MIDLANDS STATE UNIVERSITY
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING

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The undersigned certify that they supervised the student Shelton Phiri dissertation entitled

"Reliability of fair value presentation to investors in a depressed economy. (Case of Zimbabwe)" submitted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree at Midlands State University.

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Name of Author   Shelton Phiri

Title of Dissertation   Reliability of fair value presentation to investors in a depressed economy. (Case of Zimbabwe).

Degree Programme   Bachelor of Commerce Accounting Honours Degree

Year of Award   2016

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DEDICATION

This research is dedicated to my family, friends and the Almighty God

ACKNOWLEDGEMENTS

Firstly of all I would like to thank the Almighty God for His protection and guidance during my studies. I am thankful to the department of Accounting, Dr. E. Mashiri my supervisor for the commitment; patience and guidance in making this research a success. I would also like to express my heartfelt appreciation to Midlands State University and my lecturers for impacting relevant knowledge that enabled me to write this piece of study. I am also highly indebted to Dr Strive Masiyiwa and Deaconess Tsitsi Masiyiwa, Higherlife Foundation for their support financially during my four year academic course. I also express my gratitude to my family for their encouragement and support during my studies and mostly my beloved young sister Perseverance Phiri. I will forever be grateful for their support and prayers during my academic studies.

ABSTRACT

The research focused on the reliability of fair value presentation to investors in a depressed economy being a case of Zimbabwe. The research was inspired by an increase in the number of cases where investors lost their investments in companies that presented their financial statements using unreliable fair values. Both foreign and domestic investors are losing millions of dollars to companies which are using fair values to window dress their financial statements hiding the true economic values of the companies. Such practices are only getting exposed in the face of liquidation or major ownership transfers but at such point it will be too late for investors to recover their investments. Literature relating to the study was also analysed so as to strengthen the base of the study. Descriptive and explanatory research approaches with a population census size of 35 respondents was used in gathering primary and secondary data. The research also used questionnaires and interviews as data collection instruments. Tables, graphs and charts were used in presenting and analysing the collected data. The research proved that fair values were relevant and reliable in financial decisions made by investors and they should be extensively used in financial reporting.

Contents

LIST OF ACRONYMS

Acronym	Meaning
FVA	Fair value accounting
HCA	Historical cost accounting
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
FABS	Financial Accounting Standard Board

CHAPTER ONE:

1.1 INTRODUCTION

The chapter covers the background of the study, the statement of the problem, the research questions and the study objectives. The chapter also extends to cover the assumptions on which the study is built on and the study's delimitation. It also highlights the limitations faced in carrying out the research. The importance of the research is also highlighted and a chapter summary round up the chapter.

1.2 Background of study

Accounting information must have its qualitative characteristics to be useful to investors, the most important being relevance and reliability (Christea, 2015). The accounting community had used historical cost accounting (HCA) as an accounting convention for decades, where the initial price paid by the entity during the purchase of an asset or incurrence of a liability was used to value such asset or liability (Jaijairan, 2013).). There is a worldwide adaptation of FVA because of the view that fair values give relevant and a timely valuation of accounting information than historical cost basis (Liner, 2011). Meunier, (2012) argue that while historical basis eliminates uncertainty from the initial valuation decision, it creates uncertainty in future periods about the true fair value and this resulted in the birth of fair value accounting.

The fair value principle refers to the adoption of valuation practices where there is a regular updating by reference to current prices of similar assets and securities as assessed within the circumstances of a liquid market (Greenberg, et al, 2013). International Accounting Standard

(IAS) 39 defines fair value as the amount for which an asset would be traded or a liability be settled between two willing parties in an arm's length transaction (Liner, 2011). However Hague, (2009), contents that FVA removes both integrity and transparency, both which are important to investors. In Zimbabwe, FVA have been abused since the introduction of the multicurrency system in February 2009 due to increased market volatility (Mtomba 2015). The following are some of the reasons why valuations in Zimbabwe have since then become unreliable.

