THE FAIR VALUE – REPRESENTATION OF THE MARKET VALUE IN ACCOUNTING. TRENDS AND PERSPECTIVES IN ROMANIAN ACCOUNTING PRACTICE

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Abstract: *The market value, as a method of measuring the right value, also provides the highest objectivity due to the fact that it is based on information exterior to the entity, impossible to influence in any way. For the fair value of a product to be equivalent to the market value, a prerequisite needs to be followed: the market must be perfect, namely organized and active. In this case, the evaluation's type is market to market. In certain fields, the active's market existence is clearly difficult (for instance for the derived products or specialized, unique assets etc). In such situations – imperfect market – we will valorize that specific good by calculating its fair value by using an evaluation technique, an alternative technique in the absence of a price set by the market. There are two possible approaches: the first one belongs to the analogy method; the second approach belongs to valuing an asset using the modeling technique also known as market to model. The method of determining the value of an asset by analogy or similarity is theoretically valid, but in practice this is difficult, since the notion of similar characteristics is often difficult to establish and prove. This article proposes a valuation of the market value concept based on Romanian realities - legal, accounting practices in that area, and taking into account the existing fiscal limitations.*

Keywords: market value, fair value, comparison approach, the analogy method, identical or similar assets sales, the modeling technique.

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1. FAIR VALUE – METHODS AND CRITERIA FOR RECOGNITION

According to the financial theory, the value of an asset corresponds to the current value of future flows brought by that specific asset (use value). The instruments used for reflecting this value, at any given time, are the markets themselves. One essential condition must be respected: the market must be perfect, organized and active. If the requirement is respected, (after BARTH and LANDSMAN), an

asset's fair value is equivalent with its market value. It's the evaluation called *market to market* (assessment by reference to a market).

Market value therefore represents the selling price of an asset, if there is an active exchange market, accessible to everybody, for the category of items that includes the asset. An active market involves homogenous assets trading between the actors who are permanently present in this market – sellers and buyers – the large public being aware of the prices. In certain areas of expertise, it is difficult for an active market to exist (for example for the derived assets or specialized, unique assets) in these situations – imperfect market – we will value the asset by calculating its *fair value*. This fair or venal value can be defined as the price an asset can be exchanged for within a balanced trade. We are talking about estimation and not about an observation, as in the market value's case. As financial reporting standards stipulate *"the fair value is the sum for which an asset could willingly be exchanged between two informed parties, within a transaction with an objectively determined price"*.

Using an evaluation technique is an alternative assessment method, because of the lack of a price established on the market. There can be encountered two approaches:

- The first one belongs to the analogy method which involves resorting to the market value of a similar asset that has identical or at least similar characteristics to those of the asset under consideration;
- The second approach is valuing an asset with the modeling technique. The method of establishing an asset's value through analogy or similarity is, theoretically, valid, but practically this is difficult to realize, to the extent that the *similar characteristics* notion is, in most cases, difficult to establish and demonstrate. For measuring the fair value, the second approach uses a model available for the entity. Resorting to this kind of technique we can assert that we are in front of a *market to model* valuation (by reference to a model). *For many the fair value notion knows only one reality: the market value*. This, however, represents only one method of measuring the fair value, the one which provides the biggest objectivity because it is based on information exterior to the entity that cannot be influenced in any way.

However, where the asset's value cannot be identified from the market – in the case of those tangible productive assets as machinery and equipment more difficult to trade on active markets, one resorts to the modeling of the fair value – „*the value that can be obtained from selling an active within a transaction held under objective conditions between interested and aware parties*". In these cases it is

necessary to make analogies with recent transactions of the entity regarding similar assets, compliance with reasoning that will take into account variables as production capacity, operating state, age etc.

In accordance with the international norms [IASB, 2009] IAS 36 „ Impairment of assets" certain **recognition criteria** will be respected when estimating the fair value.

