption using the quantitative approach being developed by Nijmegen Centre for Economics (NICE). They found that IFRS adoption increased the quality of financial reporting for the period 2012–2013 and that the qualitative characteristics of relevance and understandability.

Cheeng et al., (2010), investigated whether financial analysts' forecast accuracy differed between the pre and post-adoption of the international financial reporting standard in Asia– Pacific Region. The treatment of intangibles capitalized in the post–IFRS period have positively helped in analyzing forecasting future earnings of a firm. They found that intangibles capitalized under new recognition and measurement rules of IFRS were negatively associated with analysts' earnings forecast errors.

Gjerde et al., (2008), examined the value-relevance of adopting IFRS, in the case of restatements, as the requirement of the adoption of IFRS was to have two sets of financial statements for 2004 in respect of IFRS and GAAP to provide comparable accounting figures.

Pananen et al., (2008), examined the characteristics of accounting amounts for the periods 2000-2002, IAS period and IFRS for period of 2004, voluntary period and 2005 – 2006, the IFRS mandatory periods. They found decease in the accounting quality after the mandatory European Union adoption in 2005, their findings on earnings smoothing and timely loss recognition confirmed their result on the value relevance of accounting information.

Barth et al., (2001), studied of value relevance research, assessed how well accounting amounts reflect information used by equity investors and provided insights into questions of interest to standard setter. The financial statements main focus would be the equity investment but other users for contracting information would not diminish the importance of value relevance research. The value relevance could be investigated using extant valuation models. The econometric issues could be addressed by the value relevance questions if extant valuation models be used to study the implication of accounting conservatism. With the value relevance literature a great insights would be provided for standard setting.

P. Brown, (2011), studied that when firms saw the need to adopt the IFRS, they were looking at the benefits the firm could derive, especially with respect to equity markets. Therefore, the academics had looked at the equity market to assess the benefits expected to materialize. He went on to state that shift to IFRS had many consequences both for valuation of equities and for equity market. Finally, he stated that potential benefits of IFRS would be large but there would be other issues to tackle along.

Huifa Chen et al., (2010), studied the effect of International Financial Reporting Standard on accounting quality. They found out that there was less of managing earnings toward a target, a lower magnitude of absolute discretionary accruals and higher accruals quality. Their results showed that firms were involved in more earning smoothing and large losses were recognized in less timely manner in post- IFRS periods. It is important to note that it is this liberty the managers have in manaaging earnings through dicretionary accruals,earning smoothing and not recognising losses on time that put the accounts in trouble. For instance ,the Erons and others economic crisis were caused by some managers deliberately misled investors by taking actions to make their companies appear more valuable than they truly were. Also ,the G obal Finacial Crisis was caused by the transition from the traditional originate–to hold model of credit s markets to orignate–to–distribute model. The problem in this is that as orignator had securitilised the loan to other and had less incentive to monitor the cerdit granting process,adequate securities were not demanded or over valued securities were used (Pinnuk, 2012) Penman, 2007 numerated a lot of fair pluses and minuses and concluded that fair value could be defin ed as an prise ,that fair value accounting could work well for both valuation and stewardship with investment funds.But cautioned that if a firm holds net assets whose value would come from a business plan rather than the fluctautions in market prices that this not valuation using fair value ,and thereof would fail.

Section 4: Fair Value Measurement Features IFRS 13

The fair value measurement features which are imbued with fair value accounting are found in the following listed IFRS standards;

1) IAS 16 provides a fair value option for property, plant, equipments and impairment reversals to fair value.
2) IAS 36 requires asset impairments and impairment reversals to fair value.
3) IAS 38 requires intangible assets impairments to fair value.
4) IAS 38 provides for intangible to be revalued to market price, if available.
5) IAS 39 provides fair value for financial instruments other than loans and receivable that are not held for trading, securities held to maturity; and qualifying hedges which must be near–perfect to qualify
6) AS 40 provides a fair value option for investment property7) IFRS allows share –based paynents (stock options ,etc) to be accounted at fair value and 8)IFRS 3 provides for minority interest to be recorded at fair value.