The Zimbabwe Stock Exchange which is the country's major market had suffered a major blow after a significant number of companies have delisted leaving the country with no major market for assets (Nyakazeya 2014). Due to the absences of active markets management of companies arrange with valuators to value entities in their best interest not that of investors. For example in the Hwange Colliery Company Ltd (HLCC) mining equipment scam, the equipment worth $807 725 was valued at $2 million overvaluing it by 60% (Moyo, 2015).

Property valuators are also abusing fair value usage as they overvalue properties to get a better commission as they charge 1.5% of the property's worth as commission, (Murozvi 2015). For example, the National University of Science and Technology (NUST) will pay around $6 million to an independent valuator to have its assets valued and this is the reason why most big companies resort to their incompetent internal staff which in the end misleads investors by giving unreliable valuations (Sibanda, 2014). To add to that the country does not have a valuation guide for the property sector (Chawafambira, 2014) The other challenge that valuators in Zimbabwe had faced is the short time span they have had to assess meaningful and untainted trends since dollarization in 2009, especially when it comes to specialized properties like hotels.

The repercussions of the unreliable valuations in Zimbabwe had been noted in many companies in the event of either major company ownership transactions or bankruptcy, with investors only then realizing that management had window-dressed financial statements hiding the true worth of the companies. For example Telecel Zimbabwe was over-valued using fair value accounting, it was only discovered that the company was only worth $50 million not the claimed $200 million (Zengeni, 2015). The owners of the company Vimplecom lost $80 million when 60% of the company was bought by the government for $40 million. Banks in Zimbabwe are also sitting on a potentially huge exposure emanating from overvalued properties held as collateral security for loans,(Murozvi, 2015). Properties were valued at $1.2 million to secure a loan of such an amount but now the properties are valued at $300 000. With the ongoing situation it is likely that properties are going further fall on the market and this may result in investors in banks losing more as capital erodes in non-performing loans.

Recently in 2015 the major shareholder of the collapsed Allied Bank, Trebo and Khays (Pvt) ltd failed to transfer assets which they had pledged as part of purchase consideration. They had purchased the then ZABG in 2012 for 22.5 million using real estate but these were overvalued and were actually worthy $5 million, (Musoko 2015). The failure of Trebo and Khays to transfer the assets that it had used to purchase a stake in Allied bank resulted in other investors failing to recover their worth as the whole company was undervalued. Allied bank went under liquidation and this result in the realization of monies to pay creditors only and all other investors lost their investment.

Zimbabwean companies are facing challenges in harnessing FVA to fully benefit the users of financial information hence giving the rise to the question of its relevance and reliability to investors. This is the reason why this research is being carried out.

1.2 Problem statement

Fair value accounting have increased relevance of financial statements to investors, but the subsequent trade-off that arise resulting in loss of reliability of the financial statements has led to other investors arguing that relevant information that is unreliable is useless. The main reason behind this argument being that most companies favor using estimates and this creates enough room for management to be involved in creative accounting thereby window-dressing their accounts to lure investors. What has aggravated the problem is that the auditors are not much interested on how the estimates were arrived at, but only interested on the presentation and disclosure of the methods that were used to arrive to the fair value as well as the consistent application of the adopted policy. With economies like Zimbabwe where the stock market, the source of most estimates of market values, is limited and the price fluctuations are numerous to provide any reasonable estimates, it will be difficult to come up with reliable fair value estimates. As a result of this most investors are reluctant to place greater emphasis on published accounts to make their investment decisions.

1.3 Main Research Question

 What is the impact of the application of fair value accounting on the reliability and relevance of accounting information to investors in a depressed economy?

1.4 Sub research Questions

The research with objectives set above seeks to answer the following questions:

- ➢ What is fair value accounting in financial reporting?

