Correlation between International Financial Reporting Standards and assessment in the context of market value relations -fair value

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Abstract. Applying International Financial Reporting Standards (IFRS) will have the purpose: the rationale is that the professional accounting, switching to accounting based on fair value, involves getting more frequent information on the fair value of assets; professional staff should be informed of the substance of the economic activities of companies for a proper application of the standards (there are fewer detailed instructions of the Ministry of Finance); it is possible that tax regulations do not keep up with the accounting, tax implications of certain transactions may be unclear and therefore may conflict with tax authorities.

This detaches the idea that the application of different standards, leading to different results, with implications for the interpretation of data, calculates economic and financial indicators and distorting "the truth accountant”.

The analysis outlined above suggests that, at least at European level, making a financial audit, of how to evaluate companies in accordance with Financial Reporting Standards and IVSC would create an international market that would ensure international recognition specialists in this field.

Keywords: accounting information, market value, financial balance, bases of assessment, alternative treatment, IAS 39, fair value option, IVSC, IFRS.

1 Introduction

The objective of the *International Standards Assessment* is to ensure harmonization and compatibility between the national and international order to be applicable globally.

The main purpose of the *International Standards Assessment* is to create standards for evaluating solid and intelligible to facilitate international transactions, contributing to the viability of global markets, promote transparency in financial reporting.

In the opinion of experts, International Financial Reporting Standards (IFRS) should be applied as such in Romanian law; on the contrary, differences arising can generate confusion, ambiguity, lack of transparency and, therefore, a distorted picture of the financial situation of the company.

In our opinion, in Romania, adoption of a system of uniform financial reporting and internationally recognized (IFRS) represents for Romanian companies the only way to ensure that, their financial statements are reliable, and on this basis, users can take the best decisions.

2 Accounting information - decision support in assessing firm

In our opinion, whether an accounting, economic or administrative, can be said that the assessment is more than a simple operation of weighing, measuring, it is a complex process of estimating the value[1]. This process of estimation would include elements of skill of the evaluator, summarized in "art assessment". Definitions of evaluation that uses specific assessment procedures and specific methods for estimating value, thus confirming the hypothesis and the existence theory of theory assessment.

However *between assessment and evaluation of economic accounting there are some differences.* While **assessment** is the process by which to determine the structures of the financial statements will be recognized in the balance sheet and the profit and loss[2] "in general, **economic evaluation** can be defined as a set of techniques, processes and methods which determines the value of a good group of goods, assets or business"[3]. *The aim of economic assess* is to provide information about either the value of goods or assets or businesses assessed by reporting them to the market conditions so that people can trade price of a business at a level close to the price actually[4].

Basically, property, asset or company as a whole, are made in value to the market and thereby ensure comparability with market value. American literature *in the market value known as the exchange* is defined as "the most probable price which may be received at a certain time in the form of cash or other means of payment for the sale of a property subject to a competitive market, which meets all the conditions for a fair sale, with buyer and seller acting prudently, knowingly concerned for their own interest and without being subjected to pressure or influence from other private"[5].

Using a set of methods and techniques in determining market value the company at a time of *economic evaluation* must consider the company's market position, potential technical, financial and quality of the human capacity to generate during future profit streams, estimating the real wealth of society and its potential to increase wealth in future periods.

Whereas the assessment team used a set of methods, the evaluation of company results in a fan of values that can be approached more or less than actual market value of it. Qualification and evaluators team experience influence on the value - in the proposed diagnostic evaluation Report. Important is that the amount proposed to be close as possible to the market value of the price that the market it would recognize in the trading company.

Regardless of the assessment methods used, *the information offered by the accounting information is the foundation of economic evaluation, plus other sources of information* to which the evaluators have access. Balance sheet, the profit and loss, changing the equity, the cash flows, accounting policies and notes reflect the decisions of managers and their effects on the situation at a given moment in time and evolution of the company.

The whole set of documents for review, only *information from the balance sheet* reflecting the assets whose form is not definitive and *profit and loss* reflecting costs incurred to produce or sell during the year, *subject to economic assessment of processing specific* . Evaluators can know the impact of change on the outcome equity balance studying and influence flows of income and expenditure of the results of analyzing the profit and loss.

Under the economic aspect the balance sheet provides information on the equity holders of heritage and how they were invested, under financial aspect reflected in financing resources for funding and how to use them. Whereas the balance sheet provides an accurate picture, clear and complete heritage, financial position and obtained results, the evaluators obtain information on the company's financial power, obligations and the effects of operations that can change, financial performance, how to obtain and use liquidity, etc.

In assessing certain economic assets in the balance sheet are either reworked or eliminated. Along with economic assets that have a positive economic value to society in the balance sheet included costs or values that were not included in the outcome of the year in which they occurred, in order to layout these elements in several years. The latter are non-values which are removed from the economic evaluation. Also among the assets to liabilities that represent financial resources for society, there are elements that have a negative value representing current or future obligations whose repayment involves waiving the economic benefits by paying some amount or an asset transfer. Reflecting the turnover, the nature of revenue and expenditures and operations that have generated, and final year result, the profit and loss enable performance measurement activity during a period. Since the diagnoses in financial accounting evaluators use static analysis and not dynamic one, information from the cash flows is not used by them, even when the use of valuation methods based on flows of cash flow (Treasury). In such situations, to forecast future cash-flow streams, assessors use formulas for calculating specific related objectives.