One first recognition criterion – starting point in the fair value's measurement – is presented by the 25th paragraph of IAS 36 „Impairments of assets" which considers that „*the best clue for an asset's fair value minus the selling costs is the price from a strong sale commitment within a transaction held under objective conditions, adjusted according to the marginal costs associated with asset disposal*".

In this case the fair value is established through reference to the asset's *market value*, the best clue being the price of a strong sale commitment recorded after a market transaction (Manea, 2007). The disposal costs are deducted from the market price.

Among disposal costs, there are:

- legal costs
- notary fees related to the sale (stamp taxes and similar charges)
- postage
- costs of bringing the asset in optimal conditions for sale
- travel costs etc

Example no. 1:

An office specialized in accounting and audit consultancy decides to renew the computer network, selling the old ones according to characteristics such as motherboard, processor, memory, hard disk, disk drive, etc. Note that there is a strong sale purchase agreement and, for example for a Dell Latitude D620 laptop, Core2 Duo 1.66 GHZ, 2048 DDR2, 60Gb Hdd the price is 1.350 lei, the charges related to the sale are 350 lei. The fair value minus the laptop's selling price is 1.000 lei.

In the same context, referring to the disposal costs and complying with the IAS 36 norms, „Impairment of assets" – paragraph 28 – there are not taken for granted those costs which have already been recognized as debts or those performed after disposal "*in determining the fair value minus the sale costs, the disposal costs are deducted, the other ones than those acknowledged as debts*". Likewise, if when as asset is disposed the buyer is forced to take a liability for it, the fair value will be corrected with the debt value that is ceded "*sometimes an asset's disposal may involve a debt assumption for the buyer, but only one fair value is available minus the selling costs both for the asset and for the debt*" (paragraph 29 of IAS 36 „ Impairment of assets").

Example no. 2:

A company has a facility available for sale, market price 230.000 m.u. At disposal the debt of 30000 m.u. is to be taken over by the buyer. Since the fair value did not take into account the value of the debt transferred to the buyer, this must be corrected with the value of the transferred debt.

For the assets traded on the market for which there are no strong sale commitments, the starting point for measuring the fair value is represented by the asset's market value, in accordance with paragraph 26's clauses which considers that "*if there is no strong sale commitment, but the asset is traded on an active market, the fair value minus the sale costs is represented by the asset's price on the market minus the asset's disposal costs. The corresponding price on the market usually is the auction price. When auction prices are not available, the most recent transaction's price may offer a starting point for estimating the fair value minus the sale costs, provided that there was no major change of the economic environment between the transaction's date and the estimation's date.*"

Example no. 3:

Returning to the first example, the consulting firm is supposed to lack strong contracts, but it has information from the active market belonging to the calculating technique – from local newspapers – and estimates the laptop's price at 1.150 lei, sale related expenses of 100 lei. In this case the fair value minus the sale costs is 1.050 lei. If for the Dell Latitude laptop there is no information on the computing market, but the selling price for some similar equipment is known – the price ranges between 800 lei and 1.000 lei, commissions for selling 80 lei – the consulting office can estimate the fair value starting from the upper limit (the computer is considered usable, in good working condition) thus: 1.000 -80 = 920 lei.

If information cannot be gathered from the computing market regarding the selling price of equipment similar in design to Dell Latitude, but the consultancy office has recently made a similar sale, the obtained selling price can be taken as a starting point for calculating the laptop's under review fair value.

The approach from the last example requires the recent selling price's analysis (or the selling offers) of fixed assets identical or similar to the one under review in order to reach an indication about its value (Manea, 2007); in evaluation it is known under the name of ***sales comparison approach***. Because it is usually difficult to find comparable assets identical to one concerned, corrections must be applied for the prices of fixed similar assets sold to ensure their comparability based on the differences between their essential characteristics called **comparison elements**.