- ➢ Of what relevance and how reliable are fair values in decision making by investors?

- ➢ What are the challenges associated with the use of fair values in decision making?

- ➢ What is the impact of FVA on other accounting principles?

- ➢ What are the benefits of using fair values?

1.5 Research objectives

The main objective of the study is to analyse how use fair values in financial statements is relevant and reliable to investors. Research objectives are disintegrated as follows:

- ➢ To analyse fair value accounting usage in providing financial information.

- ➢ To analyse how relevant and reliable fair values can be in decision making by investors.

- ➢ To assess the challenges associated with the usage of fair values in decision making.

- ➢ To examine the impact the FVA have on other accounting principles.

- ➢ To assess the benefits of adaptation and implementation of FVA.

1.6 Assumptions

Investors in the study make decisions mainly based on information presented in financial statements.

1.7 Delimitations of the Study

The study will focus on an analysis of fair value accounting on its relevance and reliability to investors. The research will focus on investing companies as users of financial statements and

accounting firms representing the preparers of financial statements. More information will be obtained from property valuators representing the experts involved in valuation of non-current assets. Companies involved are situated in Zimbabwe and have branches in Harare and Gweru. The period under study is from 2009 to 2015 which is the period in which Zimbabwe adopted the multi-currency system which resulted in excessive volatility in the countries markets. Information will be obtained from internal staff and management reports from the aforementioned entities.

1.8 Limitations of the Study

The researcher faced challenges financially due to travelling expenses to go to the head office and collect relevant data for the study. However, help from family relatives made it possible to cater for research expenses. Time was also a challenge as assignments and in-class tests were requiring great attention. The researcher had to design a study time table to meet required demands.

1.9 Significance of the study

To the Researcher

The study is done in partial fulfillment of the requirements for the Bachelor of Commerce Honors degree in Accounting of the Midlands State University. The research widens the researcher's knowledge through detailed analysis of the problem.

To Midlands State University

The study provides essential material for research for other scholars in future.

To the investors

The research findings and recommendations will help the investors improve their investment decisions when using fair value measured accounting information.

1.10 Definition of terms

Fair value –this is defined as the amount which an asset can be exchanged, or a liability be settled between knowledgeable parties in an arms-length transaction.

Relevance- Relevant financial information is capable of making a difference in the decisions made by the users. Information may be able to make a difference in a decision even if some users chooses not to take advantage of it or are already aware of it from other source. It must have a predictive value, confirmatory value or both.

Reliability – Reliable information is complete, neutral and free from error.

1.11 Summary

Chapter one of the research was giving an introduction of the research with background of study, problem statement, research objectives, research questions, delimitations of study, and limitations of study as well as definition of terms.

CHAPTER 2

Literature review

2.0 Introduction

This chapter provides a review of the literature on fair value accounting in the form of International Accounting Standards (IASs), International Financial Reporting Standards (IFRSs) and Exposure Drafts on the topic. It also looks at how renowned scholars around the world have contributed to this debate. It goes further to looks at the extent to which accounting standards have successfully enhanced the two qualitative characteristics of accounting information of relevance and reliability in the light of inclusion of fair value in financial statements.

2.1 What is fair value accounting?

The first definition of fair value was introduced in 1982 in a contemporary issue of IAS 20 published by IFRS and the definition has not changed much and is identical to recent versions (Skoda & Bilka, 2012). According to Financial Accounting Standards Board (FASB), fair value is the amount for which an asset could be exchanged, or a liability be settled, or an equity instrument granted could be exchanged, between knowledgeable parties in an arm's length transaction (FASB, 2010). The International Financial Reporting Standards (IFRSs) proposed definition of fair value is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. International Accounting Standard (IAS) 39 defines fair value as the amount for which an asset would be traded or a liability be settled between willing parties in an arm's length transaction (Liner, 2011). IFRS 13 (Fair Value Measurement), states that fair value is the market based

measurement, although it acknowledges that in some cases observable market transactions or other market information might not be available. The fair value measurement assumes that the transaction to sell an asset or transfer a liability takes place in the most advantageous market to which an entity has access to, of which in the absence of evidence the entity can assume the principal market to which an asset or liability can be sold as an advantageous market (Kaur, 2013). Fair value is also referred to as the current exit price, which is the price which reflects the highest best use of an asset. The fair value should not be a liquidation value where sellers are compelled to enter into a transaction but the buyer and seller must be willing and not forced to transact.