Whether methods of economic evaluation of a business deal or side property, or the profitability or efficiency, or more sides at once and the synthetic instrument which expresses the universal heritage and profitability is the company balance sheet, it can be affirmed that when evaluation question, *the starting point is the balance sheet or patrimonial.* Starting from the balance sheet that reflects a heritage values and to gain specific factors influenced the company, shall be drawn up[6]:

- *Financial balance* which highlights the relationship between the resources held by the company and use. Respecting the criteria on liquidity of assets and liabilities chargeability by correcting accounting information is to grouping in:
    - patrimonial asset items, depending on their length of time restraint
    - elements of patrimonial liability, according to the existence of their time

Financial balance assets include:

- *net property* , assets with duration longer than one year, represented by:
- fixed assets (tangible, intangible and financial statements for over a year);
- stocks fixed in a year;
- claims over one year;
- expenses in advance of more than one year.
- *current assets* ,respective assets with a duration less than a year, represented by:
- financial fixed assets under a year;
- current assets (excluding inventories, claims and expenses in advance of more than one year)

Balance sheet financial liabilities include:

Permanent equity, respective liabilities due for a period longer than one year, represented by:

- regulatory capital;
- debts and long-term;
- commissions for risks and expenses of more than one year;
- income in advance for over a year.
- *short-term debts*, respective liabilities payable under a year, represented by:
- debts under one year;

- commissions for expenses for a year;
- income in advance under a year.

This grouping of assets and liabilities allows the analysis of long-term fund assets, net of financing needs and available resources at a time.

- *Economic balance* that contains the same elements but tailored to the property market value and profit as a result of the normal operation of all factors of production company, so that assessors can estimate the capacity to liberate profit.

*Economic balance reflect the **flow of economic resources** from the balance sheet liabilities, **the funding streams** for purposes of balance sheet assets, grouped according to their **status accumulation cycles** (cycle of funding investment cycle) and **current cycle transactions** (operating and non-exploitation), to which the revenue flows and payments valued at the value of their home.*

Corrections of accounting information and grouping of assets and liabilities in terms of origin and destination, the economic balance sheet, allows analysis of flows and use resources according to cycles of their existing level of trade. To reflect the decisions initial assets are outlined in the rough value. Some off-balance-sheet items will be considered for correct use and flows of economic resources. Accordingly:

- ***Flows uses (allocations) stable (sustainable) are [7] :***
  - reflected in a gross value ;
  - *majority*: fixed assets financed by operational leasing and expenses in advance for fixed assets ;
  - *reduced*: a fall with the payments made to financial fixed assets and fixed interest financial.
- ***Flows uses (allocations) current are:***
  - *reflected* in a gross value;
  - *majority* fixed interest receivable on book debts, bonds and securities investment, receivable, expenses in advance (grouped by flows from operating and non-exploitation).
- **Constant flows of resources (sustainable)** are :
  - *majority* of payments made by financial fixed assets, depreciation on fixed assets, commissions for depreciation of fixed assets;
  - *reduced* interest bank loans debenture loans and long term.
- **Current resource flows** are:
  - *majority* on interest loans and debts into short, medium and long term deficiency effects expected at maturity, commissions for depreciation of stocks and treasury accounts.

    Reflecting decisions concerning:
  - *investment business, as flows stabile users;*
  - *the current activity, under current flows users;*
  - *business financing, in the form of resource stable flows and current debt, balance sheet reflects the economic dynamics of the company based on a model of "stock-flow", centered on gross values.*

Whatever form of presentation, *the balance represents the technical work, for the economic evaluation of the company.*

To determine the market value of the company, economic assessment should identify the economic and eco- financial characteristics of the most relevant of its weak points and strengths and to use the most appropriate methods for economic evaluation.

3 Bases of assessment for the items recognized in the financial situation

General accounting framework of the IASB for the preparation and presentation of the financial accounting model makes the assessment based on **historical recoverable cost and on the concept of maintaining nominal financial capital**.

The same framework provides that "the choice of valuation bases and the concept of maintaining capital determines accounting model used for the preparation of financial statements. Different accounting models presents different degrees of relevance and credibility and, as in other areas, management must seek a balance between relevance and credibility. "

Characteristics which legitimize the general (reference) assessment based on historical cost and recoverable on the concept of nominal financial capital maintenance are qualitative features presented below.

4 Alternate assessment based on historical cost

Romanian accounting regulations accepts also the alternative presentation in the balance sheet items from a different value than that based on historical cost.

