HISTORIC COST VERSUS FAIR VALUE

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Abstract: The value of accounting registering based upon *historic cost* is a sure and checkable value, written in a document that certifies a property right upon a certain good, a debt right or a debt. Historic costs' evaluation consists in registering goods in-comings into the company's patrimony at their buying cost, namely their *historic cost*, with no further modification although the real value changes.

Fair value is the foundation of IFRS referential which displays basic principles, largely inspired by US GAAP, although they are not mentioned by them. *Fair value* evaluation is opposed to the principle of prudence, one of the main principles of French accounting law (also taken over by Romanian accounting standards) owing to which only possible losses are registered while potential profits are ignored.

The issues that occur refer to the impact of the evaluation according to the fair value upon the accounting data of the company, namely upon the balance sheet and the results account drawn out on the basis of the fair value registrations. At the same time, the evaluation according to the fair value has determined a new foundation in displaying a company's performance. This issue determines the following question: "Which is closer to the truth and more credible? A result calculated according to the fair value or one which is founded upon historic cost?"

Keywords: historic cost, fair value, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), accounting data, accounting principles, performance

Introduction

A first stage of the Romanian accounting reform has resorted to the *model of historic costs* (historic cost represents the origin cost evaluated, measured, and registered when assets come in and debts are created); accordingly, it has become the evaluation ground generally employed while elaborating financial reports. The reason this evaluation ground has been chosen connects with the importance given to the accuracy of the obtained data. Later, the model of historic cost has been proved to be irrelevant in a hyper-inflationist economy. IASB's conceptual accounting framework provides a wide range of choices when electing the evaluation ground as long as the chosen ground provides the reliability and pertinence of the data given by financial reports.

Fair value is one of the evaluation forms that is more and more encountered both at the level of the accounting language and at the level of accounting standards. Fair value accounting wanders from historic prospect and gets closer to the current prospect of value.

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Historic cost

Historic cost evaluation is an older accounting principle. Its first evidence dates since June 1979 in a French accounting plan project, after numberless theoretical debates.

The value of accounting registering based upon historic cost is a sure and checkable value, written in a document that certifies a property right upon a certain good, a debt right or a debt. One can define *historic cost* as *the origin cost evaluated, measured, and registered when assets come in and debts are created* [10]**.** In the case of assets, historic cost represents the cash amount paid or to be paid when buying or manufacturing and making possible the acquiring of an economic good. In case of debts, historic cost represents the value of the equivalents obtained in exchange of the obligation or, under certain circumstances (as in case of profit taxes), the value expected to be paid in cash or cash equivalents in order to end debts, during the normal course of affairs [7].

Historic cost is a value that is rooted in the past, a reason for creating the accounting *principle of historic cost evaluation* which possess the *quality of being checkable* (buying cost in case of bought goods or production cost in case of the goods manufactured by the company) and *objective*. It correctly reflects the value of the elements at the moment of their initial acknowledgement, *being a fair value at that moment*. The question that arises is connected with historic cost's main drawback. The answer to this question is inflation which transforms historic cost into an obsolete value. Under inflation, the data supplied by observing historic cost have no more value. Accordingly, corrections of historic costs should be made either through re-evaluations or through resorting to inflation-indexed accountancy; nevertheless such means are not enough in order to give an accurate picture [7]. Historic cost is an evaluation criterion among others: replacement cost, re-sell value, present value. Although the method of historic cost evaluation guaranties reliability, yet, it tends to under-evaluate assets as compared with the market's tendencies. In the field of evaluating the assets at the end of the exercise, the companies possess a relative freedom of choice. Certain of them over-rate such a freedom in order to under-evaluate or over-evaluate the assets through amortizations (the choice of the assets' life duration, of the methods of amortizing) and provisions [4].