2.1.1 Valuation of fair value

If a market for financial instrument is inactive or illiquid, an entity establishes fair value by using valuation techniques consistent with market approach, income approach or cost approach (Shamkuts, 2010).

Market approach

 The market approach use prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities for example matrix pricing which is a mathematical technique used to value a debt relying on securities relationships and benchmarks (Wilson 2010). This can also be termed as the *value in exchange* which is what one will realize when an asset is exchanged between willing parties (Kaur 2013).

Income approach

The income approach uses valuation techniques to convert future amounts to a single present discounted amount and example are present value technique, option pricing models and binomial model (Arouri, et al 2012). Kaur (2013) views this approach as the *value in use* approach as it measures the benefit or inflow that is generated by the use or holding of an asset for maturity.

Cost approach

The cost approach reflects the amount that would currently be needed to replace the service capacity, often referred to as the current replacement cost and usually appropriate for tangible non-current assets (Shamkuts, 2010). The entity will calculate the current cost of replacing its asset to its normal function and its full capacity and this will be the value at which such an asset will be valued.

2.1.2 Fair value hierarchy

To increase consistency and comparability in fair value measurement, IASB established a fair value hierarchy which provides insight into priority of valuation techniques to use in determining fair value (Shamkuts 2010). Below is a table showing the measurement techniques and their reliability.

Table 1: Fair value hierarchy

Level 1 : Quoted prices (unadjusted) in active markets for identical   **Most Reliable**

       assets or   liabilities.

Level 2: Inputs other than quoted prices include within level 1 that

       for the asset or liability either directly(i.e. as prices) or indirectly

       (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable

       market data (unobservable inputs).   **Least Reliable**

Fair value measurement is classified as Level 1 in the fair value hierarchy if the value is determined as the unadjusted quoted price in an active market and the prices of those transactions should be regularly occurring and readily available (IASB 2011). If quoted prices are not available for identical assets or liabilities and the fair value is determined using quoted prices of similar assets or liabilities (market equivalents) and other observable inputs that require no significant adjustment then that will be Level 2 valuation (Shamkuts 2010). For Level 3 there will be no identical or similar assets or liabilities and fair value is estimated using valuation methods based on present value techniques of future cash flows or earnings (Betakova et al 2014).

2.2 Reliability and Relevance

2.2.1 Reliability

Information is reliable when it is verifiable, is a faithful representation and is reasonably free from error or bias (Elifioghi, et al 2010). Verifiability occurs when independent, measures using same methods produce same results, representational faithfulness means that numbers and descriptions match what actually happened and neutrality means that information has not been picked to favor one set of interested parties over other (Christea, 2015). Since fair value is inferred from the market price, this value can be checked in hindsight from available information about current and past prices and on neutrality the general market will provide a value that is objective (Skoda & Bilka, 2012)

 Fair value provides transparency that does not exist when using historical cost method, and lack of transparency prevents users from understanding the true economic standing of an entity (Alexander et al, 201l). Fair value includes data that is ignored by historical cost measurements, such as the time value of money and the price of risk embedded in an investment for example interest rates and liquidity risk Christea (2015). There is also more reliability in fair value as it is more information rich, fair value represents the view of many market participants which is better than historical cot which will be showing only the view of one participant which is the reporting entity (ACCA 2010). To add to that fair value cannot be a subject of earnings management as historical cost, when using historical cost it is more likely that profits are simply influenced by whether the management choose or choose not to sell an asset in that period as profits or loss can be manufactured by churning the assets. Another argument supporting the reliability of fair value is that more frequent valuation is important for an entity so that management can engage in

behavior that maximize market discipline and proactively avoid unnecessary risk (Allen & Carletti, 2010)