Directive IV of the EEC states that Member States may authorize other methods of assessment than historical cost, such as:

- assessment based on replacement value of tangible assets whose duration of use is limited in time and stock. This expresses the consumption of funds to be made at the date of valuation to buy or obtain an identical or equivalent property ;
- assessment items presented in the annual accounts, including equity, based on different methods to those provided by letter a, designed to take account of inflation;
- revaluation of tangible and financial fixed assets.

The differences more or less between the assessment results conducted on the method used and the evaluation based on cost of acquisition or cost of production are reflected in the debit or credit account **105 "Revaluation reserves"**, as appropriate.

Table 1 Alternative assessment based on historical cost

Specification	Balance-sheet assessment cf IAS / IFRS	Cf. OMFP 1752/2005 Assessment	Inventatory evaluation cf. stocktaking rules
Intangible Assets	**IAS 38** **Basic treatment:** Cost adjusted to the amount accumulated depreciation and any accumulated impairment losses; **Alternative treatment:** Reassessed value determined under fair value at revaluation less accumulated depreciation and impairment losses.	Unless where has been an adjustment for depreciation or reduction in value, the value to be entered in the balance sheet for each item of property is the cost of acquisition or production cost	Property assessment is the value of their remaining outstanding, excluding those recorded as being impaired, which will be to assess their current value.
Tangible Assets	**IAS 16** **Basic treatment:** Cost adjusted to the amount accumulated depreciation and any accumulated impairment losses. **Alternative treatment:** Reassessed value determined under fair value at revaluation less accumulated depreciation and impairment losses	Evaluation rules-alternatives revaluation of tangible assets is made at fair value at balance sheet date.	In the case of tangible assets, the accounting value of the correction and bring them to the value of inventory listed in the inventory list is made by recording an exceptional depreciation, where an irreversible impairment, either through the establishment of provisions in case which is a relative impairment as a result of causes such as the emergence of a moral attrition that has not been taken into account when depreciation; overvaluation of tangible assets through the application of inappropriate factors when reviewing: their lack of utility in time inventory; other causes that determine a current value lower than the tangible value that they appear in the accounts.
Financial investments on long term	Are recorded in the balance sheet at one of the values below: a) cost b) assessed value c) if traded to the minimum of cost and market value determined for the entire portfolio (alternative available for marketable securities on the	Financial assets recognized as financial fixed assets shall be valued at cost or value determined by the acquisition agreement of them. Are presented in the balance sheet at the entrance less adjustments for cumulative loss in value. Notwithstanding the general rules provided for evaluation by OMFP 1752/2005 entities can assess the consolidated financial instruments, including derivatives, at fair value. Fair value is determined by reference to:	Titles (titles participation, immobilized securities business portfolio, investment securities, other securities) shall be assessed for those listed on the exchange value of their listing on the December 31, and those not listed on the likely sale. If the value of inventory is less than the amount by which it appears in the accounts, will proceed to the formation of adjustments for depreciation of such securities. In case that

Specification	Balance-sheet assessment cf IAS / IFRS	Cf. OMFP 1752/2005 Assessment	Inventatory evaluation cf. stocktaking rules
	market).	1. market value for those financial instruments that can easily identify a credible market; 2. a value determined by means of models and assessment techniques generally accepted ,as instruments that can not easily identify a credible market. Evaluation of alternative rules - " entities can assess the consolidated financial instruments, including derivatives, at fair value"	holds that value is higher than the sales value accounting, inventory list will be entered value.
Amounts	**IAS 2** Stocks in the balance sheet are valued at the lower value of cost and net realizable value	The value of assets recorded in the accounts will be equal to the cost or production cost of these items. If the value of a feasible net assets is less than the cost of acquisition or production cost, then the corresponding value achievable net assets is to be presented in the financial and asset value, less adjustments made. Value to be entered in the balance sheet for the category of assets in stocks and fungible assets, including financial assets, may be determined using any method such as: (a) FIFOmethod; (b) LIFOmethod; (c) weighted average cost method; (d) another similar method, recognized by the legal regulations in force.	Stocks should be valued in accordance with the principle of consistent methods, which methods and rules of assessment should be maintained. Material values will be assessed at their current value which will be entered in the appropriate column of summary inventory only in case of depreciation.
Financial investments on short term classified as current active	Record in the balance sheet is one of values:	Entity entering, short-term investments are valued at cost which means the purchase price or value determined under the contracts Exit of the management evaluation is done according to one of the following methods: FIFO, CMP, LIFO Depreciation of investments for the financial period , at the end of the financial year, when inventory on account of expenditure, reflects adjustments for loss of value. Securities short admitted to trading on a regulated market are valued by the stock of the last day of trading, while those non-transactional at historical cost less any adjustments for loss of value.	
Book debs and dues	Under IAS 39 the cost to liquidate all debts and liabilities non-transitioned and fair value for the	The amount is determined on the basis of their probable value receivable and billing; Value adjustments are made for assets in order to present them at the	Evaluation of claims and liabilities is usually likely to value their collection or payment, as is the case, adjustments for depreciation claims for increased debt and

Specification	Balance-sheet assessment cf IAS / IFRS	Cf. OMFP 1752/2005 Assessment	Inventatory evaluation cf. stocktaking rules
	traded.	lower market value or, in special circumstances to another minimum value attributable to the balance sheet date.	the amounts in dispute. Evaluation of claims and liabilities denominated in foreign currency is made at the reference to the NBR on December 31. Any differences representing latent gains or losses from this course are reflected in the accounts with the accounts of expenditure or revenue as appropriate.

