Journal of Process Management and New Technologies
Vol. 11, Issue 1-2, 2023, pp. 22-33

JPMNT

IMPLICATIONS OF APPLYING FAIR VALUE ACCOUNTING TO MODERN FINANCIAL REPORTING

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Abstract: *Fair value accounting is a concept whose main goal is to provide quality information about financial status, success and cash flows in order to satisfy the informational needs of investors. By introducing this concept, the focus is placed on the balance sheet and not on the income sheet statement as was in the case of the historical cost concept. The goal of financial reporting is to show assets, liabilities and net assets in the balance sheet at fair value on the balance sheet date. The subject of research in this work is the application of fair value accounting, which will be shown on a concrete example in which equipment will be evaluated according to the concept of historical cost, and then the equipment will be evaluated according to the concept of fair value. After that, a comparison of these two concepts will be made, in order to present the financial effects of valuation on assets and liabilities. The importance of applying historical cost accounting is the correct periodization of income and expenses, while the importance of fair value accounting is the presentation of assets and liabilities according to current market prices. The elaborated moments resulted in the reconciliation and unification of these two concepts, which is realized by the hybrid model of financial reporting.*
Keywords: *Fair value accounting, financial reporting, historical cost concept, valuation of assets and liabilities, balance sheet*

Original scientific paper
Received: 19.04.2023.
Accepted: 07.05.2023.
Available online: 09.06.2023.

1. Introduction

Fair value accounting is a modern model of financial reporting that aims to determine the fair value of financial assets (Anssari, 2023; Lee, 2023). Fair value is the value at which assets are sold or liabilities are transferred and which is determined based on market prices in an active market. Considering dynamic conditions and volatile environment in which the entity operates, according to IFRS 13, financial reporting should be based on current market prices determined

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between parties willingly participating in the transaction of exchange of goods and services (Alharasis et al., 2022a; 2022b). Hence, fair value represents the fair and equitable value according to which assets are sold or liabilities are paid between parties voluntarily participating in the transaction.

In this work will present critically review on application of the concept of fair value in financial reporting, as well as the use of the concept of historical cost. Introducing the concept of fair value, the primary goal of financial reporting shifts from satisfying the interests of management and creditors to satisfying the interests of investors. (Arsenijević, 2020, p.156) That is a reason, why from historical cost accounting where the focus is the income statement, the priority of financial reporting is given importance to fair value accounting with a focus on the balance sheet and, accordingly, the recognition and measurement of assets, liabilities and net assets, while the income statement has a secondary importance in financial reporting. The goal of financial reporting is to show assets, liabilities and net assets in the balance sheet at fair value on the balance sheet date. The income statement will contain, in addition to realized gains and losses, unrealized gains and losses as a result of changes in the fair value of assets and liabilities. (Rupić, Bonić, 2015, p.123) Fair value presentation of positions in the balance sheet increases the level of information reliability, because the values of assets and liabilities are shown at the level of market values, which enables investors to estimate the returns and the amount of investment in a certain business venture in the best possible way.

The subject of research in this paper is application of fair value accounting within the framework of international accounting standards on a concrete example where balance sheet and income statement will be presented, in circumstances when equipment is first evaluated using the cost method (historical cost) and then, in the circumstances when equipment is valued using the fair value method. Accordingly, the financial effects of the fair value assessment on assets and liabilities will be presented. Valuation of assets at fair value does not affect the amount of profit for distribution in the balance sheet due to the use of revaluation reserves. This means that although there is an increase in depreciation costs and a decrease in the net profit in the income statement, the change in their amount in the analyzed example will not affect amount of profit for distribution in balance sheet. As a result of application of fair value, there is an increase in value of assets in assets and on the other hand, an increase in amount of capital due to the recording of revaluation reserves in liabilities.

2. Conservatism vs. optimism in financial reporting

The concept of financial reporting that will be perfect in all aspects is difficult to develop in unstable conditions and volatile markets. This research are directed to satisfy the informational needs of users of financial reports. The basic idea is to understand financial reports (position and success) as the most important source of data about the entity's operations, in order to provide reliable and objective information.

The concept of valuation exemplified by historical cost accounting is an old(er) concept. (Gulin & Hladika, 2016, p.3) This concept has a dominant application in the valuation of financial statement positions until the twenties of the last century. The priority of financial reporting as a measure of the success of the entity's business relies on the income statement because it puts the financial result in the foreground. (Škarić, 2010, p.106) The content of the historical cost principle is based on the following principles:

- Principle of causation (matching principle). It starts from the assumption that the expenses that caused their occurrence are allocated to the income of one accounting period.