Historic cost can also be defined as that "sacrifice which has been consented upon in order to bring the good to the company at the moment of its coming in" [11]. In case one considers that all accepted costs or sacrifices are, under the circumstances of alternative costs intervening, an unaccomplished chance due to the fact that, in order to provide their functioning, companies should give up certain choices (their resources being unavailable for alternative use), one may conclude that: *historic cost used when measuring real value can be defined through the consented sacrifices (*engaged costs) *plus the cost associated with unused chances* (lost incomes- Opportunity cost: the cost of a choice or renunciation cost; it is the real terms sacrifice of an economic entity that makes a choice among

several possible actions). One can accordingly assimilate historic cost with *opportunity cost* which appears as an alternative cost or as a renunciation cost, either option determining the giving up of another solution in view. From an accounting point of view, such a cost represents a conceptual incompatibility as accountancy registers what exists and not what could exist [1]. As a conceptual similitude, opportunity cost appears when studying decisional circumstances as well as in the works of L.J.Savage, a statistician who has formulated the rule of minimizing regrets recommended in order to adopt decisions under circumstances of incertitude. According to Savage's analysis, the decisional factor should continually target to minimize the regret of not having chosen the optimum decisional variant (after having taken a certain decision, the decisional factor could notice that another decision might have been better) [8].

Historic cost is considered to be the *consequence of two fundamental principles: the principle of monetary standardization and the principle of prudence.* The principle of monetary normalizing ignores the value fluctuations of the monetary etalon and requires the evaluation of the goods acquired with onerous title according to the acquiring cost, of the goods manufactured by the company according to the production cost, and of debts according to the nominal value and not to the present value. During inflationist periods, historic cost accountancy provides a distorted representation of economic reality; this fact negatively influences the company's performance which cannot be adequately evaluated as a result of the profit's over-evaluation; accordingly, the company pays inflation taxes and distributed fictitious dividends which, in fact, implies distributions out of the company's owned capital [6].

The company's result determined according to historic cost poorly reflects the real potential, especially in the case of those companies belonging to the field of services and high technology which invest a large part of their resources in immaterial assets (intellectual capital). In the case of such companies, *the traditional accounting model based upon historic cost does not reflect the real value of the company*. At the same time, due to implementing the principle of prudence which has in view an asymmetrical study of the drawbacks and value potential pluses owing to the registration of probable expenditures, but does not consider latent value pluses, companies accumulate accounting losses that do not reflect their real potential.

Empirical researches show that, within the American business environment, net accounting result has largely lost its pertinence in the stock-exchange evaluation of the companies in favor of net accounting situation (net assets or the companies' own capital) [12]. Let's also add the development of various items of financial engineering the companies resort to in order to support their growing financing needs and to administrate the risks connected with modern businesses. One may state that, under the new business circumstances, *the accounting model based upon historic costs does no more reflect reality*. According to the Regulations of the European Commission no. 1136 dated November, 25th, 2009

which change Regulations no. 1126/2008 (In the annex to the Regulations (EU) no. 1126/2008, the International Financial Reporting Standard IFRS 1 The adoption for the first time of the International Financial Reporting Standards is replaced by IFRS 1 The adoption for the first time of the International Financial Reporting Standards – restructured) regarding the adoption of certain international accounting standards, certain companies display *comparative data besides IFRS and historic syntheses of the selected data* for the periods previous to the first interval for which they exhibit complete comparative information according to IFRS. The present IFRS(On November 27th, 2008, the Board for International Accounting Standards IASB) published the International Financial Reporting Standard IFRS 1 "The adoption for the first time of the International Financial Reporting Standards", subsequently called "IFRS 1 restructured" which replaced the existing IFRS 1) does not imply that such syntheses should be conformal to the acknowledgement and evaluation disposals of IFRS. Moreover, certain companies display comparative data according to the *previous generally accepted accounting principles (GAAP*- The accountancy basis an entity that adopts for the first time IFRS used before adopting IFRS) as well as comparative data required by IAS 1. All companies' financial reports that contain *historic syntheses* or comparative data according to the previous generally accepted accounting principles (GAAP), should: visibly emphasize the data conformal with the previous generally accepted accounting principles (GAAP) as not being according to IFRS and describe the character of the main adjustments necessary in order to provide conformity with IFRS. Companies should explain the manner the transition from the previous generally accepted accounting principles (GAAP) to IFRS has affected their financial position, their financial performance, and the displayed treasury fluxes.

The loss of the pertinence of historic cost evaluation and of net result is also rooted in the fact that, in Anglo-Saxon accountancy, various types of operations are directly charged to the companies' owned capitals in the balance sheet without previously registering them in the results account. A new performance index has thus appeared; it is called *comprehensive income*. *Only comprehensive income can be used in order to evaluate the performance of a company and of its managers* [2]. With the publishing of FAS 130 *Reporting comprehensive income,* (starting on December 1997) in the U.S.A. by FASB, the elements that are going to be directly registered in the company's owned capital are displayed; all the operations and events that have contributed to the change of the company's owned capital during the financial exercise are exhibited, either by a single report which shows the global performance of the company, or by a report containing the changes of the company's owned capitals as well as the transactions with the owners.