To be recognized in the financial statements, financial instruments must be evaluated. This applies to all assets, liabilities and equity items. However, if financial assets and liabilities, determining the appropriate value for their registration is, for several years, a controversial issue, being subject to numerous and heated debates between advocates of historical cost and fair value supporters.

Traditional accounting model is based on historical cost. This is the value on an asset sale at obtaining data or a debt in moment of it development. This takes form of acquisition cost, production cost or nominal value, depending on how to obtain the item rated. Defining features of historical cost are certified and objectified, resulting in certification to the accounting documents.

It is the consequence application of accounting principles very much used in western practice, respective nominalism and monetary prudence, being taken in the EU accounting directives. Providing information about the balance sheet structures on procuring their cost: historical accounting firm oriented to the past. However, the economic purchasing power, interest rate etc.) on which the assessment is based are on a perpetual motion. For this reason, maintaining the same balance, over time, remove the accounting objective of "performance" faithful image. The solution found was to correct the historical cost through amortization and depreciation .However, they occur only if the value decreases, not in the growth. For the latter case (increasing value), in some countries, the revaluation is performed. But they are not sufficient to provide a real image of the entity.

Glossaries of financial terms defines fair value as a concept used in finance and economics, considered a rational and fair estimate of the market price of a good, service or financial asset, taking into account the following: costs of production / distribution, utility (for goods and services), performance (for assets) or market availability.

In the financial domain, it is considered to be two schools of thought regarding the relationship between market value and the fair one, mainly in relation to assets / financial liabilities:

- efficient market hypothesis, that in a market well-organized and informed, the market price is equal or nearly equal to fair value, as investors react immediately and appropriately to any external information;
- behavioral theory, which states that on the contrary, the market price is often very different from fair value due to the collective spirit and emotions of investors.

In accounting terms the most important standardization bodies (FASB, IASB) recognized for their orientation towards the capital market (whose values must be expressed and accounting), that promotes intense basic assessment, called a fair value.

Under Romanian law (IASB), this represents the amount that can be traded asset or a debt settled, voluntarily, between, parties to knowingly concerned, in a transaction in which the price is determined objectively. The concept appeared for the first time in the standards issued by the IASB, in relation to financial instruments. However, the fair value was present in American literature before the international standards appearance[8].

Origin of American fair value concept is explained by that term financial instruments have emerged in the U.S., where they witnessed a spectacular development[9]. Although references to this concept has existed since 1984, when he delivered SFAS 80 "Accounting for futures contract", which American Standard devoted to assessing the fair value as an accounting convention new evaluation of most financial instruments has been FASB Statement No 133 "Accounting derivatives and hedging activities" ("Accounting for Derivative Instruments and Hedging Activities"), appeared in 1998. Currently, many rules issued by the IASB and FASB containing references to fair value, so that on this basis are presented in the financial derivatives not only certain financial assets or financial liabilities held for trading, but also fixed assets and intangible assets acquired in a combination of businesses, impaired or revalued, assets held for sale, relating to debt payments on the shares, investment property, biological assets and provisions.

U.S. rules define the fair value of an asset as the amount that can be bought or sold in a current transaction (other than a liquidation), which takes place between the parties according to their will. On the other side of the balance sheet, the fair value of debt is the amount to which the debt is established or settled in a current transaction (other than a liquidation), the parties acting voluntarily.

The complexity of assessments to determine the fair value of the FASB to open in June 2003, a project appropriate, to establish a new conceptual framework for conducting the assessments required by existing standards and the desire to improve/detailed explanations of them. FASB proposes a new definition of fair value: an estimate of what price may be charged for an asset or paid for a debt in a current transaction between the parties are about, the independent and determined to complete the transaction on the reference asset/ debt. Definition essential coordinates are:

- this value is based on the principle of continuity of business, therefore the transaction in question is not a forced, but normal, being motivated by considerations of reflecting business and economic conditions existing at the time. Previous definition allows an appropriate marketing activities before the evaluation and a transition period for finalizing the transaction considered normal for that item;
- in the situation where there are no recent transactions in the market for the item evaluated ,is called a hypothetical transaction;
- contracting parties are buyers and sellers who are not related, known factors relevant to the asset / debt and transaction and have access to the same information, including that available in public, but not limited to it;
- the reference market is the most active market that maximizes the net amount received for an asset, that minimizes the one paid for a debt. In another vein, this term designates the most beneficial element evaluated in terms of the entity that is aimed at maximizing profits and its net assets. Market on which the greatest volume of transactions is realized with asset / debt in question is considered the reference. In the absence of an market the subject of evaluation is using a hypothetical, "built" on the basis of relevant asset/debt;
- characteristics and advantages of using the fair value can be presented best by comparing them with those defining historical cost, his powerful “rival". Fair value is based, primarily, on market prices, because they reflect the market assessment in relation to: the current value of future flows of treasury incorporated into element (calculated using current rates of interest);
- risk that the amount or appropriateness of such flows to differ from expectations. This operation enhances the objectivity and improves the informative value of financial situations prepared by the

entity. It can be said that, in practice, fair value is materialized in the market value of securities or derivatives thereof.