Fair value as an estimate of exit value under normal market conditions is well defined and non – controversial when there is a liquid market that is well established (Christea, 2015). When market values are illiquid, estimation of fair value will be inevitably be subjected to managerial judgment and the role of personal judgment in valuation reduces the reliability of such information. Kaur (2013) argues that fair values increase misunderstanding on the part of existing and potential investors, fair value might be the reliable market value but it remains true that the net fair value on the balance sheet will never equate the market value because of internally generated goodwill inform of intangible assets. Boyer (2010) notes that fair value evaluates the worth of an asset based on its expected returns over time and the underlying assumption of the concept is that the financial markets will be efficient. Further concern had been raised that fair value accounting causes a pro-cyclical downward pressure in asset prices and this causes prices to fall down well below their true economic value (Barth, 2008). This further creates a problem as the decrease in the value of the asset on the balance sheet causes panic and lack of confidence thereby creating a reverberation from one market to another. In this regards it can be argued that fair value introduces an accounting accelerator which extends a sense of instability and fragility to the entire economic system. Laux & Leuz (2010) concurs stating that fair value results in contagion and contagion occurs when fair value accounting exacerbates swings in the economic system causing overreaction among investors thus causing the market price of unrelated assets to fall along with the price of the truly distressed asset.

2.2.2 Relevance

Information is relevant when it is capable of making a difference in a decision. It must have a predictive value to help users to predict the ultimate outcome of the past, present and future events (Arouri, et al 2012). It must also have predictive value to help users to confirm or correct prior expectations and finally must have timeliness to be available for decision makers before it loses its capacity to influence the decision.

Supporters of fair value accounting have argued that it is more relevant than historical cost because it provides up-to date information consistent to the market, thereby increasing transparency and encouraging prompt correctional actions (Christea, 2015). Furthermore fair value in this context can provide an early warning for investors, managers and regulators thus increasing its relevance to all users of financial information (Abdalrahim & Elzain, 2015). Fair value highlight that a business strategy is subjected to change and is superseded by the need to include all information about a financial instrument's value and performance and this is important in a dynamic market environment. It is the only way to get derivative transactions into the balance sheet and openly disclose. The rapid development of derivative contracts meant that under a cost based system a whole range of assets and liabilities were not on the balance sheet at all because they had little or no cost though they could grow or lose as circumstance (interest rates, exchange rates or commodity prices) changed (Abdalrahim & Elzain, 2015).

The relevance of fair value is still questionable among various authorities and financial institutions. Magnun & Thorntorn (2010), questions the purpose of marking financial elements to their market values, financial statements are supposed to present the value of an entity in liquidation or in operation and are investors and creditors interested in the current value of the

entity or its long run earning powers. This is further supported by ACCA (2010), fair value measures assets at exit price and this is somehow irrelevant as it goes against the going concern principle. In current circumstances fair value measures what the business will get if it sells an asset today whereas this will not be what the business intends to do with its asset, maybe it will be intending to hold the asset and receive interest in the long run. Siam & Abdullatif, (2012) criticise the use of exit price to measure fair value of special purpose machine and inventory work in progress as for which exit prices may be equal to zero or even negative. Arga & Reinstein (2010) also questions the wisdom of using unobservable (level 3) inputs to match assets at their fair values when the market for the asset is inactive. If the market cannot provide a fair value why should fair value not be obtained from nonmarket factors?