The term of *comprehensive income* is not defined by the General framework, but it is used by IAS 1 revised as being *"the change of a company's owned capital during the period that is specified by transactions and other events, others than those changes that are the result of the transaction with the owners(*Owners = those who possess the instruments classified as personal capitals) *in their quality of*

owners". Accordingly, a comprehensive income has come out which includes the result before value adjustments(According to the international accounting standards, a value adjustment is no matter what change of estimation which modifies the assets' value or the debts' value when closing the exercise or a value change which does not match initial accountancy registrations, the consumption of an asset or the balance sheet outgoing of an element or of a debt expenditure (e.g.: the initial making of a provision is a flux that affects the result, and the diminution or the increase of the same provision is a value adjustment as it reflects an adjustment of the risks that regard the result) and value adjustments.

At the same time, there are certain opinions according to which historic cost evaluation better reflects the reality of average and long term investment operations as well as exploitation cycles while fair value evaluation better captures market fluctuations. The question that arises is the following one: *What is historic cost going to be replaced by in case this model of accounting registration does not match future circumstances characterized by the triad: globalization-technology-complexity?*

Fair value

The notion of *fair value* appeared for the first time in 1953, in the publications of the Accounting Research Bulletins regarding accounting re-evaluations; further it was introduced by IASB in 1998 in order to evaluate financial instruments (IAS 39) and give an answer to a logical evolution of accountancy. Fair value evaluation is opposed to the *principle of prudence(*The principle of prudence determines the registering of historic costs, allowing the integration of incertitude within accounting models), one of the main principles of French accounting law (also taken over by Romanian accounting standards) owing to which only possible losses are registered while potential profits are ignored.

The concept of fair value is part of the international accounting standards elaborated by IASB: "*fair value"* represents "*the amount at which an asset can be transacted or a debt settled, on mutual agreement, between parts familiar with the circumstances, on the occasion of a transaction where price is objectively determined"*. Accountancy experts have tried to find out what kind of relation exists between fair value and market value when market value shows that price should be searched on a market. They concluded that market value may be a fair value when one deals with active, quoted, cash, organized, etc. markets (circumstances mainly specific for the Anglo-Saxon accounting model). The fair value evaluation of the assets and liabilities allows a rapid communication of the data required by the company's investors and shareholders. In order to give an example, let's notice Pascale Revault [9] who cites Jacques Richard(Professor at the University Paris Dauphine, France) that quite suggestively illustrates the notion of fair value through the following case: a company which detains A quoted titles registering a drop of 100 m.u. and B titles registering an increase of 150 m.u. can reflect such circumstances as follows: *according to the principle of prudence* – a

loss of 100 m.u. (potential plus-values are not registered by accountancy); *according to the principle of fair value* – a profit of 50 m.u. Accordingly, market value is quickly shown by the company's accountancy.

Romanian accountancy standards mention that *the fair* value of the assets is generally determined according to the evidence data on the market, through an evaluation made, as a rule, by evaluation qualified professionals. In case there are no data on the market regarding fair value, due to the specialized character of the assets and to the decreased frequency of the transactions, fair value can be determined through other methods employed, as a rule, by evaluation professionals [13].

At present, fair value evaluation is being privileged by international accounting settlements that target the matching of fair value with the evaluated element through reporting it to its market value – *mark to market*. "*Markets, to the extent of their existence and efficiency, continually offer fair values. In case of an inactive market where they are inexistent or inefficient, fair values should be calculated usually through derivation from a prevision model that requires the following: defining the new horizon, estimating the treasury fluxes afferent to a certain good and regarding this horizon, appealing to more or less explicit hypotheses, especially regarding the probability of carrying them out, and adopting an up-dating rate"* [3]. The methods proposed by the international accountancy standardization organism in order to draw out a modeling with a view to determine fair value show the difficulties of the *market to model* evaluation rule. As regards the theory, the fair value of a good is given by the present value of the various treasury fluxes expected from it in the future. Taking into account the difficulties that might appear, such methods suggest that generalizing fair value as a criterion (model) of evaluation of all assets and financial debts (the full fair value) seems to be a utopist project due to the fact that, when implementing a model, several risks capable of determining losses can be associated. For instance, according to IFRS, the estimation of net treasury fluxes to be received or to be paid in order to cede an asset at the end of its useful duration should be represented by the amount an entity expects to get from ceding the asset within a transaction occurring under objective circumstances, between interested and aware parts after deducting the estimated costs associated to the ceding of the asset.