Controversy between followers of the two models of assessment has not started from the point that has questioned the relevance of information based on market prices. Bone of contention was and continues to be the time (the moment) which prices belong of users in the evaluation of accounting. While historical cost uses market prices of assets when obtaining or contracting debts, fair value in current use.

Schematic, qualities already listed in fair value, seen by comparison with the historical cost, are presented in the following table:

Table 2 Characteristics of the fair value and historical cost

Fair value	Historical cost
Provides information about the expected benefits of the assets or "difficulties" encountered as a result of debt incurred, in the current economic conditions. This enhances the usefulness.	Provides information about the expected benefits of the assets or 'difficulties' faced as a result of debt incurred in accordance with the economic situation at existing date of acquisition or contracting them. Their utility is lower.
Reflects the effects of management decisions to preserve the assets / liabilities or to take other things, the performance and financial position of the company.	Decisions reflect the purchase of assets or the contracting of debts, but it ignores the decision of keeping or an offset them.
Report gains and losses arising from changes in prices, when they occur.	Report gains and losses arising from changes of prices, when completed, through sale or settlement, even if they are not events that they have caused..

Source: Hague I., Willis D., Old price or new? CAMagazine, February, 1999

According to its followers, the positive features of the fair value are even more numerous. An example is the consistency of risk management of financial assets. Such a feature is that the use of fair value for the evaluation of financial instruments allows coverage for these risks, by presenting the potential gains and losses.

This is not possible for historical cost case, which has the effect of poor risk management and the emergence of significant losses. Fair value is only able to not reflect in the accounts of arbitrary management decisions, taken as a result of the opportunistic tendencies of a manager (the case of loss of value of investment already booked through the use of fair value, regardless of any decisions to sell later it, unlike the case of historical cost, where the devaluing is reflected in the accounts only to the actual sale, which may be a follow arbitrary decisions).

In connection with the management of financial assets, it should be noted that the fair value allows assessment of the management entity shall perform his duties, reflecting the different results obtained by different administration of the same by two investment managers. This helps to improve control over performance management.

In situation the use of historical cost, the change manager during the life of the investment does not record performance to differ from person to person.

It also, allows fair value accounting of the total values.

An example is that of derivative financial instruments, which do not appear in the balance sheet in terms of using historical cost. This feature is known under the name of integrity[10].

Table 3 Qualities and limitations of fair value

Qualities of fair value	Limits of fair value
Allows estimating future cash flows, which is highly appreciated by investors. (predictability)	Estimates can affect the credibility of information provided. If their use, and interpretation involved partiality of different factors taken into account may have the effect of masking deliberate mistakes and manipulation of figures.
For some elements (such as financial instruments listed) determination is very simple. (simplicity)	Most of financial markets do not have active markets. In these circumstances, evaluation is done through some quite complex techniques. They require the use of professional reasoning, which may result an increased lack of precision of evaluation...
Assessing similar items in the same manner, ensuring comparability of fair value accounting information.	In case of use evaluation techniques, assumptions and other elements made in calculating the fair value can vary from one company to another, which negatively affects comparability.
Using data from external sources (market prices),right fair value is independent of management decisions or the date of transaction (neutrality)	Only the values set on the basis of market prices are neutral and objective.

Certainly, the undesirable effect of using fair value is its high volatility, which can not be managed effectively (having negative consequences on financial and economic stability), and which represents a potential obstacle to reflect actual events, negatively affecting the image fidelity.

Listing on the market of financial instruments means "gathering" volatility in the entities accounts. In addition, volatility appears also in case of unlisted instruments, for which the assessment is made to the estimates. In the latter case, variability estimates or a model evaluation parameters selected, rather than the actual market, lead to volatility.

In these traits negative fair value plus its cost of production at all negligible for many entities, especially when assessing non-transactional elements active in a market. In this case, in determining fair value requires specialized persons who possess adequate education, including the standards of evaluation, but which seek higher fees. They may be employees of the entity (which situation is preferable if the fair value determination is made for the purpose of preparation of financial statements) or external (for evaluation purposes in listing companies, carrying out certain transactions or the value of knowledge in relation to the entity the competitors).

I reviewed both the strengths and the weaknesses of fair value. It seams that the first one are numerous and important. This means that, although imperfect, the fair value is closer to perfection than the rival its historical cost. However, *"chance"* that the traditional assessment, historic cost, to be completely replaced by the fair value is, at least so far, minimal. In support of this claim is that *"old"* historical cost emerged victorious, over time, in several attempts to replace it.