• Principle of realization. It is based on the fact that only transactions that have been confirmed through a transaction act on the market are recognized in the financial statements. (Arsenijević, 2022, p. 95)

• Principle of imparity. It anticipates expected losses, which aim is to avoid overestimating results. This principle complements the principle of realization, as it requires that unrealized financial losses that are not verified in the market be recognized as losses. (Ranković, 2008, p.187)

The application of the principle of historical cost has the effect that the information in the financial statements is not realistically presented for the following reasons:

• It does not provide relevant and true information that is suitable for making management decisions, so reliability is one of the most important characteristics of accounting information endangered.

• Financial reports are not sufficiently transparent due to the existence of latent reserves or hidden losses.

• Information in BU does not provide data on how much risk the property is exposed to, but only provides users with data on exposure to risks in the procurement and sales market.

The user of information is faced with a dilemma whether to make choice for conservatism in financial reporting based on the concept of historical costs or optimism based on the concept of fair value. (Malinić, 2009, p. 55) The question arises whether priority should be given to the timeliness and relevance of information (historical cost concept) or the reliability of information (fair value concept). Hence, the information user is faced with a dilemma whether to to make choice for conservatism in financial reporting based on the concept of historical costs or optimism based on the concept of fair value, which is also an integral part of our examination problem. The decision-making process is complex in dynamic and changed market conditions, which is influenced by the development of information and communication technologies, which particularly affects different interest groups. If we were to favor the concept of fair value, then equity investors would have priority in financial reporting. (Pantelić, 2019, p.354) Otherwise, if we prioritized the concept of historical costs, then banks and insurance companies would get priority in financial reporting.

In the conditions of the financial crisis in an unstable business environment, numerous problems arise in financial statements, such as: the problem of fair value measurement, the problem of volatility of financial statements, the problem of maintaining capital, the problem of information asymmetry and the efficiency of the capital market. These problems could not be solved using historical cost accounting. In such a situation, a new accounting was created - fair value accounting that will be implemented in financial statements, in order to contribute to better financial reporting for investors and other stakeholders. . (Pobrić, 2020, p. 150) Differences in financial reporting systems are conditioned by differences in tax systems, inflation, accounting regulations and the legal system of the state. When it comes to financial reporting, it should be have in mind that business entities have a legal obligation to fair and truthful financial reporting. (Savić , 2011, p.15)

3. Accounting concept of fair value

The concept of fair value was born in the 90s years of the XX century in the conditions of the global economic crisis in the USA, when it was established that the concept of historical cost gives an unrealistic picture of financial statements. As a result of applying this concept, investors could not realistically assess their investment and expected risk. (Knežević, 2009, p.37) Fair value measurement methods are discussed in detail in IFRS 13 Fair Value Measurement. The application of the concept of fair value in financial reporting is particularly

pronounced in Anglo-Saxon countries such as England and the USA, where the financial system is based on the capital market and investment financing. (Knežević, Pavlović, 2008, p. 8-9) In contrast to the Anglo-Saxon countries, in the countries of continental Europe such as France and Germany, there was a relative underdevelopment of the capital market, which is based on credit lines where financing of economic subjects was done through bank loans. The principle of ideal fair value accounting is the ultimate goal of financial reporting. Fair value accounting is the true and objective presentation of financial statements. The entity measures the fair value by determining the price in accordance with accordance of changes supply and demand in the market, taking into account the existence of market risks (IFRS 13). IFRS 13 presents fair value measurement methods. This standard defines fair value as "the price that would be charged for the sale of an asset, i.e. paid for the transfer of a liability in a regular transaction on the primary (or most favorable) market on the measurement date, under current market conditions (i.e. exit price), regardless of whether that price is directly observable or estimated by another valuation technique.“ Fair value represents the monetary amount by which assets are exchanged or obligations are settled in the market between mutually facing parties who willingly participate in the transaction. Fair value accounting is one of the most controversial issues in modern times faced by regulatory bodies, whose role is to regulate accounting profession and set accounting standards. The assumptions of ideal fair value accounting for investors are:

•'The elements of the balance sheet should be fully disclosed in accordance with market trends, which would contribute to the truthfulness and objectivity of financial reports. Hence, BS shows the effects of changes in the fair value of assets and liabilities.