The comparisons and adjustments (corrections) are based on elements taken from the market and they reflect what the buyers consider to be the causes of price differences that they are willing to pay. If comparable fixed assets are superior to the one analyzed in a certain characteristic, then their price is corrected downwards. If these assets' prices are inferior to the one analyzed a positive correction will be made. Ideally, when these kind of adjustments and assessments, the conclusions should be based **on identical or similar assets sales** (usually similar), **that have been traded on the market**.

Unfortunately, assets sales identical to that analyzed are rare. Practically, market analysis will reveal similar and not identical assets sales, and this represents the similarity analysis on which the authorized specialist bases his opinion on value.

Among comparison elements there are:

- ***the actual age and origin*** (one will try to adjust the actual comparable's age);
- ***the state (the condition)***: It is known that the differences in the asset's state (condition) affects the selling price of similar assets;
- ***the capacity***: Ideally, the comparable asset should have the same production capacity (or a close one) as the analyzed asset. Otherwise, there might be required the correction for the comparable asset's selling price for reflecting the capacity differences.
- ***characteristics (accessories)***: The specialist assessor should compare the analyzed asset with assets that have the same characteristics and accessories;
- ***the location***: The comparable asset's sale's geographical location may affect the selling price. Additionally even an asset's physical location, within a facility, may affect the selling price;
- ***the manufacturer***: The specialist assessor should, where it is possible, perform the asset's comparison with similar assets' sales realized by the same manufacturer;
- ***the parties' motivation***: This represents an important comparison issue, especially for big equipment. Specialist assessors should analyze and understand the buyer's and seller's motivation and the way it affects the analyzed asset's value;
- ***the price***: In many cases, especially for large properties, the transaction's price should be investigated and expressed in monetary terms (cash);
- ***the quality***: The comparable asset's quality should be equivalent to the analyzed immobilization. Otherwise, the specialist should either give up to the comparable asset, or perform an adequate adjustment;

• ***the quantity***: Unit prices may vary considerably depending on the sold quantity, which will also be correlated to the market conditions: a buyer's market suggests some important quantities' availability whilst a seller's market suggests a limited quantity

• ***sale date***: The specialist assessor should obtain information about sales recorded in a reasonable period of time compared to the analysis' date. This is important especially in the case of unstable markets. Theoretically, comparable sales should be close to the analysis' date, but these are not always easily obtained. When these kind of sales are recorded beyond the "reasonable" period of time, but they must be taken into account, the specialist should account for this fact and make the adequate adjustments, because the pieces of information have a low level of interest;

• ***the sale type***: The sale's type and terms indicate different levels of prices related to different marketing methods (hence value's premises).

Generally, the sales comparison method can be used for any of the value's premises, at any marketing form. If the prices before the beginning of the transactions would have been declared, the result could be the market value. If the auction sales would be considered as a point of comparison, the result could be the forced liquidation value.

The sales comparison approach or the ***modeling technique*** is not applicable when the concerned asset is unique. Even when the asset is not unique, the approach is not applicable if there is not an active market for that element. An inactive market, or one where there is a limited number of sales comparable with the concerned asset, often indicates a lack of demand as well as economic depreciation: where there is an inactive market, the analyzed element could be more adequately assessed through **the analogy method** according to paragraph's 27 clauses of IAS 36 norm "*if there is no strong sale commitment or the asset is not being commercialized on an active market, the fair value minus the sale costs is calculated based on the best available information regarding the sum the company can obtain when the evaluation is made from an asset's disposal within a transaction held under objective conditions between interested and aware parties, after the costs related to the disposal are deducted. To calculate this sum, recent transactions' results with similar assets from the same branch will be taken into account. The fair value minus the sale costs does not reflect a forced sale, except in the case where the management is coerced to sale immediately.*"

Consequently, it is possible for the fair value to be determined even if the asset is not traded on an active market. In these cases, the company will analyze the available information regarding the possible past transactions, with similar assets, with known market selling prices; as well, if there are offers made

for similar assets and the prices are situated at approximately close values, there can be made an estimation for the fair value minus the selling costs. This way, especially for those productive tangible assets as machinery and equipment that are harder to trade on active markets, there must be performed analogies with the company's recent transactions regarding similar assets, complying with reasoning which will take into account variables such as production capacity, operating state, age etc.