The most frequent supporters of the fair value call for its absolute use, for all balance sheet items. The moderate believes consider that it should apply only to financial instruments. But also in this situation, the views are different.

Some consider that only derivatives should be recognized initially and subsequently at their fair value. The others agree that this is the assessment most relevant where assets and liabilities traded in an active market, but the relevance of its use for evaluating the elements which the entity does not intend to deal is questionable. In this case, the history cost seems more relevant. As a result, the choice of the evaluation base must be made so as to obtain the value that reflects the best intentions of management in relation to the evaluated element (holding to maturity or sale / it settlement).

For' lawyers' of historical cost, if the assets / liabilities that the entity does not deal in current use does not provide fair value information about financial position and its performance, as reflecting the effects of transactions and events that the company did not participate. They say that, in this case, the realization and the concept of transaction, for the present, are replaced by continuous recording of the variation value of the assets and liabilities according to market developments. On the other hand, supporters believes that fair value in the current economic environment, very dynamic, changes happen very quickly.

They may affect the intention or the ability of an entity to maintain an asset / debt and cause the sale of the item, which is used for fair value. Omission of such changes adversely affects the performance of the company and to mislead the users of its financial situation.

In the near future, the use of fair value as a unique basis for assessment is quite unlikely, mainly due to strong opposition from representatives of financial institutions (especially banks and insurance companies). Specialists argue that banks can not be applied to most of the instruments used by financial institutions (example: bank loans) because they are not traded on liquid assets and the use of techniques to estimate the fair value in these circumstances, techniques based on internal models that use assumptions specific to each entity, seriously affect the comparability of financial accounting information. In addition, fair value is more appropriate for evaluating investments held on short-term (maturity of which is so close that the losses / gains are almost completed), which promotes speculation and "to throw supervisors into a fever" of the banking market.

These consequences which are held by the application of company management (like increased volatility, complexity and accounting information subjectivity) it cause them not to accept as a management and financial reporting.

According to studies, many users, though aware of the term does not concern the principle of valuation in accounting. In addition, they found the presentation of fair value information in the notes sufficient, not necessary use to assess the actual balance sheet items.

Our country has opted for a combination of the two assessment systems, but fair value is provided only for the exchange of assets and goods received for free (in economic agent case). Accounting regulations in accordance with EU Directives require the use of fair value for financial instruments, including derivatives, in the consolidated financial statements, under the same restrictive conditions as those contained in Directive fair value.

Therefore, it can be seen its use restricted, limited and the economic environment and legislative existing in Romania, characterized by the priority of legal rules privileges and tax to the detriment of economic, accounting mentality that does not support the new concept with all the implications, its poor development of capital market which is the main source for information on fair value, knowledge of evaluation standards, etc..

Although slow, the shift to fair value seems to be on long term, an unstoppable trend that more and more experts consider the best method for valuing assets. This situation is fueled by the pressures of normalization accounting bodies which intensely promotes standards mostly through which they develop. In this way, they hope to clarify many existing current concerns about the use of fair value.

Discussions on the controversial topic of using the fair value are far from being completed and will continue long because, in terms of accuracy, it is in the same area with "fair picture". Both concepts are constantly moving, influencing one to each other "and is of great topical issues. Given that dialogue is beneficial in any field, we hope that current obstacles will be overcome and will reach an agreement that benefit both producers and users of financial statements[11].

5 Provisions of accounting standards on fair value

The rules issued by the International Accounting normalization (International Accounting Standard Board - IASB) and U.S. (Financial Accounting Standard Board- FASB) on the fair value of financial instruments valued on this basis have, over time, evolving turmoil . Concerns on the development and application of rules relating to the new accounting model were found and the European Union adopted a part of the international standards Directive of "fair value".

Table 4 Evolution rules of IAS 39 relating to fair value

The original	Exposure draft	The revised
Published market prices quoted are normally the best basis for fair value. This can be determined by one of several generally accepted methods. Assessment techniques should incorporate assumptions that market participants are used in estimating fair value...	More clearly defined a hierarchy for determining fair value. The first are the prices listed on active markets, and recent market transactions, on third place are assessment techniques next, ultimately, for unlisted securities, the cost minus depreciation.	Recent transactions in the market are removed from the hierarchy and considered input links in assessment techniques used for inactive markets. Prices quoted, if any, remain in first place. Changes in the credit risk of a debt must be included in the fair value.

Legal privileges and tax to the detriment of economic, accounting mentality that does not support the new concept with all its implications, poor development of capital market which is the main source for information on fair value, knowledge of evaluation standards, etc[12].

Although slow, the shift to fair value seems to be long term, an unstoppable trend that more and more experts consider the best method for valuing assets. This situation is fueled by the pressures of normalization accounting bodies which promotes standards mostly through which they develop. In this way, they hope to clarify many existing current concerns about the use of fair value.

Discussions on the controversial topic of using the fair value are far from being completed and will continue long because, in terms of accuracy, it is in the same area with "fair picture". Both concepts are constantly moving, influencing one to each other" and is of great topical issues. Given that dialogue is beneficial in any field, we hope that current obstacles will be overcome and will reach an agreement that benefit both producers and users of financial statements.