• The emphasis in financial reporting is shifting from the income statement to the balance sheet. BU now becomes a report in the service of BS because it is difficult to determine what the value of income and expenditure items will be in the future. (Singh, 2017, p.50) In addition, items of income and expenses can inform us about the level of risk to which the company is exposed. Investors use fair value to compare it with market value, in order to decide whether to invest their financial resources in HOV. Fair value represents the price that an investor pays with the aim of maximizing returns, while market value represents the value according to which assets or liabilities are exchanged in the market. The fair value of a share can also be seen as the present value of a share. Fair value estimation methods in accordance with IFRS 13 are:

• Market method. This approach uses prices based on market transactions that take place between comparable (similar) assets, liabilities or groups of assets and liabilities. In this case, the fair value represents the market price.

• Cost method (current replacement cost method). This method is based on the assumption that assets become obsolete over time. Obsolescence is a reduction of value of assets in accordance with IAS 36 Impairment of assets value. The essence of this approach is the replacement of a certain asset at the current replacement cost, so that the fair value represents the current replacement cost of the asset.

• Yield method (income approach). It is based on discounted cash flows by which future cash flows are discounted to their present value. (Biondi, 2011, p.23) It is a discounting technique where future values are converted to present value using the discount rate. According to this method, future amounts of income can be estimated, so that present value represents fair value (e.g. investment in real estate).

Fair value as a modern model of financial reporting has wide use and different guidelines when it comes to the valuation of parts of assets and liabilities. The application of this approach, as we said, should aim at determining the fair value of net assets, which, in order to be properly determined, should be assessed based on the principles of fair value accounting, namely:

• One-to-One principle. This principle is satisfied when the investor's investments are profitable due to the growth of market prices on the market (eg passive investing as an investment in bonds, gold and real estate). (Pantelić, 2020, p. 9)

• Principle of maintaining a quality information base for decision-making. It is based on a quality informational basis for decision-making, which in order to maintain where the valuation of assets and liabilities should be based on the principle of fair value and not on the principle of historical cost.

• Matching Principle (Matching Principle). Expenses should be recorded in the period of time when they were incurred and the income caused by them, and the income should be recorded regardless of whether it was collected. Assets and liabilities in the balance sheet should also be recorded in the period in which they were created, in order to properly relate and determine their fair value. (Nissim, Penman, 2007, p. 29)

• Principle of detailed reporting. It is based on the requirement for detailed reporting of financial condition and performance, as well as detailed presentation of unrealized gains and losses in the market.

• Principle of valuation without arbitration. It requires that when determining the fair value, the limits of arbitrary decision-making by the management should be clearly set.

The assumption of determining the fair value is based on the fact that it is the value at which assets and liabilities are exchanged between market participants on the date of measurement of the price of assets or liabilities. With the aim of increasing consistency and comparability in fair value measurement, IFRS 13 presents a fair value hierarchy that is classified into three levels that are presented as inputs (information and input data) for fair value assessment techniques, namely:

Inputs on the level one. They include valued (prices of securities anounced in exchange list of the stock exchange) prices in an active market that are used in measuring fair value. These prices are the most reliable evidence for determining the fair value of assets and liabilities. (Zyla, 2020, p.14) An active market is a place where there is a large volume of trading of securities with money or foreign currency. Such markets are interesting to potential investors and they are interested in investing their money there, of course according to their risk appetite. The factors on which the height of this input depends are:

Primary market. The primary market for an asset or liability is the market with the largest volume of activity for that asset or liability. These are e.g. the following markets: stock, dealer or broker markets representing active bond and stock markets.

a) Date of measurement. On the measurement date at the market price, the business entity should perform the transaction.

In case that there is no active market with quoted prices for certain assets or liabilities, it goes to levels two or three. (KPMG,2017, p. 50)

Inputs on the Level two. They represent market inputs, which include quoted prices as follows:

1) Quoted prices for a similar asset or liability in an active market,

2) Quoted prices for a similar asset or liability on an inactive market (a market where companies operate that are inactive on the market, because they do not attract attention of investors, so they are not attractive for investments),

3) Rate of return on market,

4) Other market inputs (interest rate, yield curve, etc.)

Level 1 and Level 2 inputs are observable inputs developed on the basis of market data, with which participants determine the price of assets and liabilities. This suggests that fair value is determined based on observable market information. (McDonough., Panaretou, Shakespeare, 2020, p.13)

Inputs on the Level three. They include unobservable inputs to assets or liabilities. (Fahnestock, Bostwick, 2011, p.5) They are used in measuring fair value in situations where observable inputs are not available and there is no active market. In that case, market participants make measurements based on assumptions and judgment, including risk, when determining the fair value of an asset or liability. It is certain that the assumptions contain a dose of subjectivism, and this leads under question the economic reality when determining the fair value (Mijoković, 2016, p.257).

