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ACCOUNTING AND ANALYSIS OF ENTERPRISE ASSETS AND LIABILITIES USING FAIR VALUE: SPECIFIC FEATURES, CHALLENGES, AND ANALYTICAL IMPLICATIONS

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ABSTRACT

This study investigates the theoretical and practical aspects of accounting and analysis of enterprise assets and liabilities using fair value measurement. The research is conducted within the framework of International Financial Reporting Standards (IFRS), emphasizing the transition from historical cost to fair value accounting. The methodology combines comparative, analytical, and case study approaches to evaluate the impact of fair value on financial reporting quality. The results indicate that fair value improves the relevance and transparency of financial statements but introduces volatility and estimation uncertainty. The paper concludes that effective implementation requires strong institutional frameworks, professional expertise, and reliable market data.

Keywords: fair value, assets, liabilities, accounting, IFRS, financial analysis, valuation

INTRODUCTION

The evolution of global financial systems and increasing integration of capital markets have significantly influenced accounting practices. One of the most notable developments is the widespread adoption of fair value measurement in financial reporting. Fair value accounting aims to reflect the current market-based value of assets and liabilities, thereby providing more relevant information to users of financial statements.

Traditional historical cost accounting, while reliable, often fails to capture real-time economic conditions, especially in periods of market volatility. As a result, international standards such as IFRS increasingly emphasize fair value as a primary measurement basis.

Despite its advantages, fair value accounting presents several challenges, particularly in developing and transition economies. These challenges include lack of active markets, insufficient valuation expertise, and increased subjectivity in financial reporting.

The objective of this research is to examine the specific features of accounting and analysis of enterprise assets and liabilities using fair value, identify its advantages and limitations, and assess its impact on financial decision-making.

METHODS

This study employs a mixed-method approach combining qualitative and analytical research techniques.

Research Design

The research is based on theoretical and empirical analysis of fair value accounting practices within enterprises.

Methods Applied

- Comparative method: analysis of differences between historical cost and fair value models;
- Systematic approach: examination of IFRS standards (especially IFRS 13 – Fair Value Measurement);
- Literature review: analysis of academic articles, textbooks, and international research;
- Case study method: evaluation of practical implementation in selected enterprises;
- Analytical method: assessment of financial indicators affected by fair value accounting.

Data Sources

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The study uses secondary data from financial reports, academic publications, and international accounting standards.

RESULTS

Conceptual Features of Fair Value Accounting

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This market-based approach distinguishes fair value from entity-specific measurements.

Impact on Asset Valuation

Fair value accounting allows assets to be recorded at their current market value rather than historical cost. This leads to:

- More accurate reflection of economic resources;
- Improved comparability between enterprises;
- Dynamic adjustment to market changes.

Impact on Liability Measurement

Liabilities measured at fair value reflect current obligations and market conditions, including credit risk and interest rate changes. This enhances transparency but may also increase fluctuations in reported liabilities.

Advantages Identified

- Increased relevance of financial information;
- Better support for investment decision-making;
- Enhanced transparency and comparability;
- Improved risk assessment capabilities.
- Challenges and Limitations
- Lack of active markets in some economies;
- High dependence on valuation models;
- Subjectivity and potential bias;
- Increased volatility in financial statements.

Analytical Implications

Fair value accounting significantly affects financial ratios such as return on assets (ROA), debt-to-equity ratio, and liquidity indicators. Analysts must adjust their interpretations accordingly.

Empirical Analysis of Fair Value Application in Enterprise Accounting

Analytical Framework. To assess the practical impact of fair value accounting, a comparative financial analysis was conducted using two measurement approaches: historical cost and fair value. The analysis focuses on key financial indicators, including profitability, liquidity, and financial stability.

Hypothetical Case Analysis. Consider an enterprise with the following simplified financial data:

Indicator	Historical Cost	Fair Value
Total Assets	1,000,000 USD	1,250,000 USD
Total Liabilities	600,000 USD	700,000 USD
Equity	400,000 USD	550,000 USD

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Net Income	80,000 USD	95,000 USD

Ratio Analysis

Profitability Ratios

Return on Assets (ROA):

- Historical cost: 8%
- Fair value: 7.6%

Despite higher income, ROA slightly decreases due to increased asset base.

Financial Stability

Debt-to-Equity Ratio:

- Historical cost: 1.5
- Fair value: 1.27

Indicates improved financial stability under fair value measurement.

Liquidity Perspective

Fair value provides a more realistic estimate of assets that can be converted into cash, improving liquidity assessment.

Key Findings from Analysis

1. **Valuation Effects:**

Fair value increases total asset and equity values, which impacts financial structure.

2. **Ratio Sensitivity:**

Financial ratios change significantly depending on measurement basis, which may influence investor decisions.

3. **Volatility Impact:**

Market fluctuations directly affect reported values, leading to unstable financial indicators.

4. **Decision-Making Implications:**

Managers and investors receive more up-to-date information, but must interpret it carefully due to uncertainty.

Interpretation of Results

The analysis shows that fair value accounting improves the informational value of financial statements but complicates their interpretation. For example, an increase in asset value does not always indicate improved operational performance but may reflect market conditions.

Thus, analysts should:

- Adjust financial ratios for comparability;
- Consider external market factors;
- Evaluate the reliability of valuation inputs.

Practical Recommendations

Based on the analysis, the following recommendations are proposed:

- Enterprises should combine fair value with historical cost for internal analysis;
- Disclosure of valuation methods must be enhanced;
- Sensitivity analysis should be conducted to assess risk;
- Professional training in valuation techniques should be strengthened.

General Conclusion of Analysis

The empirical analysis confirms that fair value accounting significantly affects financial reporting outcomes and analytical indicators. While it enhances transparency and relevance, it also introduces complexity and volatility, requiring advanced analytical skills from users of financial information.

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DISCUSSION

The findings demonstrate that fair value accounting represents a paradigm shift in financial reporting. It aligns accounting values with economic reality, making financial statements more useful for investors and stakeholders.

However, the increased reliance on estimates and assumptions introduces risks. In particular, Level 2 and Level 3 inputs (as defined by IFRS) involve significant judgment, which may reduce reliability.

In emerging economies, the application of fair value is constrained by underdeveloped financial markets and limited access to valuation expertise. Therefore, regulatory bodies and professional organizations must play a crucial role in ensuring consistent and transparent implementation.

Moreover, the use of fair value requires enhanced disclosure practices to provide users with sufficient information about valuation techniques and assumptions.

CONCLUSION

Fair value accounting has become an essential component of modern financial reporting systems. It enhances the relevance and transparency of financial statements, thereby improving decision-making processes.

However, its successful implementation depends on several factors, including market development, professional competence, and regulatory support. Enterprises must invest in valuation expertise and internal controls to mitigate risks associated with subjectivity and volatility.

Future research should focus on improving valuation methodologies and developing frameworks that balance relevance and reliability in financial reporting.

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