At the same time, in case there is no market price for the element that is the object of the fair value evaluation, a substitute of the market value should be found. There is a difference between the market value and its substitute due to the fact that market value is information noticed by the company's management and is achieved independently from its value judgment, namely estimated according to personal professional judgments.

Meanwhile, the use of fair value as an evaluation basis in accountancy represents a permanent adjustment of the buying costs of the assets with their market value, namely a continual re-evaluation of the elements specific to the financial condition of the company. "*The use of fair value evaluation implies the*

inclusion within the company's result of the operational result obtained out of the effective transactions as well as of certain virtual elements determined by the market's evolution and which are only potential profits or losses. This virtual result, obtained out of adjustments of the value of the company's assets and liabilities according to the market value, represents only a latent enrichment or impoverishment of the shareholders; it is volatile, and, as a rule, it is determined by causes that cannot be controlled by the decisions of the company's managers, being induced by the evolution of certain market parameters such as interest rate, exchange course, stock house courses, prices of the real estate market, etc." [6]. Considered to be the best estimation of market value, the organisms of international accounting standardization have extensively validated the practice of fair value evaluation that tends to embrace most balance sheet assets. Defined in a slightly different manner, fair value is "the price that would result out of a normal transaction, between *equal* partners, namely equally informed partners, a price that corresponds with the present value of the fluxes expected from that asset" [6]. From the point of view of the previous assertion and of the definition given by international accounting standards, any asset is equivalent with a financial asset for which a correct and real value is given by the present value of treasury fluxes expected to be generated by that asset, taking into account afferent risks. It means that fair value is a future directed value as it most correctly estimates the cash fluxes the company expects to get from selling its assets.

According to the Regulations of the European Commission no. 1136/2009, a company is allowed to designate a financial asset or a financial debt previously acknowledged as a financial asset or a financial debt at its fair value owing to its profit or loss, or a financial asset as available in order to be sold (When determining fair value according to IFRS, an entity should apply the definition of fair value as well as any other more specific guidelines of other IFRS regarding the determination of the fair values of the asset or of the debt. Such fair values should reflect the circumstances existing at the moment they have been determined). A company should display the fair value of all financial assets or financial debts designated by each category, at the moment of their designation, as well as the classification and accounting value of the previous financial reports.

In case the company *employs fair value, in the financial circumstances of opening, as presumed cost* (Regulations (EC) no. 1136/2009 of the Commission, dated November, 25th, 2009 that change Regulations (EC) no. 1126/2008 regarding the adoption of certain international accounting standards according to Regulations (EC) no. 1606/2002 of the European Parliament and of the Council regarding the International Financial Reporting Standard IFRS 1, defines the notion of *presumed cost* as follows: a value used as a substitute of amortized cost at a certain date. Subsequent amortization implies that the entity initially acknowledged the asset or the debt at a certain date and that, at the time, its cost was equal with its presumed cost) *for an element of tangible assets, of real estate investment or of intangible assets,* the first financial reports of the entity drawn out according to IFRS should

display, for each row-element of the financial position report, the opening IFRS as follows: the aggregated value of those fair values and aggregated adjustment of the accounting values reported according to the previous generally accepted accountancy principles (GAAP).

A company that adopts for the first time IFRS can choose to use a re-evaluation (according to the previous generally accepted accounting principles) of an element of tangible assets, at the moment or before adopting IFRS as a presumed cost the moment re-evaluation is done, in case re-evaluation was generally comparable with fair value or its amortized cost according to IFRS, adjusted so that it reflects, for instance, the changes of a general or specific price index.

With a view of estimating the fair value of assets and debts, one can use a three levels hierarchy: *Level 1*: analysis of the prices existing on an active market; *Level 2*: analysis of noticeable market data; *Level 3*: non-noticeable market in-puts.