4. Application of the concept of fair value in the framework of IAS 16 and IFRS 13

Acceptance of the concept of fair value has contributed to better quality financial reporting and, accordingly to more efficient decision-making. Decision of the users of financial statements is that they are compiled and presented in a fair manner. The concept of fair presentation implies the requirement that financial statements truthfully and objectively present the balance sheet positions. This does not imply that financial reports should be absolutely accurate, but that they should enable the achievement of the goal of financial reporting, i.e. making quality decision by users of financial statements. In the continuation of the work, we will try to use a concrete example to present the application of the concept of fair value to financial statements from the aspect of accounting standards IAS 16 and IFRS 13. Based on that, the valuation of the equipment will be explained, firstly by the historical cost method, and then by the fair value method. Finally, in this study will present the financial effects of valuation using the fair value method.

According to paragraph 26 of IAS 16, the fair value can be measured reliably if: a) the variability in the range of reasonable measurements of the fair value for the asset is not significant, b) the probabilities of various estimates within the range can be reasonably estimated and used in measuring the fair value. When real estate, plant and equipment are recognized as resources, they are recorded according to fair value. The fair value is obtained when revaluation and when that value reduced for accumulated depreciation and accumulated losses. It is necessary that the revaluation is carried out regularly so that the book value does not differ much from the fair value, which depends on the change in the fair value on the market.

In the following, we will present the application of IAS 16 in the accounting coverage of real estate, plant and equipment. According to IAS 16, when recognizing these assets, they are measured at their purchase value/cost price. The assumption is that the purchase value of the equipment of entity "M" is 360,000 dinars. Depreciation is calculated at the rate of 16%. The entity will not buy or dispose of equipment and will not distribute the profits of previous years as dividends. The assessment of the fair value of the equipment is carried out in 2018 and 2021. In 2018, the fair value was 330,000 din, while in 2021, the fair value was 132,000 din. In the first case, the equipment will be evaluated in circumstances where the concept of fair value is not used, but the concept of historical cost (purchase value), and then the revaluation model will be applied and the equipment will be evaluated according to fair value.

Table 1. Equipment in circumstances where the concept of fair value is not used (in 000 dinars)

Description	2018.	2019.	2020.	2021.	2022.	2023.
Purchase value	360.000	360.000	360.000	360.000	360.000	360.000
Adjustment of value	60.000	120.000	180.000	240.000	300.000	350.000
Present value	300.000	240.000	180.000	120.000	60.000	-

Table 2. Equipment in the circumstances when the fair value is assessed (in 000 dinars)

Description	2018.	2019.	2020.	2021.	2022.	2023.
Revalued purchase value (10%)	396.000	396.000	396.000	396.000	396.000	396.000
Revalued value adjustment (16%)	66.000	132.000	198.000	264.000	330.000	396.000
Revalued present value	330.000	264.000	198.000	132.000	66.000	-
Effect of fair value assessment	**30.000**			**12.000**		

Table 3. Balance sheet when fair value assessment is not performed (in RSD 000)

Position	2018.	2019.	2020.	2021.	2022.	2023.
Equipment	300.000	240.000	180.000	120.000	60.000	0
Floating capital	91.000	187.000	290.000	393.000	496.000	599.000
Total assets	384.000	427.000	470.000	513.000	556.000	599.000
Basic capital	210.000	210.000	210.000	210.000	210.000	210.000
Retained earnings	43.000	86.000	129.000	172.000	215.000	258.000
Revaluation reserves						
Provisions and long-term liabilities	35.000	35.000	35.000	35.000	35.000	35.000
Short-term liabilities	96.000	96.000	96.000	96.000	96.000	96.000
Total liabilities	384.000	427.000	470.000	513.000	556.000	599.000

Table 4. Income statement when fair value assessment is not performed

Position	2018.	2019.	2020.	2021.	2022.	2023.
Revenues	510.000	510.000	510.000	510.000	510.000	510.000
Business, financial and other expenses	387.000	387.000	387.000	387.000	387.000	387.000
Depreciation expenses	60.000	60.000	60.000	60.000	60.000	50.000
Net profit before tax	63.000	63.000	63.000	63.000	63.000	73.000
Profit tax (15%)	9.450	9.450	9.450	9.450	9.450	9.450
Net profit after tax	53.550	53.550	53.550	53.550	53.550	63.550