The principles contained in the revised IAS 39 are based on a general assumption that fair value can be reliably determined for all financial instruments. This happens if:

- reasonable estimates of fair value for an instrument does not vary within a very large interval;
- probability estimates in each interval can be reasonably assessed.
- breach of these conditions significantly reduces the usefulness of a single assessment.

Aware of the difficulties encountered by accounting professionals in calculating the fair value of financial instruments, the international body has proposed a hierarchy of fair value by seeking to simplify the business of evaluating, structuring information used to determine its three levels. Schematically, this hierarchy is presented:

1. Active market - quoted price

2. Inactive market-assessment techniques

3. Inactive market - equity instruments

cost less depreciation

Active market - the prices quoted on an active market is the best evidence of fair value. The expression "quoted market prices" means that they are easily obtained and are always available, from various sources, because they represent current transactions, common market. Available price taken into consideration may come from the most favorable, even if the transaction actually took place not on the market.

Sources of information are the scholarships, trainers market, independent brokers, market analysts, rating agencies, independent services databases (such as Bloomberg). When prices can be obtained on multiple markets or more sources, the best indicator of fair value is the price derived from the source or the most active. If proxy information from sources other than grants, entities must verify the accuracy and credibility.

Published prices of companies, IAS 39 requires use of demand or price of purchase (bid prices) to evaluate long-long positions (respectively, the assets held or liabilities to be assumed) and the price or offer for sale (ask prices) for short-short positions (assets to be acquired and held debt).

When the entity has a portfolio of compensated transactions demand price or supply may be applied to the net open position and not each transaction individually. This provision, consistent marketing practices generally accepted, it is important for dealers to manage their portfolios and exposure to risk on a net basis[13].

The Council recognizes that there are (changing market conditions, forced transactions) in which current market prices are not available and the recent transactions are too "old." For them, IAS 39 allows for adjustments. However, these are prohibited in situations such as selling a large number of instruments of the same type (a set of tools) that would affect the price normally obtained on the market and obtain liquidity in the short term.

If the prices published are only available for parts of a financial instrument and not for the full, fair value is determined by the total sum of the partial.

A good evaluation technique incorporates all factors that market participants shall take into account in determining fair value, such as (IAS 39): rates of prepayments, the losses from loans, interest rates and discounts, time value of money, volatility, exchange rates or prices of goods. In addition, it must be consistent with accepted methodologies for the assessment of market financial instruments.

Assessment models can lead to obtain values which vary from very unlikely to accurate, depending on the complexity of the technique and the degree of difficulty of the assumptions used in the calculation. No model can not fully substitute the value of transactions offered on an active market, it is only a theoretical representation of the market[14]. Determining the fair value of this fashion led to a new concept, which joins the marking to market (mark-to-market), and the marking-based model (mark-to-model), all risks associated with a pattern.

International norm number 39 requires that assessment techniques to use as little data as internal and as many as possible market information. Since this requirement is that the use of models and where not all data are observable, but compliance with a condition: the assessment to be consistent with the determination of market prices.

Inactive market - equity instruments-typically, the fair value of such an instrument obtained from a third party, can determine a credible manner. However, where there may be no reasonable estimate of its, IAS 39 allows, as a last resort, to evaluate the cost minus depreciation. Similarly may be proceeding in the case of derivatives that are settled only by physical delivery of an instrument of unlisted equity.

Through the project started in June 2003, American shaper- FASB provides rules relating to fair value very similar to those of IAS 39. However, there are some differences. Thus, the fair value hierarchy is one that contains five levels used to estimate fair value and to describe three levels of information related explicative notes. This hierarchy is a ranking of the information (inputs) used in assessment techniques required to determine fair value rather than the techniques of evaluation itself.

Level 1 refers to the use of quoted prices for identical assets and liabilities existing on active markets of reference to entities that have access. These prices are readily available and representative of fair value and in situation that can't easily get them are replaced by an alternative method of assessing the market accepted, without the need to demote the next level.

Level 2 includes quoted prices for assets/liabilities similar on the market and adjusted to reflect differences between the measured elements and the market in question. Adjustments should be based on observable data that market participants would use.

Level 3 refers to observable market data that are directly related to the item rated. For example, information about interest-rate, volatility, credit risk and liquidity, yield curves, etc.

Level 4 includes market information related to valuation data in conjunction with the other bill.

Level 5 refers to the data entity representing its own internal estimates and assumptions. They use market information in absence.

Regarding the description of the fair value information, the presentation is encouraged at the end of the fair value determined based on quoted prices for identical assets/liabilities (level 1), direct market data (level 2 and 3) and the indirect (level 4 and 5).

Like any directive, and the fair value has left member states the possibility to choose between several options:

- either authorizing or requiring all entities or categories of entity to evaluate the instruments specified in the instrument at fair value;

- restraint authorization or order limiting the application of this accounting model only consolidated financial statements.