Level 3 requires the emitting of several value judgments and reasoning made by accounting professionals and is applied in case of those assets that are not frequently transacted on the market. Level 3's fair value is most difficultly estimated; it demands hiring independent evaluators who are able to eliminate the suspicion of fraud risk. At the same time, companies' management hate the notion of "fair value" as its use determines the change of a controllable component (net profit) for an incontrollable component (the value of net assets). Accordingly, one is going to deal with the difficulty of explaining the companies' shareholders the change of assets value due to the use of fair value.

Accounting data provided by the accountancy based upon fair value

The notion of *fair value* roused the interest both of accounting standards definers and of accounting professionals. Critics as well as praises have been expressed towards such a controversial notion. *The advantages and qualities of fair value* can be synthesized as follows [7]:

- *Predictive* character: fair value is the best prevision basis of future financial fluxes;
- *Comparability*: fair value reflects the up-dated value of instruments, irrespective of their nature;
- *Coherence*: fair value is adapted to the active administration of financial risks;
- *Reduced complexity:* a single evaluation model is easier than a model that allows the implementation of various costs and value methods;
- *Neutrality:* fair value does not depend on the intention and quality of the parts, on the origin date of the operations, and on the instruments' nature.

The critics addressed to the *accounting data provided by an accountancy based upon fair value* and which target the characteristics accounting data should display, the manner they have been previously shown, basically rely upon three aspects:

1. *Fair value is neither reliable nor lacking in elements that can induce false interpretations.* The claim of possessing the qualities of reliability and neutrality may only be made by those values generated by active markets. Most of the financial instruments mainly emitted, negotiated, employed by credit institutions are not quoted and do not have an organized or assimilated market. Consequently, their evaluation is based upon internal models, acknowledged by banks as they display better estimated parameters, yet with certain degrees of incertitude, so that they are able to incorporate adjustment variables for model risks, liquidity risks, volatility risks, etc.
   Accordingly, one can state that the basis of evaluation in case of fair value includes varied methodologies and models that give it a random character. Although the accounting specialist is sincere in determining fair value, such a value keeps a relative degree of reliability. In other words, fair value is neither reliable nor lacking in elements that can determine false interpretations (nor neuter).
2. *Fair value is lacking the permanence of its methods of determination.* As there is no market price for the integrality of the financial instruments owned by companies and groups, fair values are calculated according to the method of present value and to other evaluation methods based upon the conditions that dominate the market at the moment the balance sheet is drawn out.
   The values accordingly calculated are strongly influenced by secondary hypotheses regarding the level and the order of treasury fluxes and the applied discount rates. In short, the use of the same fair values by financial institutions raise problems of comparability and, implicitly, of financial analysis.
   The lack of comparability and neutrality in displaying fair values determines debates regarding the usefulness of the data addressed to investors who, implicitly, feel deprived of the main characteristic of information, namely its relevance.
   The cost of determining fair value is quite important. In the absence of external quotations for most of the financial instruments employed, fair values should be calculated by the companies, employing models whose conception, drawing out, and control operations are very expensive and, perhaps, prohibitive for certain companies and institutions, at least as compared with the advantages offered by such values.
3. *Fair value has an extremely volatile character* that manifests itself especially in case of credit institutions. The question that may be asked is the following one: *is fair value a cause or an effect of volatility?* The logical answer is that, under financial crisis, the value of bank guarantees decreases; it means that indebtedness rate will be higher for indebted companies; once indebtedness increases, the risk of the indebted company increases, so assets value will be even more diminished due to the fact that the same generated flux appears now at a higher risk.

At present they widely talk about the perception of a deep connection between financial crisis and certain types of financial instruments, namely the accounting standards regarding these instruments; accounting standards are mainly incriminated due to the rules connected with fair value.

There are also *other critics addressed to fair value,* namely:

- *Fair value has a "pro-cyclic character* (Pro-cyclic character – from French, „caractère procyclique" – which amplifies the effects of the economic cycle)*" and has contributed to the maintaining of the descendant spiral of stock exchange market.* Such an opinion was stated on the occasion of the European meeting of accounting professionals, on December 2008. At the time, Christian Noyer (Governor of Banque de France (2008) said: *the highest sensibility of balance sheets towards market fluctuations is induced by fair value accountancy and it is quite relevant for financial stability.*
- Fair value has a pro-cyclic character as a result of the fact that the evaluation of certain assets, mainly financial, is done starting from the market value; when market value increases, the value of the assets increases and vive-versa. Jacques Mistral (IFRI's (Institut Français des Relations Internationales) director of economic studies, abstract of the debates dated December 11th, 2008: *Fair value – the part played by the new accounting standards during financial crisis*) estimated that *the new accounting standards have determined, during the increase period, a feeling of durability of the incomes.*
- *Fair value cannot always rely upon markets in case they are inefficient.* Normal conditions of competition specified when defining fair value are not always observed. Sometimes one cannot determine fair value due to the fact that markets are affected (circumstances that showed during the second half of 2008). It is necessary to appeal to mathematical models based upon the evaluation of future treasury fluxes, introducing a certain amount of subjectivity in choosing modeling parameters (« mark to model » – as opposed to «mark to market » that corresponds to market value evaluation).
- *Financial reports connected with financial instruments, fair value, and risks are lacking in transparence and comparability.* The main argument of the critics consisted in the fact that financial reports should have provided a most clear and accurate image of the risks implied by the use of sophisticated financial instruments capable of allowing the investors and other interested parts to correctly evaluate the assets, debts, and owned capitals of the companies [5].

One should also notice that, beginning with 2007 (the first year when IFRS 7 "Financial instruments: data to be provided" and SFAS 157 "Fair value evaluation" were implemented) the first data regarding the financial crisis of mortgage credits appeared. Although the data provided by the above mentioned standards have also included positive aspects (regarding the methods of evaluation, a more transparent display of credit risk or liquidity risk, etc.), the data regarding financial instruments, fair value, and financial risks were impressive in amount; such a fact

prevented the increase of comparability and transparence which were expected to be provided by the new international accounting standards. The same circumstances occurred in 2008, the second year of implementation, when financial reports were characterized by an increased amount of the provided data while lacking in comparability and transparence.

Fair value – a notion having an evolutional character with multiple aspects

Fair value is an omnipresent notion in all IFRS's articles referring to the topic. Its definition is included in numberless international accounting standards; nevertheless, it is not included in the conceptual framework: *fair value is the amount for which an asset can be changed or a liability settled between well informed parts, on their own will, acting under circumstances of normal competition.*

This definition *a priori* implies the fact that fair value is a market value which materializes in a trade transaction and which is independent from being influenced by the specific internal factors of companies. At the same time, this general definition displays the preoccupation to materialize this notion, meaning that *a market value would be an external, objective, and checkable reference value which does not requires subjective appreciations.*

In case of the re-evaluations that regard an asset at a certain moment previous to the afferent transaction, generally, through definition, there is no such fair value. Exceptions from this finding are fungible financial instruments, negotiated on an organized and liquid market. In case of such instruments, *the price quoted at a certain moment represents the amount for which these instruments can be changed between informed parts mutually agreeing.* This is due to the fact that, *from a historic point of view,* the concept of fair value has been first imposed for certain financial instruments. Moreover, the usefulness of implementing fair value in case of financial instruments owned at the end of the negotiation will facilitate consensus due to the fact that, for the company, the value of these assets would be well represented by a potential sell price, susceptible to materialize at any time. *Fair value would be justified by the imminence and closeness of a trade transaction.* This is only a recent tendency that extends the concept of fair value from financial instruments to tangible and intangible assets. The logic of justifying such an extension is totally different. Frequently, these assets are meant to be used by the company for a long term, so one cannot talk about the imminence of a trade transaction that might regard them. On the contrary, the use of fair value in such cases reflects the conviction according to which historic buying costs or return costs are not a pertinent index of the value (use value) of this asset for the company. While this finding seems doubtful on a theoretical level, it nevertheless determines major difficulties of implementation and often makes people think to a change of the initial significance of the term of fair value.

As regards *tangible and intangible assets*, a company may choose between two accounting methods: cost model and re-evaluation model. This choice should

be the same for each category of assets, a category being a group of assets having a similar character and uses within the company's activity. Among the various categories of assets, evaluation methods can vary. Let's notice that this structuring according to categories represents a violation of the principle of individual evaluation which is quite important in a fiscal accountancy. The logic of the use of the re-evaluation model in case of tangible and intangible assets is quite different from the one which regards financial assets. In fact, the first ones are meant to be permanently allocated for the normal activity of the company. Accordingly, they are the subjects of an amortization which is defined by IFRS referential as being the *systemic distribution of the amortizable amount* (the asset's cost or any other amount that replaces the cost diminished with its residual value) *of a tangible or intangible asset during its useful duration.* Accordingly, by overlapping the technique of amortization and the re-evaluation model, IFRS referential clearly acknowledges that net accounting value of tangible or intangible assets directed towards the cost model (buying cost minus cumulated amortization) is not, most of the time, pertinent information as the real value of this asset is.