2.3 Challenges associated with the usage of fair values

Inasmuch as fair value accounting is ranked as the best method of presenting accounting information to users of financial information, there are some unresolved issues that make the method remain questionable (Ebach, et al 2015). There are some challenges and problems that result from the adoption and implementation of fair value accounting and these include subjectivity to manipulation, absence of active markets, limited reliability, volatility and procyclicality only to mention a few.

2.3.1 Fair values are subjected to manipulation

Since fair values are impaled by personal judgment such values may be susceptible to manipulation. Improper classification of financial securities allows for the hiding of fraud and a reduction in market value may be classified either in the profit or loss or in other comprehensive income (Massadah 2016). For example trading securities may be misclassified as held for sale, so that unrealized losses may be shifted from the profit and loss to other comprehensive income. Manipulation of the prices by the firms themselves also presents a risk in obtaining a fair value estimate because of illiquid markets, trading by firms may also have an effect on both traded and quoted prices (Skoda & Bilka 2014).Manipulation of fair values by management is common as the categorization of financial elements depends on the design of the entity, the entity can either chose to return the financial element till maturity, support it for trading or hold it as available for sale. With IAS 39 management is given the opportunity to recognize unrealized profits even before the disposal of the asset (Nour et al 2013).

2.3.2 Absence of market price

It is often very difficult to obtain fair value if the market value of a given asset is not available in the actual market and coming up with estimates that give a true value of such an asset is more challenging. In this case the usual procedure is to use the mark to model approach and this involves the creation of more extended estimates which runs the risk of creating deviation from the price of that asset if it was to be found on the market (Betakova, et al. 2014). Furthermore if this mark to model method is used to simulate the price for any given asset, it provides management the opportunity to manipulate this estimate as the management of firm are the ones

to decide which model to use and what parameters will the model work under (Skoda & Bilka 2014). In the study done by Benston in 2006 on the use of fair values in Enron the energy giant that collapsed in 2002, findings were that fair values were used to overestimate profits and net income of the company. Benston findings show that the use of fair values was substantially the cause of its failure and suggest that Enron experience with fair values should be the reason why companies should be cautious with the use of estimates (level 3) fair value accounting which are mainly used in the absence of active markets (Garner & Wagner 2010).

2.3.4 Limited reliability

Information in financial statements provided by fair values is relevant and reliable only for a limited period of time as the financial statements are time specific for a given market condition and any change in the market environment renders the financial statements useless (Skoda & Bilka 2014). This means that users of financial statements cannot rely on the same financial statements throughout the financial period and there will be need for new financial statements time and again and this will be costly for the reporting entity. Reliability in accounting information had also been reduced due to some changes that had been brought by fair value accounting. Johnson et al (2010) indicates that FASB is creating an arena in which accountants are not fully equipped to participate. Magnan & Thorntorn (2010) also makes the same observations stating that fair value accounting pulls away accounting from the traditional stewardship role for which verifiability and conservatism ensure that payments are based on delivered not expected performance. Power (2010) expands the same line of reasoning saying

that if accountants are to retain a place in the financial service table then the accounting profession will have to redesign the core knowledge base of the profession.

2.3.5 Volatility

The use of fair value accounting may further affect a down market adversely. For example, after an asset has been revalued downward because of drops in the current market trading prices, the lower value of the asset could trigger greater selling of the asset at a potentially even more depressed price (Way, 2016). Without valuation markdown as required by fair value accounting, companies may not feel the need to sell an asset in a down market to prevent potentially further downward valuation of the asset. Volatility introduced by fair value does not always reflect real changes based on the events and will not accurately reflect the reality of the transaction and financial position (Christea 2015). Absent additional selling pressures, the market may stabilize over time, which would help preserve the value of the asset. The challenge of volatility is closely related to the previous problem of limited reliability, if the value of financial elements closely follows the developments in a market then it means that the value of that financial instrument changes with the market. The major criticism against fair value is that fair value accounting adds both volatility and confusion in the market (Laux & Leuz, 2010). Forbes (2010) stated that economic versions of the bubonic plague are ready to reemerge and that he referred to fair value accounting and he pointed out that it was the principal reason why the financial disaster of 2007-2009 threatened to destroy the financial system. Arya and Reinstein (2010) also conclude that fair value accounting exacerbated the recent financial crisis by forcing the write down of good assets because of reduced market prices. Moreover Duh et al (2012) conclude that volatility of both income and comprehensive income increased after applying fair values to financial instruments.