According to the American Standard FAS 157 market information examples are:

- market prices (finished transactions' prices, demanded or offered prices), adjusted if necessary;
- information regarding the interest rate, changes in production (activity), its volatility, the speed of receivables and trade payables, the unpaid debts' rate, the size of losses, the credit risk, liquidity and currency exchange rates;
- general and specific information regarding credits or other relevant statistics (industry and other sectors).

Returning to ***the sales comparison approach***, pertinent questions arise: how is market information obtained and from where?

How is market information obtained: one way to obtain market information is to contact used equipment dealers, who know the analyzed type of equipment, in order to find out recent selling prices or current demanded prices. It is preferable to have a relation with more than one dealer in order to ensure coherent information.

Where can one obtain market information:

- used equipment dealers;
- new equipment dealers;
- sales brochures;
- private sales.
- auction sales.

New and used equipment dealers are good information sources. If a customer bought a mechanical device from a used equipment dealer, this would be a good piece of information. Even more, that dealer can be very cooperative in providing information. The specialist assessor should ask the customer's permission to contact the dealer who sold him the equipment because the customer could disagree with communicating the sale information, especially if the dealer has relations with his competitors (Manea, 2007). The information obtained from the market will be used by the specialist to

shape the analyzed asset's value; in igts simplest form, the representation of the sales comparison method implies the relation:

The immobilized comparable asset's price +/- corrections = The analyzed immobilized asset's price

To determine the price more methods or techniques are used, as follows:

- *the identification method;*
- *the assimilation method;*
- *the percentage of the cost method.*

The identification method. This technique establishes an immobilized asset's value by comparison to *an identical one* that has a known selling price. A possible example could be the price for a forklift with known manufacturing, model, age, capacity and condition. In this case there are usually used specialized guides.

The assimilation method. This technique establishes the value relying on the analysis of some assets that have *key parameters close in size*, but not identical (therefore, similar assets), using a measure of utility (size, capacity etc) as a comparison point. For example, an assessor cannot find sales for a engine lathe manufactured by the Company A, but he finds sales for some lathes with the same size and condition, manufactured by the Companies B and C. As a result, comparable lathes sale can be used, but the assessor must correct the differences from the subject.

The percentage of the cost method. This technique is nothing but establishing the ratio between the selling price and the current gross cost of an asset on selling date. With enough information, a specialist can make statistical analysis and he can establish relations that appeared on the market between the age, the selling price (or the asked on) and the price of a new one.

Example no. 4:

The ALFA Company has an equipment for which it must established the market value through the sales comparison method; for this, people resort to a specialist assessor's services, who, following the information provided by the manufacturers and new or used similar equipment dealers, has drew the following grid market for three sold equipments:

Figure 1 – Information gathered form the market

Elements	Equipment 1	Equipment 2	Equipment 3	Equipment to assess
Sale date	6 months	1 year	2 years	
Age	5 years	5 years	5 years	5 years
Condition	Medium	Excellent	Medium	Medium
Capacity	1.000 units	800 units	800 units	600 units
Accessories	Standard	Standard	Standard	Standard
Selling price	13.000 €	12.000 €	10.000 €	

Source: Manea M., Measurement and evaluation of depreciation to the assets, Academic Book Publishing, Bucharest, 2007

To perform the required corrections, the necessary pieces of information are: the prices increased by 10% a year in the last 2 years; the correction for the capacity differences is 9% for each difference of 200 capacity units; the correction for each condition (state) difference is 10%; therefore between the medium and good correction, the correction is +/-10%.