In fact, in case of these assets meant to exploit the company, a univocal market value lacks most of the time. Individual standards have no other alternatives than to rely upon approximations in order to determine fair value: similar transactions upon comparable goods (with the opportunity of time reporting in case such transactions do not exist at the moment of re-evaluation) or models of theoretical evaluation generally acknowledged. *The evident problem of such approximations is that they make the notion of fair value strongly subjective – from an external and consensual reference value it becomes a theoretically estimated value and is inevitably influenced by the company.*

IFRS referential traditionally followed an approach called the *mixed model* in case of financial instruments. According to this approach, the notion of fair value should be implemented on certain financial instruments, but not on all of them. The tendency towards the reviewing of standard IAS 39 has nevertheless meant the progressive extension of fair value to all financial instruments.

After the initial recognition, a company will evaluate financial assets, including derived instruments that form assets, at their fair value, with no deduction of transacting costs that might appear out of sales or other ceding, except for the following categories of financial assets: *loans and debts*, that are going to be evaluated at their amortized cost using the method of effective interest; *investments kept until their term* which should be evaluated according to the amortized cost using the method of effective interest; *investments in owned capital instruments* which do not have a price quoted on an active market and whose fair value cannot be efficiently evaluated and the derived instruments connected with them which should be settled through delivering such instruments of unquoted personal capitals that are going to be evaluated according to their cost.

Accordingly, two major elements guide fair value accountancy: *the goal targeted* by the company through the *possession of the instrument* – speculations or

capital earnings through an *opportune sale or the carrying out of an income and of a due benefit* – and the *reliability of determining the fair value of the asset.*

During the process of determining the fair value, *two fundamental situations* occur: *Existence of an active market and of a quoted price*; *Absence of an active market: evaluation techniques* - the objective of evaluation techniques is to guide towards a realistic estimation of the asset's fair value that should reasonably display the manner market is expected to evaluate it.

The determination of the fair value of the instruments of personal capitals that do not have a price quoted on an active market and of the derivates that are connected with them can be credibly done in case the variation within the range of the reliable estimations of the fair value is not significant for that instrument or in case the probabilities of the various estimations belonging to that range can be credibly evaluated and used in estimating fair value.

It seems clear that those who have elaborated accounting standards are convinced that the circumstances where the determining of a reliable fair value is not possible are rare. In such a case the evaluation of the asset at the amortized price has been envisaged.

Article 55 of standard IAS 39 determines the place where profits and losses resulting from the variation of the fair value of a financial asset are registered, namely in the results account; directly in an owned capital account.

Theoretically, in the countries where they implement the balance sheet theory in order to determine fiscal result, the registering of an element either in the results account or directly in the owned capital has no relevance at all. In fact, even in the countries that implement the balance sheet theory, the starting point in calculating fiscal benefit is the accounting result of the results account. In case one tries to avoid the taking into consideration of certain plus-values included at an accounting level in personal capitals then one should envisage their explicit exclusion.

The first case is applied in case of those financial assets whose variation of fair value passes through the results account. The second case is applied to those assets meant to be sold, except for value losses (defined according to articles 67 – 70: the notion of depreciation of a financial asset introduced by article 59 of standard IAS 39 is conceptually different from a mere value decrease; in fact, a value decrease is a mere noticing of the fact that the asset's price diminished; depreciation is, on the contrary, an objective index of a value loss of an asset that comes out of a diminution of future treasury fluxes expected from that asset) and profits as well as for currency exchange losses (where IAS 21, *Effects of the currency exchange variation,* is applied).

Summary

Historic cost is a value that comes from the past, a reason that has generated the accounting *principle of historic cost evaluation,* which has the *quality of being checkable* and *objective.* Historic cost is considered to be the *consequence of two fundamental principles: the principle of monetary standardization and the*

principle of prudence. Fair value evaluation is opposed to the *principle of prudence* owing to which supposed losses are registered but not potential profits.