2.3.6 Pro-cyclicality

The strongest opposition against fair value argues that fair value accounting had been the principle cause of unprecedented decline in asset values, an unprecedented rise in instability among financial institutions and worst economic crisis in the United States i.e. the Great Depression (Khan 2010). More so, Khan (2010) believes that fair value accounting is highly pro-cyclic and should be abandoned or at least significantly modified in order to ensure that financial statements report information of stability of the entity rather than its earning powers (Prochzka, 2011). Pro-cyclicality refers to the ability to exaggerate financial or economic fluctuations and fair value accounting and its dependency on market developments could cause a market that has experienced a slump to be closely followed by deterioration in a firm's financial situation (Prochazka, 2011). Fair value and its application through the business cycle have been the main cause of pro-cyclicality i.e. it exacerbates swings in the financial system and that it may even cause downward spiral in financial markets through booms and burst. Persuad, (2012) states that fair value and asset write ups allows banks to increase their leverage in booms, which in turn makes the financial system more vulnerable and financial crisis severe. In contrast historical cost accounting prohibits write ups in boom and creates hidden reserves that can be drawn upon in times of crisis. Khan (2010) states that it is believed that fair value accounting spreads this resurgent contagion among banks and thus can potentially lead to breakdown if the banking system with possible impact to the real economy . However Prochazka (2011) points out that critics of fair value had confused on the cause and consequence , financial reporting using fair value is just a messenger which transmit what actual happened and blaming fair value will be like shooting the messenger.

2.3.7 Summary

Inasmuch as fair values are highly useful in financial decisions to be made by investor there is much to be adhered to before each decision is made especially in an unstable economy like Zimbabwe. Fair values may reflect the current situation in the markets at any given time but in some cases it will not be the true reflection as the given price will change in no time due to volatility and pro-cyclicality and making a decision basing on such value may be wrong if the volatility and pro-cyclicality become excessive. Given the Zimbabwean situation where there are no much active markets and where most of the markets are illiquid it is in itself a problem which even creates another problem. In the absence of markets companies have no option but to turn to level 2 and level 3 fair value measurements which are very dangerous especially due to them being subjective to management manipulations. Currently Zimbabwe is experiencing stiff economic challenges and a lot of companies are crumbling down and given this situation management in every company will take every opportunity to revive the state of the company in which they are charged with governance and earnings management is one of them which is possible through fair value accounting. Fair values are useful in economic decisions but there is need to be attentive to some of its flaws before considering their usage in each economic decision being made.

2.4 Impact of fair value accounting on accounting principles

Fair value accounting had in one way or the other affected some of the major accounting principles that need to be considered in every accounting setup. Companies had faced some challenges in putting these principles into perfect practice before the introduction of fair value

accounting and the introduction of fair value accounting had in some cases worsened the already challenging situation. The major accounting principles that had been affected by fair value accounting include historical cost principle, prudence concept, comparability and consistency and the going concern principle.