Corrections and adjustments must be done for sold equipments, where their characteristics are superior to the evaluated one, their price will be corrected downwards, respectively if their characteristics are inferior to the analyzed equipment a positive correction will be made, as in the following chart:

Figure 2 – The market value's modeling through the assimilation technique

Elements	Equipment 1	Equipment 2	Equipment 3	Equipment to asses
Sale date	6 months	1 an	2 years	
Sale's date correction	+2,5%	+5%	+10%	
Age	5 years	5 years	5 years	5 years
Age correction	0	0	0	
State	Medium	Excellent	Medium	Medium
State correction	0	-10%	0	
Capacity	1.000 units	800 units	800 units	600 units
Capacity correction	-18%	-9%	-9%	
Accessories	Standard	Standard	Standard	Standard
Accessories correction	0	0	0	
Total correction (% selling price)	-15,5%	-14%	+1%	
Selling price	13.000 €	12.000 €	10.000 €	
Selling price correction – net	10.985 €	10.320 €	10.100 €	

Source: Manea M., Measurement and evaluation of depreciation to the assets, Academic Book Publishing, Bucharest, 2007

The assessor has established a selling price of 10.900 € for the analyzed equipment.

Example no. 5:

The market value for a *group of assets* needs to be adjusted [Manea M., 2007] at a client's request for a complete line of vacuum plastic injection, 1985 ABC, model X. The specialist assessor has information from auction sales for three comparables A, B and C, as in the following table:

Figure 3 – Information gathered from the market

Elements	Comparable A	Comparable B	Comparable C	Complete injection line
Age, years	7	4	10	5
Condition	Good	Excellent	Poor	Excellent
Production/min. pcs	750	600	500	1.000
Auction price	10.000 €	12.000 €	7.000 €	

Source: Manea M., Measurement and evaluation of depreciation to the assets, Academic Book Publishing, Bucharest, 2007

The correction for each condition (state) difference is 7%, and for each 50 production pieces it is 2%. Each year from the age presupposed a correction of 3%.

Figure 4 – The market value's modeling through the assimilation technique

Elements	Comparable A	Comparable B	Comparable C	Complete injection line
Age, years	7	4	10	5
Age correction	-6%	+3%	-15%	
Condition	Good	Excellent	Poor	Excellent
Condition correction	+7%	0	+14%	
Production/min. pieces	750	600	500	1.000
Production correction	+10%	+16%	+20%	
Total correction	+11%	+19%	+19%	
Auction price	10.000 €	12.000 €	7.000 €	
Auction price correction	11.100 €	14.280 €	8.330 €	

Source: Manea M., Measurement and evaluation of depreciation to the assets, Academic Book Publishing, Bucharest, 2007

The assessor establishes for the group of assets an auction price of 14.700 €.

It is noted from the above exemplifications that when the professional expert does not have market information or these are combined with information from outside the market, the evaluation process requires the assessor to perform an adequate and relevant research, to carry out competent analysis and extract reasonable conclusions that can be sustained. Not any kind of data is accepted in this process, but all pertinent data about the market should be taken into account, as well as the tendencies and the comparable transactions and other pieces of information. If market information is scarce or inexistent (as in the case of certain specialized equipments), the specialist assessor must explain the situation adequately (in an open manner) and stress the fact that, due to scarce information, the estimation is, to a certain extent, limited. All evaluations need the professional assessor's judgment; however the assessment report must show that he has founded the market value on market records or that the estimation has been based more on the assessor's judgment, due to the asset's specialized nature or due to the lack of comparable market data.

If we exclude the directions mentioned above for shaping the fait value starting from existing market information, one can draw the conclusion that, for the time being, within the International

Financial Reporting Standards the notion of fair value is widespread without reference to any detailed statement regarding its application. Likewise the Romanian legislation makes no reference to specific methods of measuring the fair value; the only data we can gather in the area of Romanian practice come from the professional assessors' experience. On the other hand, the American legislation indicates, through FASB three levels for the fair value, the uppermost are the market transactions that can be noticed for the same type of assets, the second level represents market transactions for similar assets, and the thirds level is formed of using models with the same market contributions or with a different base. When the fair value is used, the entity must present the level that has been used, as well as the model, in the third level's case.