Many researchers had given their view about the fair value measurements that are embodied in the IFRS standards. There are different connotations about this fair value accounting, Ball, 2006, described it as "mark to market accounting". In this regards, he stated that IFRS as it relates to fair value measurement tried to reflect economic substance more than legal form, reflect economic gains and losses in a more timely fashion, noted that in some respects, even more than US, GAAP. And also stated that earnings were made more informativeve, provided more useful Balance Sheets figures and curtail historical European discretion afforded managers to manipulate provisions, create hidden reserves,"Smooth" earnings and hide economics losses from public view. This latter issue was precisely what happened in Eron,s case where managers deliberately misled investors by taken actions to make thier companies appear more valuable than they truely were.

The implication of the fair value measurement could be found in the "value relevance" and "usefulness"concepts .Vera Palea, (2007) discussed the effects of the adoption of IAS/IFRS in Europe and stated that IFRS made large use of fair value accounting, which required a fuller disclosure than the formar GAAP. He further acknowledged that fair value accounting could be expected to provide investors with useful information to predict the capacity of firms to generate cash flows from the existing resource base. This cash flow generation is very important for any gainful business operation, as it provides/ensures that enough cash would be available for the working capital of the firms/businesses.When manangers 'aim to maximize shareholders wealth ,this simply mean that they what to increase firm value. This they do through the ability to generate cash flows as the firm is in operation and in the foreseeable future. B righan noted three basic facts about firms cash flows;first that any financial assets,including acompany's stock is valuable only to the extent that it generates cashflows

,secondly the timing of the cashflows matters-cash received sooner is better and lastly investors are averse to risk. These facts about cashflows will help to see why the fair value measurements can not be said to be too much but rather they ensure that financial statements are now the watchdog for investors .With the fair value acconting emboided in IFRS , the loop-poles in audited financial statements are now taken care of. This fair value accounting is also comparable with the going concern concept of accounting that the entity will remain in operation for foreseeable future.

In the study by Cheu et al., (2010), they defined "Accounting quality" as the extent to which financial statement information reflects the underlying economic situation. This accounting quality could be operationalized by using indicators, namely earnings smoothing managing earnings towards the magnitude of absolute discretionary accruals, accruals quality and timely loss recognition. He further mentioned many prior studies that had used these indicators,(Barth et al., (2007), Christensen et al., (2008) and Jones et al., (2008)). All the indicators are part of the concept of fair value measurement, for instance, the share-based payments (stock options, etc). IFRS 2 to be accounted at fair value, the impairment value assessment which is defined that an asset is paired when its current value is greater than the recoverable amount. Then, the recoverable amount equals higher of fair valueless cost to sell and value in use. And fair value less cost to sale is determined by price in binding sales agreement and price from active market best information. (IFRS,standards)

All the above provisions in the IFRS standards ensure that the real and reasonable market value is used in the presentation of the financial statements

II. Conclusion

The introduction of IFRS have made a wide acceptance by many companies and governments accounts. This could be attributed to what could be termed, market value orientation of the IFRS that embodied global financial reporting language, increased comparability and transparency and full-fledge disclosures. This is because the IFRS are "principles based" set of standards and go further to stipulate the specific treatment of issues.The conceptual merits of fair value measurement have been analysed, it is seen that the merits are many and to the core issue of value releveancbbe. This shows that the business will continue to be on going in the foreseeable future.it also eliminates /discourages managers from unnessary manipulations of financial statements for their own benefits.The complain by many experts that IFRS has an information overload because of a lot fair view valuation measurement,this should be seen as an advantage to the investors .This because virtually all the nought issues will be explained ,afterall it is the professional accountants will provide opinion for the investors . In this regard, sufficient information are provided to effectively understand companies financial statements. For the countries that have adopted the IFRS accounting in their public enterprises and government accounts, this has taken full accounting reporting where accrual concepts are used in this IFRS, whereas previously the cash basis of accounting were applied. The cash basis of accounting treats accounting on cash received reports only, while arrears and prepayments are not reported.This creates rooms for the managers to be able to manipulate financial statements.The fair value measurement in IFRS greatly recognises the use of cashflows/free cashflows to effectively obtain the value of assets in the financial statements.

The foreign direct investments into the developed economies have always been actualized being developed economy, the introduction of the IFRS in developing economy will generate more foreign direct investments into their countries as investors always would invest where financial statements are reliable, transparent and easily comparable. This will have the effect of increased market efficiency and lowering the cost of raising capital. If the cost of raising capital is reduced the companies that are looking for additional capital for their investment purposes will be able to have funds which will help increase their activities and in turn help to boost the economic growth.

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