Research on Application Scope of Fair Value Measurement
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Keywords: Fair Value Measurement, Application Scope, Natural Development View

Abstract. Based on the definition of assets, liabilities and fair value, this paper studies the theoretical application scope of fair value measurement. According to the present situation and existing problems of fair value application, this paper puts forward the "natural development view" for the future development of fair value measurement application.

Fair value as a new measurement attribute, its basic research, application research and application in practice should have a continuous development and improvement process. As far as the current application is concerned, it is not the main measurement attribute in financial accounting. Can it become the main or even the unique measurement attribute in the future, converting accounting completely from cost measurement to value measurement? How should we grasp the scope of application and steadily promote its practical application in this development process? This is very important for dealing with the relationship between the future and reality of fair value as well as controlling the development direction of fair value.

1. Research on Application Scope of Fair Value Based on the Definition of Assets and Liabilities Belonged to “Future View”

Assets are defined as economic resources (rights) owned or controlled by an enterprise to bring future cash flows, Liabilities are defined as the outflow (obligations) of future economic benefits arising from fulfilling obligations, both definitions focus on the future and are consistent with the usefulness of accounting objective decision making.

How do assets and liabilities be measured by definition? From the perspective of the future definition of assets and liabilities, the present value is the measurement attributes that best accords with these two elements. Only the present value is used to measure the assets and liabilities, otherwise, the use of other measurement attributes is inconsistent with the definition of assets and liabilities, especially the historical cost. After the change of the current value of the measurement object, its future cash flow has also changed. If it is measured by historical cost, it will deviate from its definition. However, the present value is based on future cash flows and is affected by the discount rate, the future of these two aspects is not easy to determine, furthermore the longer this period is, the more difficult it is to determine. Therefore, although present value is the most ideal measurement attribute of assets and liabilities, its application in reality is almost impossible, its estimation is too strong, and its accuracy is too weak. Its certainty is fatal. This is far from the original intention of accounting measurement and the quality requirements of people for information. So it cannot really be used in accounting measurement, and more in financial forecasts. After the emergence of fair value, it is totally different from the previous cost measurement. It not only uses the transaction price in the initial measurement, but also requires the transaction price to be market-oriented, otherwise it cannot be regarded as fair value. More importantly, of course, the price on the balance sheet date will be redefined in the future based on market conditions, market-to-market, to reflect the latest practical value and reflect the latest situation of future cash flow capacity. The market price can represent the present value, which is consistent with the present value. Therefore, fair value is also a manifestation of present value, fair value belongs to value measurement. If there is no market reference in fair value measurement, it is likely to use the present value method to determine the fair value. Therefore, the fair value and the present value have a strong similarity, the two have a great intersection, the main difference in the fair value of
the measurement results are generality, universal, and common, the present value is strongly individual targeted and exclusive. As far as applicability is concerned, the calculation of present value is rather complicated and troublesome. If we use it to measure accounting objects, it is too demanding, too much work, too luxurious and unrealistic. Fair value not only has the essential characteristics of present value, but also is much easier to obtain than the present value, and also has comparability, relatively speaking, it is a better choice and better way to achieve, its advantages are quite obvious, and can be widely used. If one day accounting will be thoroughly transformed into a value measurement model, in theory, all assets and liabilities can be measured by fair value, which becomes the only measurement attribute. It can not only fully reflect the actual value of the net assets of enterprises, but also avoid the criticism of the coexistence of multiple measurement attributes of a statement.

2. Research on Application Scope Based on Fair Value Definition

The definition of fair value is the core and basic component of fair value theory, which is the concentration of the whole fair value theory. From its definition, we can see the theoretical scope of fair value application, which should be the largest scope of fair value application.