In addition to modeling the fair value starting from the entity's best information from the market where the asset is traded - according to the sales comparison approach, respectively the approach belonging to the analogy method – establishing this aggregate is also made through other processes. Therefore, IAS 16 norm "Tangible assets" considers that "*if there are no market data regarding the fair value because of the specialized nature of the item of tangible assets, and the element is rarely sold, with the exception when it represents part of a continuous activity, an entity may need to estimate the fair value by using an* ***approach based on income or replacement cost depreciation***". In these conditions, the fair value's measurement will be performed based on the calculations executed by the assessment qualified specialists. However, since this material is not focused on exploring this aggregates, we will further concentrate on the fair value's modeling treatment according to Romanian accounting practice based on the market value.

2. THE FAIR VALUE APPROACHING THE ROMANIAN ACCOUNTING PRACTICE

The Romanian accounting system has undergone a radical change in recent years, but concerns for Romanian accounting's improvement and development continue. A variety of endogenous and exogenous factors demands that, in a world of globalization, the professional accountants know IFRS. At the same time, in order to maintain the general objective of making a common framework available for managers and financial analysts, framework that is internationally liked, for preparation and presentation of financial statements, the professional accountants have the mission to bring their contribution to the development of accounting policies that will transform the accounting into an essential management tool. Starting from these considerations, the challenge issued by the study of the

IAS 16 standards "Tangible assets" and IAS 36 "Impairment of Assets" sustains the convergence efforts in accounting.

And, although Romanian accounting has recorded a significant legislative progress by taking over concepts and definitions from standards, at times even to identification, Romanian standards do not offer many alternatives, maintaining the normative strictly explained character that does not allow choosing an accounting treatment or applying a politic established through professional judgment correlated with the standard's requirements. The state of dialogue between accounting rules and accounting policies, between freedom to choose accounting procedures and the obligation to provide users with relevant and reliable information has not been identified yet.

In this context, in the last years the initiative of generalizing the fair value as an evaluation criterion of all fixed assets has become more significant. However, the path to the fair value will have to go through the difficulties of the modeling, which can be incorrect either when formulating the hypotheses, or during the process of choosing the parameters. If modeling the fair value would involve only the contribution of the market value, data gathering – for the perfect markets – it wouldn't generate such a high subjectivity level for obtaining the value. But since, in most cases, as a consequence for the lack of an active market, the fair value is estimated by using alternative assessing methods, errors may occur when choosing work parameters. Without trying to go through the steps of modeling the fair value through the approach based on the income, for example, we mention here difficulties for measuring at least the following parameters:

- the estimation of the annual net operating income which must be the income that a medium investor expects to obtain and not the income a certain investor can obtain;
- determining the discount rate required by investor;
- estimating the residual value of the asset at the end of life.

And since the necessary information to establish these parameters are not, in most cases, available for the Romanian accounting professionals, the fair value's modeling through the approaches based on models with same market contributions are found only on a theoretical concept level.

For Romania the fair value is still new. It is difficult for the professional accountants to clarify it on a conceptual level – as it will be seen from the research performed in this material – but even more problematical is its practical application. Regarding this matter, there can be noticed an attitude of reticence justified in the academic and professional environment in connection with the possibility of

introducing an accounting system including the fair value, or, why not, based on the fair value. What could be the excuse for this behavior?

Mainly, the system focused on the fair value as a management representative based on value, is directed towards maximizing the shareholders and creditors' fortune. Under the circumstances of the Romanian instable economical environment, where the bankruptcy phenomenon is manifesting strongly for too many entities, does the concern of protecting these shareholders and creditors even exist? Since he brought funds as well, will the minority shareholder be granted protection and will his economical interests be pursued? Is it possible, in the Romanian economy, to obtain an accounting support guaranteeing to the minority shareholder the profitability corresponding to the invested capital and the risks he has taken? Here are so many questions that must be answered by the Romanian economical environment.