Table 5. Balance sheet when the fair value is estimated (in 000 RSD)

Position	2018.	2019.	2020.	2021.	2022.	2023.
Equipment	330.000	264.000	198.000	132.000	66.000	-
Floating capital	84.000	187.000	290.000	393.000	510.000	652.000
Total assets	414.000	451.000	488.000	525.000	576.000	652.000
Basic capital	210.000	210.000	210.000	210.000	210.000	210.000
Retained earnings (gain)	43.000	86.000	129.000	172.000	215.000	285.000
Revaluation reserves	30.000	24.000	18.000	12.000	20.000	26.000
Provisions and long-term liabilities	35.000	35.000	35.000	35.000	35.000	35.000
Short-term liabilities	96.000	96.000	96.000	96.000	96.000	96.000
Total liabilities	414.000	433.000	488.000	525.000	576.000	652.000

Table 6. Income statement when the fair value is estimated (in 000 RSD)

Position	2018.	2019.	2020.	2021.	2022.	2023.
Revenues	510.000	510.000	510.000	510.000	510.000	510.000
Business, financial and other expenses	387.000	387.000	387.000	387.000	387.000	387.000
Depreciation expenses	60.000	66.000	66.000	66.000	66.000	66.000
Net profit before tax	63.000	57.000	57.000	57.000	57.000	57.000
Profit tax (15%)	9.450	9.450	9.450	9.450	9.450	9.450
Net profit after tax	53.550	47.450	47.450	47.450	47.450	47.450

Table 7. Changes in revaluation reserves (in 000 RSD)

Description	2018.	2019.	2020.	2021.	2022.	2023.
Started statement	0	30.000	24.000	18.000	0	20.000
Increase based on assessment	30.000				12.000	6.000
Reduction based on realization - transfer to retained earnings	0	6.000	6.000	6.000	8.000	0
End state	30.000	24.000	18.000	12.000	20.000	26.000

Table 8. Financial effects of valuation at fair value (in 000 RSD)

Description	2018.	2019.	2020.	2021.	2022.	2023.
Greater assets and capital	30.000	24.000	18.000	12.000	20.000	26.000
Higher depreciation costs and lower profit after tax	0	6.000	6.000	6.000	6.000	16.000
Difference in profit for distribution in the balance sheet (group 34)	0	0	0	0	0	0

In 2018, depreciation costs amount were 60,000 dinars and they don't change (are the same) regardless of whether or not an assessment is made. Therefore, the profit after taxation does not change and remains the same at 53,550 dinars. However, in this year, the positive effects of the assessment are manifested because the property and capital are higher by 30,000 dinars (tables 5, 7 and 8) compared to the period when no assessment is carried out.

In the years (2019 and 2020) when the entity does not perform an assessment, there is no significant deviation from the fair value (Table 8). Since no assessment is made, the basis for amortization costs is increased, and therefore the amortization costs are increased which now amount is 66,000 dinars (Table 6.). Accordingly, the profit after taxation is lower in the amount of 6,000 dinars. This amount of 6,000 din. represents the difference between the calculated depreciation on the revalued purchase value and the depreciation calculated on the purchase value (tables 4 and 6).

Since in our example the value of the real estate is increased, the depreciation costs also increase, which indicate in favor of the fact that the income tax base is reduced (table 6). This is due to the difference between depreciation calculated on the revalued purchase value and depreciation calculated on the purchase value. Due to the increase in depreciation costs, there is a decrease in the net profit in the income statement, which affects the deterioration of the image of the entity's earning capacity.

Using the fair value method does not influence to the amount of net current assets. In addition, this method does not influence on cash flow, inflows and outflows, so it does not affect the amount of monetary flows. Accordingly, this method does not affect the entity's solvency and liquidity. Valuation of fixed assets at fair value affects the increase in the value of assets and capital in the balance sheet, which increases the ratio of capital to liabilities. (Stojanović, 2016, p.126)

The implementation of the concept of fair value opens up the possibility of realizing (using) revaluation reserves as a capital component (Konceptualni okvir za finansijsko izveštavanje, 2010, p.22). Valuation of equipment at fair value does not affect the amount of profit for distribution in the balance sheet, although valuation at fair value affects the increase in depreciation costs. However, in the case when the asset is sold, scrapped or alienated, the entity transfers from revaluation reserve assets to undistributed profit, even though the amount of profit for distribution is reduced in the profit and loss account (table 6). This means that revaluation reserves are transferred through the balance sheet (paragraph 41, IAS 16).