6 Fair value option

Despite many differences of opinion in relation to IAS 32 and IAS 39, accounting professionals are fully agrees that the use of several bases for assessing the financial means, in addition to an extremely complexity, and a volatility undesirable results. Using the fair value measurement of assets / liabilities and the cost to redeem others are evaluating the effects of the profit and loss considered unrepresentative for the economic situation of the entity applying the standard 39.

A solution for solving this issue lies in the application of accounting transactions for hedging risks. However, only certain hedging operations qualify for special accounting treatment, due to very restrictive conditions, which makes the problem of evaluating multiple bases, are not fully resolved. For this reason, accountant's shaper came with a new solution: the fair value option, introduced in the revised version of IAS 39 published in December 2003. Under it, an entity may designate, irrevocably, any financial asset or debt to its initial recognition, to be evaluated at right fair value, with changes in the recorded immediately in the profit and loss.

This aims to simplify some of the complex provisions of IAS 39, such as separation of embedded derivatives or natural compensations. In many cases, the fair value option is seen as an alternative to accounting transactions for hedging risk, often difficult to apply because of stringent requirements to be met.

Although well received at the date of issue variant revised IAS 39, fair value option and aroused dissatisfaction, especially among banks and insurance companies, with the possible negative effects of inappropriate use of the results reported. For this reason, the Council initiated a new draft amendment of IAS 39, in April 2004, on the fair value option. This option proposed limiting the use of certain financial instruments, while keeping unaltered its advantages.

Mandatory from 1 January 2006, the application of fair value option is expected to have a great impact on the entities results which carry a significant volume of transactions in financial instruments , and on financial institutions and in their banks. From this point, the Basel Committee of Banking Supervisor issued a guide to help supervisors in assessing how the bank implements policy for risk management and control strategies appropriate to the proper implementation, management, monitoring and reporting of fair value option. Through its, Committee does not aim to establish new accounting requirements, in addition to those issued by the IASB, but is considering issues of risk management and capital assessment, issues that do not conflict with the provisions of IAS 39. The guide includes specific recommendations grouped into two broad categories:

- supervisor's expectations about the fair value option;
- option of applying to banks only where the conditions laid down in IAS 39 on the form and economic substance;
- existence of a system of risk management appropriate before initial application and the option to operate throughout its use;
- use only option for financial instruments whose fair value can be estimated reliably;
- providing additional information to assist the supervisor in assessing the impact of using the option on the bank.
- policies assessment of risk management controls and capital adequacy;

- supervisors should assess whether the financial analysis of the customers by the banks consider the impact that the use of fair value option it has on them;
- supervisors should consider policies and risk management control procedures related to use of the option;
- supervisors should consider the policies of risk management and control procedures related to use of the option when setting capital adequacy;
- regulated capital should be adjusted with the losses / gains arising from changes in their credit risk as a consequence of choice for financial debts. With the necessary adjustments, most of these principles can be applied in the case companies.

Although there are views among experts that the fair value option adds a new alternative accounting treatment, the unwanted, the current accounting reference, most are agreed that it is a good solution for removing the volatility arising from the use of several models of assessment instruments .

A fair value amount more and more frequently used in accounting language and hope to exceed the limits of other bases of evaluation used for the preparation of financial statements. As defined in IAS network links *"fair value is the amount which can be changed or actively settled debt, voluntarily, between parties to knowingly concern in a transaction in which the price is determined objectively".* Why **fair value**, when we have a market value, as a method of evaluation, which is *the amount that can be derived from the sale or payable for the purchase of an instrument (financial) market active".* "But the absence of grants organized for all financial instruments between the lending and requires recognition of values other than market value and thus the fair value was set as a value equivalent to market value, while the latter does not can be defined due to a lack of stock market assets". However, as show the same author, the fair value concept has emerged as the financial instruments, having a different connotation. History of fair value leads to the conclusion that "fair value accounting becomes a model of assessment, its usefulness is mandatory for accounting of financial instruments, both on their input, and at a later time."

Moreover, in accounting theory, the fair values are attributed to a number of qualities such as: *utility, simplicity, low stiffness, consistent comparability, neutrality, predictability, full, relevance without losing sight of objectivity reduced.*

Without going into a debate and retaining reflection based "compared to historical cost, fair value has more advantages than it, so we can say that it is a flaw that still draws most of perfection." However, the fair value remains in its essence a **hypothesis**, so an assumption based on probability and not a mathematical theory in the sense of the element on which to develop a demonstration. Accordingly, fair value should be chosen as one of accounting estimates not only real and perfect, which may be retained in conjunction with other bases of evaluation.

7 Conclusions

Emphasize that all actions and regulatory harmonization in accordance with Financial Reporting Standards, the cornerstone for assessment and Romanian financial audit to be recognized at both European and worldwide.

To achieve this goal, we express the idea that it is appropriate that the national authorities, but first Romanian Chamber of Auditors, ANEVAR continue to show concern and needs in collaboration with specialists from the European Union and the world, and in terms of improving ongoing operational and regulatory framework for assessing the activity of our country.

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