The opposition *historic cost – fair value* is still active between a traditional Europe (especially France) that is reproached its excess of prudence which sometimes determines certain inertia, and Anglo-Saxon countries that first of all look for a short term profit and favor investors.

Fair value is a notion that has no concrete and precise definition. It sometimes appears as a *sell price on a market* while other times it is determined by starting from a *theoretical evaluation model* and gets closer to an *up-dated financial value.* Sometimes it can appear as an *objective external reference* (when compared with an unidentified buyer on a market) while other times it bears the imprint of the *usefulness value* of the company's asset.

Fair value accountancy has the merit of offering information quite rapidly and consequently of improving transparency on condition that markets function under normal competition.

In order to reach the level of transparency and comparability of accounting information, international accounting standards should be implemented in a manner that allows the providing of detailed and credible accounting data; it is also necessary an *improvement of the reporting demands by accounting standards settlers with a view of simplifying them.*

Professional authorities should work in order to improve the evaluation of the guiding-books of actions under crisis. It is necessary to elaborate a supplemental guiding-book with a view to determine the fair value of the assets on inactive markets which are characterized by: few recent transactions, quotations' prices not relying upon current data, prices' quotation significantly varying during short periods of time or among brokers, abnormal bonus for liquidity risk, important differences between demanded prices and those accepted by the sellers/buyers. In case the market is inactive, one may presume that transactions' prices have appeared under crisis/ lack of balance and noticeable prices on inactive markets are not adequate indices of fair value.

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KOSZT HISTORYCZNY KONTRA REALNA WARTOŚĆ RYNKOWA

Streszczenie: Wartość ewidencji księgowej oparta o *koszt historyczny* jest z pewnością wartością sprawdzalną, zapisaną w dokumencie, który poświadcza prawo własności do określonych dóbr, prawo do długu i dług. Ocena kosztu historycznego polega na ewidencji dóbr wchodzących w skład *dziedzictwa* przedsiębiorstwa po kosztach zakupu, mianowicie ich *koszt historyczny* bez dalczych modyfikacji, mimo że wartość rzeczywista zmienia się.

Realna wartość rynkowa jest podstawą odniesienia IFRS, który przedstawia podstawowe zasady, szeroko proponowane przez US GAAP, chociaż nie są przez nich wspominane. *Realna wartość rynkowa* jest w opozycji do zasady przezorności, jednej z głównych zasad francuskiego prawa księgowego (przejętego także przez rumuńskie standard księgowe), zgodnie z którą tylko możliwe straty są ewidencjonowane podczas gdy potencjalne zyski są ignorowane.

Podjęte zagadnienie odnosi się do wpływu oceny zgodnie z realną wartością rynkową na podstawie danych księgowych przedsiębiorstwa, mianowicie na podstawie bilansu i wyników księgowych otrzymanych na podstawie ewidencji realnej wartości rynkowej.

Jednocześnie, ocena na podstawie realnej wartości rynkowej określiła nowe podstawy w prezentacji wydajności przedsiębiorstwa. Zagadnienie warunkuje następujące pytanie: *Które jest bliżej prawdy i bardziej wiarygodne? Wynik obliczony zgodnie z realną wartością rynkową czy ten oparty na koszcie historyczny*

基于历史成本的会计登记价值是一个确定的、可核查的价值。对历史成本的登记形成了一

个书面文件，这些文件保证了所登记的一定量实物的产权，实物可以是债权或债务历史

成本的评估或估价包括公司未来的以购买成本计算的登记实物。实物的购买成本即是它们

的历史成本，即使实际价值在变化也不会改变这些历史成本。

公允价值是参照国际财务报告准则的基础。该准则中显示的基本原则，尽管没有提到美国

通用会计准则（US GAAP），但是很大程度上是受到美国通用会计准则（US GAAP）的启发。

公允价值的评估是与谨慎原则是相对的。审慎原则是法国会计法主要原则之一（罗马尼亚

会计标准同样采用了审慎原则）。在审慎原则下，可能的损失被登记，而潜在的利润被忽

略。

基于该公司会计数据的公允价值的评估会带来一定的影响。公允价值是根据公允价值登记

的实物计算的资产负债表和结果帐户。同时，根据公允价值的评估是显示公司绩效的一个

新的根据。这个问题又决定了以下问题："哪个评估准则更接近真实，更可信？一个根据

公允价值计算的结果还是一个根据历史成本得到的结果？"