That increase is reflected within BU as a reduction in taxable net profit. In contrast, if as a result of the revaluation there is a reduction in the book value, then that reduction represents an expense recognized in the total other result and the position of the revaluation reserves is reduced by that amount. (paragraph 39 and 40, IAS 16). It should be have in mind that real estate, plant and equipment revaluation reserves are an integral part of capital, so their change also changes the amount of capital. Revaluation should be carried out regularly so that the book value of this asset does not significantly differ from its fair value at the end of the reporting period (Vukašinović, 2018, p. 67).

5. Conclusion

This paper presents the application of the concept of fair value and its impact on the amount of positions (assets and liabilities) in the balance sheet. Valuation of these positions at fair value is the basis for making a decision on an investment input and assessing whether that investment is profitable. According to IAS 16, entities are obliged to apply the concept of fair value, as a method for analyzing the success of business, whereby when evaluating real estate, plant and equipment, the book value of these assets is adjusted to the revalued amount

(paragraph 33 of IAS 16). IFRS 13 Fair Value Measurement provides guidelines for estimating the fair value of assets and liabilities in financial statements. In accordance with IFRS 13, fair value represents the price at which a purchase and sale transaction is made between market participants on the measurement date according to market conditions. It is the market value of specific assets and liabilities, determined by market participants based on their characteristics. (Singh, Shigufta, 2011, p.116) We believe that the introduction of the concept of fair value contributed to the fact that financial reports contain better quality information that contributes to a realistic presentation of the situation and success in order to satisfy the informational needs of investors when making decisions. Otherwise, if the fair value concept was not applied, it would lead to an unrealistic presentation of financial statements, which would result in inadequate assessments and an increase in risk for the investors themselves.
This work shows, on a concrete example, firstly the assessment of assets according historical costs (purchase value), and then the use of the method of assessment at fair value and its impact on the increase in the amount of assets and liabilities in the balance sheet, which affects the increase in depreciation costs. Consequently, there is a decrease in the net profit in the income statement, but the amount of undistributed profit does not change, due to the activation of revaluation reserves. Finally, the changes in revaluation reserves and the financial effects of fair value assessment are presented.

Fair value accounting has certain shortcomings, because it enables the presentation of unrealized gains and losses in BU, which is contrary to principles of realization.The fact that BU includes unrealized gains and losses contributes to the formation of inaccurate financial statements, which enables their misuse. In order to put this problem within the legal framework, it is necessary to introduce the title of authorized appraiser whose main task would be to determine the fair value using one of the appraisal methods. (Toluwa, Power, 2019, p. 693) In our country, there is no normative basis, as well as the title of authorized appraiser, in order to carry out the valuation in accordance with the regulatory framework.

In the modern model of financial reporting, it is necessary to reconcile concept of fair value and concept of historical cost. This is achieved through a hybrid financial reporting model that combines these two approaches (Pantelić, 2022, p. 10). The application of this model ensures the correct periodization of income and expenses and valuation of inventory at a lower value, which is the goal of the concept of historical cost, as well as the correct valuation of assets and liabilities, which is the goal of the concept of fair value. The literature mentions the hybrid model of financial reporting as a more complex concept because the number of requirements related to financial reporting process for understanding rules for recognizing and evaluating positions in financial statements has increased. It should be emphasized that a perfect concept of financial reporting does not exist. When it comes to the concept of historical cost, this concept does not reflect the reality of market conditions and does not sufficiently follow the changes that occur in the market, which is why it does not provide information that is not suitable for making investment decision. It is for this reason that there is a limitation in financial statements based on the historical cost concept, and this concept does not identify latent reserves and hidden losses, which reduces the quality of financial statements. However, despite the mentioned shortcomings, we can conclude that the application of the fair value concept contributes to the truth and objectivity of the balance sheet positions in the financial statements, while the application of the historical cost concept enables correct distribution of the entity's business life into accounting periods. Ultimately, the blend of these two concepts should contribute to the goal of financial reporting, which is to make financial information relevant and faithfully reflect the financial position of business entities and, accordingly, ensure accuracy in financial statements. Having all the above in mind, the combined application of the concept of

fair value and historical cost is necessary in order to provide quality information about the financial position, performance and cash flows.

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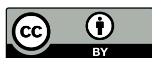

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