Carrying on with the idea of the minority shareholder's protection, the Romanian accounting should find the best solution for evaluating the patrimonial items mirrored in the financial situations at the lowest cost from the historical cost and the fair value. At the time being, in Romania, at least on a conceptual level, a combination of the two systems has been adopted – historical cost and fair value, with an important significance for the former. Beyond the conditions of the accounting regulations, putting into practice the system based upon the fair value remains a necessity rather than an actual fact.

How did this situation come to be, actually? One possible explanation would be that, for the moment, too many hindrances are restricting the applicability of the concept, such as [Deaconu A., 2009]:

- a profound study and theoretical reflection rather poor for the alternative methods of evaluation in accounting;
- the insufficient theoretical development of the fair value concept by not knowing in practice its succesive modelling stages;
- the scarcity of information on the market, as a result of the imperfect economical conditions;
- the opacity and lack of vision of the professional accountants who are not willing to accept the change of a familiar, easy to work with evaluation system, with another, more complex one that requires alterations and estimations difficult to achieve;
- the Romanian present accounting system's reduced ability to apply evaluation at a fair value, which requires specialised professionals – usually, the fair value is the evaluators' attribute.

Concerning the last point, only a few entities can afford hiring a professional evaluator, respectively creating a specialized department because this implies a sustained financial effort. Using outer consultants is not an option for Romanian companies either, especially during this crisis period. This is why, in our opinion, if professional accountants would have the necessary expertise, they could successfully shape the fair value, at a minimum cost for the entity for which they are providing accounting services. Additionally, ensuring the estimation's objectivity can be guaranteed through the ethical standards provided by an accredited organism to which that specific professional accountant has adhered.

CONCLUSIONS

For any Romanian accounting professional who is in an advanced stage to understand international accounting standards, it is easy to realize that they are based upon recognition and measuring principles. Recognition is the process of incorporating an accounting element in an entity's financial situations. After taking the recognition decision, the element's value must be measured, as an operation prior to its inclusion in the balance sheet or profit and loss account. The Romanian assessing practices of historical costs have ceased to comply with the ever complex necessities of the entities that are coerced to adapt to an economical environment that is always changing. In this context, it is necessary to apply the concept of fair value in the Romanian accounting practice.

Under the conditions of an active market, the fair value actually is the market price. In other words, when the markets' existence is not questioned, and they are efficient, an asset's fair value theoretically corresponds to the actual value of a suite of cash flows expected from the element in question in the future. On the other hand, when the markets' inexistence is questioned, or when these exist but they are inefficient, the fair value must be calculated which presupposes determining it based on a forecast model.

The detailed presentation of the fair value's modeling methods – with the examples mentioned above, represents an additional working tool available for the professional accountants, who have another item for the effective implementation of the provisions of IFRS standards. Although borrowed from assessing, these can be applied by other professionals than the assessing ones, while following the working steps mentioned above. The fair value's modeling through the presented options will stop representing in the future only the professional assessors' privilege. Although they are the ones who

mainly have a mix of information which the subsequently subject to modeling in order to estimate the fair value, we foresee a larger acceptance from the professional accountants regarding the practical use of the IFRS provisions. This and due to the fact that Romanian entities, under the present conditions of profound economic crisis will not afford to solicit external expert assessors every time they need to establish fair values for patrimonial items, even less to establish a specific assessing department which involves serious costs. However, there are some limitations, such as: the lack of motivation of the professional accountants to measure the fair value and as a consequence of the fiscal limitations that restrict the practices liked by international standards. In our book, the Romanian entities will be able to measure up to the international accounting practices in measuring the fair value even if they will have to overcome some limitations and constraints.

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