

Chapter 2

International Business Valuation Standards: Accounting Perspective

Saad Salman Awad Almeant

University of Baghdad, Iraq

ABSTRACT

Despite the existence of International Valuation Standards (IVS) and Financial Reporting Standards (IFRS), countries that have transferred to adopting IFRS face the large challenge of the difference in interpretation and application of the standards. Because they include various concepts, bases, and approaches for valuation and measurement, and although there are common objectives for each of the International Valuation Standards Council (IVSC) and International Accounting Standards Board (IASB), each works independently and has their own objectives and different target groups. Thus, more improvements are needed to consistently apply valuation and financial reporting standards. This chapter compares and converges the concepts, bases, and approaches adopted by the IVSC and the IASB to increase consistency in valuation practices for financial reporting purposes and to create bridges between accountants and auditors and professional valuers.

INTRODUCTION

Valuation standards have a significant role to play in helping to harmonize professional practice at domestic and global levels, and are widely used and reliable in domestic and international financial markets, to be included in the financial statements of listed companies in those markets, or to support secured lending, acquisition and merger transactions (Adair et al, 2014). The International Valuation Standards Council (IVSC) promotes leading practice approaches for the conduct and competency of professional valuers. The International Valuation Standards (IVS) issued by (IVSC) also are standards for undertaking valuation assignments using generally recognized concepts and principles that promote transparency and consistency in valuation practice (IVSC Framework, 2017). Although these standards are not geared to

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financial reporting only, however, one of IVSC's objectives is to help reduce differences in how companies and auditors are integrated in different countries and apply IFRS, particularly to enhance consistency in the measurement of assets and liabilities for the purposes of financial reporting purposes (IVSC, 2014).

Despite the existence of financial reporting standards and valuation standards, the large challenge faced by countries that have transferred to adopting International Financial Reporting Standards (IFRS) is the difference in interpretation and then in application. If preliminary studies were found in European countries (for example) that adopted (IFRS). As of 2005, allows companies to subsequently measurement choose between the fair value model and the cost model for investment property. Although the entity is must use a single model for all of its investments, but if the fair value cannot be determined reliability and on a continuous basis, the investments are measured using the cost mode (IAS40.para.32-A), Thus, the entity can maintain investment property, some of which are measured at fair value model and others are based on the cost model. The researchers found that the measurements were clearly different, and the main reason of this difference is that there are multiple references to the valuation of (up to ten references in the European countries) (IVSC 2007). On the other hand, the application of fair value has resulted in significant fluctuations in the amounts of assets and liabilities, and then effected on relevant and reliability of accounting information provided to users (Abdulluhi & Maaji, 2016) (Gokcen & Terman, 2018), and that different valuation practices may provide different results because of the different inputs used and the adjustment to this inputs (Aurora & Bontes, 2013). However the (IASB) believes that financial reports are not designed to show the value of a entity; but they provide information (indirectly) to help existing and potential investors, lenders and other creditors to assess the value of the entity (IASB, Framework 2018:para.1-7), in the other words Accounting provides information as input to users' own decision models, rather than providing a decisive valuation (Whittington, 2010:104). Thus, we need to make additional improvements towards application consistency of valuation and financial reporting standards. The core questions that this chapter attempts to answer are: Is there a relationship between (IVS) and (IFRS)? Or are (IVS) a prerequisite for adoption of IFRS? And whether their use together serves to valuation the business, assets and liabilities of the entity in real values?

BACKGROUND AND PRIOR STUDIES

(IVSC) founded in 1981, is a non-governmental, non-profit organization working in cooperation with other international bodies such as the World Bank, the Organization for Economic Co-operation and Development (OECD) and the (IASB). The main purpose of (IVSC) is to standardize valuation standards around the world by creating a set of bases and approaches that apply in all countries, and that support transparency for international investors. The IVS basis is therefore broader in comparison to domestic standards such as the United States valuation standards (Spies & Wilhelm, 2005: 6) If we consider that the valuation corresponds to the measurement in financial reporting, the roots of the bases of valuation exist in accounting as there are several themes within literatures on current/ cost value based accounting. One theme calls for adjusting historical cost data (general purchase power accounting) to reflect change in general price level. This theme has its root in the work of German theorists, (Mahlberg, Schmalenbach, and Schmidt). This theme also developed in U.S.A by Sweeny (1933). Another theme adopting a current replacement cost approach, also has roots in the work of Schmidt, and was subsequently popularized by Edward & Bell (1961). The current value theme was advocated by Chambers (1966), Sterling (1970), and others (Lawrence et al, 1995: 173). On the professional side, the (IASB) has set out in its conceptual

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