According to FASB and IASB (including our CASC), fair value is defined as: the price that market participants pay for the receipt or transfer of a liability by selling an asset in an orderly transaction on the measurement day. This is a concise, meaningful concept, but also a clear fair value of the exit price concept. IASB has pointed out that the sell-off price reflects market participants' expectations of future cash flows of assets or liabilities on the measurement day and reflects the reporting subject's ability to obtain cash flows by selling or using assets. This definition also implies the essential link between fair value and present value. Fair value is the accounting expression of value concept in economics and the embodiment of present value concept which can reflect the essential characteristics of accounting elements. Fair value measurement is based on the measurement of value and present value. The present value is becoming more and more important in today's accounting environment. We cannot discuss the generation of fair value without considering the importance of present value. The fundamental purpose of using fair value is to reflect the present value. There are more opportunities to use present value in inactive markets. Therefore, the definition of fair value and the definition of assets and liabilities "future outlook" are also the same strain. They are the specific embodiment of the accounting objective decision-making usefulness requirements.

According to the definition of fair value, fair value is not necessarily the actual transaction price, it is more likely to be a simulated transaction price. As long as there is an orderly transaction, fair value can be determined, including the actual transaction price, which constitutes the historical cost. Therefore, the historical cost is the fair value when the transaction actually occurs, but with the passage of time, its actual value changes, the amount can no longer be called fair value; it also includes the amount of money that has not actually been traded but needs to be known because of actual holdings and that needs to be replaced in the accounts in order to meet the needs of decision-making, or since the accounting model has changed from historical cost to value measurement, all assets and liabilities need to be re-measured according to the current value, and the corresponding adjustment of gains and losses or owner's rights and interests, and all assets and liabilities items need to be re-measured. Therefore, the scope embodied in the definition is flexibility, which can include both all items and only some items, and the specific determination can be based on actual needs. Therefore, the definition of fair value itself can be used to determine the maximum extent of its theoretical application to cover all items. It can be seen that the definition of fair value in the scope of application is not only applicable to the current application, but also to the future of the comprehensive application of fair value, from this point of view the definition is very classic and in place.
3. The "Natural Development View" of the Application Scope of Fair Value Measurement

Fair value, as a new measurement attribute, subverts the traditional historical cost measurement. Its advantages are obvious, but its shortcomings also have a great impact. This kind of imperfection has not been overcome up to now, and it still needs to be studied and explored in depth, groped in practice. We shall continuously improved its understanding, solved the practical application problems, improved its theory and practice, so that its advantages can be truly released and it could become the mainstream or even the unique measurement attribute as soon as possible, to better serve the users of financial information.

In reality, its application in China is mainly limited to the assets and liabilities that are transactional and concerning a trading market, while non-transactional assets and related liabilities, such as those for production and management, do not use fair value measurement. The United States has a highly developed market, and its fair value application should be wider than that of China. However, the financial crisis in 2008 slowed down the pace of expansion. IASB is an advocate of the application of fair value, which requires or permits the use of fair value, including "real estate, plant and equipment" and "biological assets".

Therefore, as far as the problems of fair value are concerned, there is still a process to improve the application of fair value. In view of the current market environment, the solution to the problems of fair value application will not be achieved overnight. It depends on the breakthrough of theory and the improvement of various markets. The application of fair value should be gradual, and its speed is not determined by man. It needs to follow the objective law. Based on this understanding, the author puts forward the "natural development view" of fair value application.

3.1 Holistic View of Natural Development

Many changes in accounting methods and the birth of new methods in history are often accompanied by major historical events. It is the occurrence or even outbreak of these economic events that has led to the innovation of major accounting theories and accounting methods. The birth of fair value measurement is no exception. Fundamentally speaking, it should also be based on the economic situation and the needs of enterprises to promote, but also does not rule out the impact of other major events to accelerate its development. In short, accounting is reflective; it cannot lead, not lag behind. It should develop in line with the development of the economy, so as to better meet the needs of the economy, and promote economic development.

Therefore, the application of fair value should, on the whole, carry out the "natural development concept", not be eager to achieve because of its superiority, nor be passive because of its obvious shortcomings which have not been overcome at present. Fair value measurement is the future direction of development, whether in research or application, we should focus on the future, actively respond to, and steadily promote. Specifically, theory should be done first, and fair value theory should be actively pursued. In terms of theoretical reserve, the state should regard the study of fair value as a major, long-term, strategic field, or even qualitative accounting cutting-edge field, actively organize and guide the research in this area, and constantly make breakthroughs in order to better promote the practical application of fair value and provide theoretical basis for practice. At the same time, the study of fair value should promote the study of the whole accounting theory, financial report reform and other aspects, promote China's accounting theory and practice step by step in the forefront of the world's accounting, constantly enhance the participation and voice of China's accounting in the international accounting community, and realize the modernization of accounting theory and practice. Secondly, we must be prudent in the accounting practice of fair value measurement. When formulating fair value accounting standards and regulations at the national level, we should not only consider international coordination, but also take into account China's practical situation, making both principled provisions and flexible choices. Of course, in view of the mature and clear aspects, the rigid unified requirements should be made a unified mandatory provision, and there is no room for choice. In this way, enterprises have an independent choice in the application. Different enterprises have different understanding and application ability.
of fair value, and the characteristics of the industry are different. Enterprises with good conditions can encourage more applications. With the deepening of the study of fair value theory and the continuous enhancement of the applicable ability for enterprises, we shall gradually expand and promote the application of fair value, rather than enforcing. This is a clear development blueprint.

3.2 Individual Concept of Natural Development

The overall application for the state should advocate the concept of "natural development". For specific enterprises, they should also follow the concept of "natural development", that is, the concept of "individual natural development". It means that on the premise of abiding by the relevant laws, regulations and standards of fair value measurement, enterprises should decide on the application of fair value independently according to their own actual conditions. We should not follow the trend unthoughtful, apply rigidly, and make use of the defects of fair value. The quality of the fair value information generated in this way is poor, not only because of fabricating false deceptive information mislead the public and will be punished, but also mislead themselves. Enterprises should gradually integrate with fair value in the transition, so that the measurement of related items can be smoothly and smoothly transferred from historical cost to fair value, and the quality of accounting information can be continuously improved, which cannot be counterproductive, and will be reduced by blind application and misuse. Therefore, the improvement of the quality of accounting information is an important symbol to measure whether the application of fair value is appropriate and successful. Enterprises should take this as a starting point to choose the application of fair value, including the breadth, depth and progress of application, and effectively promote the application of fair value in the enterprise. In addition, fair value as an advanced measurement method, enterprises should actively try to improve the ability to use and control fair value in the exploration under the conditions permitted. Therefore, we should not neglect to do nothing in the face of new things and lose the opportunity to exercise and improve the professional ability of accountants. Therefore, the concept of natural development should be aimed at the practical situation of the enterprise, should be used, can be used, rather than allow the accounting personnel to choose freely, should be used and not used, can also not be used, more than less than one thing, trouble, or even boycott.

4. Conclusion

Fair value, as a new measurement attribute, has obvious advantages and is most in line with the decision-making usefulness of financial accounting objectives. However, the current application environment is still difficult to meet its needs in an all-round way, and there are also some difficulties in application methods that cannot be overcome. Therefore, its application in reality cannot be carried out in an all-round way, nor can it be forcibly pushed forward, otherwise it will backfire. Fair value measurement has been criticized in the 2008 world financial crisis and fallen into the situation of adjustment, revision or even suspension of use. This shows that the application of fair value is out of practice, this lesson is profound. We should vigorously promote the study of fair value measurement, but we should be realistic in promoting the application of fair value. We should not only see the general direction of fair value as the measurement attribute of the 21st century, but also see the difficulties it faces at present. Following the concept of "natural development", we should actively apply it in conditional application, while cautiously or postpone its application in immature conditions. Whether the application of fair value is appropriate has become an important factor affecting the quality of accounting information.

Reference