2.4.1 Historical cost principle

The basic purpose of financial reporting is to provide information of an economic entity to the user in an economy, what method of reporting should be used so as to present a true and fair view of the state of affairs of the business remains the most important question (Abdulatif 2010). The historical cost principle, which is the traditional reporting method, does not accommodate price changes, selling price is stated at current price while the cost of assets used in generating the sales are stated at historical cost "acquisition cost" resulting in overstated profit leading to overpayment of tax and dividend (Kekung & Effiong 2012). Despite the favorability of historical costing in some instances, there are some downsides of using the concept for example its simplicity in most cases cannot match the need of some financial statement users. Masadah (2016) points out that due to short falls in historical cost accounting of failing to reflect the economic value of assets, inability to reflect changes in purchasing power of currency and failure to account for complex assets like derivatives and hedging instruments, fair value accounting had seen itself replacing the traditional method in recent years. Fair value has been regarded as conceptually superior as it is seen reflecting the market assessment of current economic conditions and its ability to measure complex assets like derivatives and hedging instruments

(Chisnal 2016). The fair value accounting approach had become the best alternative to avoid the shortcomings experienced by historical costing (Skoda & Bilka, 2012).

2.4.2 Comparability and consistency

The usefulness of accounting information about an enterprise increases greatly if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some period or some other point in time (FASB 2011). Comparability addresses comparing information among different entities while consistency addresses comparing information over time for the same entity. Different firms may use different accounting principles making comparison among firms even within the same industry difficult, fair value accounting does not ease the comparability problem and likely exacerbates it (Kekung & Effiong 2012). Fair value accounting also has a significant impact upon consistency, when the market financial assets decline precipitously and the valuation inputs change overnight, it is impossible for the information to be consistent (Kekung & Effiong 2012). Fair value accounting seems to result in a situation where comparability and consistency are more compromised than in the historical accounting model.

However fair values provide equivalent financial instruments comparable values regardless of their date of entry in the accounts and there is active management of price risk using derivatives to avoid assets value falling or liabilities to rise (Christea 2015). Fair value supports consistency as it allows active management of financial risk, most companies manage their interest rates, risk and prices, and this can be even for non-marketable financial instruments such as swaps (Christea 2015).

2.4.3 Prudence concept (conservatism principle)

Conservatism requires that confirming, measuring and reporting transactions or matters in financial reporting should be prudent in corporations, assets or income should not be overstated and liabilities and cost should not be underestimated (Wang 2013). Prudence (conservatism) is defined as a "differential verifiability" required for the recognition of profits compared to losses and there are two types of conservatism which are earnings conservatism and balance sheet conservatism (Maciuca et al 2015). Revaluation of assets and liabilities at the balance sheet date to their up to date fair values can lead to the recognition of unrealized profits and if the unrealized profit is to be distributed to owner this will result in the erosion of capital (Prochazka 2011). The risk of inappropriate distribution of unrealized profits is in question especially in the case of a bubble price development. Changes in fair value of assets and liabilities recognized in the income statement are holding gains and losses which have not been realized as at the reporting date. The critics of fair value believe that under historical cost which is an alternative to fair value, erosion of capital is no possible as historical cost accounting incentives to get up to "gains trading" or to securitize and sell asset (Benue 2014).

2.4.4 Going concern principle

Magnun & Thorntorn (2010), question the purpose of marking financial elements to their market values, financial statements are supposed to present the value of an entity as a going concern and not as a liquidating entity. This is supported by ACCA (2010), fair value measures assets at exit price and this is somehow irrelevant as it goes against the going concern principle. Fair value measures what the business will get if it sells an asset today which implies that all companies are reporting at a break-up basis not as going concern.

2.5 Benefits of using fair values in financial reporting

The considerable debate on the advantages and disadvantages of moving towards a full mark to market accounting system for financial institutions has been triggered by the move of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) to make changes in this direction as part of an attempt to globalize accounting standards (Cheng 2012). In accounting and economics fair value is the unbiased estimate of the potential market price of a good, service or asset. Some of the major benefits attributed to its usage include accurate valuation, true income, being the most agreed upon accounting standard, timely and relevant information, more reliability and it solves the principal agent problem.

2.5.1 Accurate valuation

The primary advantage of fair value accounting is that it provides accurate asset and liability valuation on an ongoing basis to users of a company's reported financial information (Dubihlela & Sibanda 2014). When the price of an asset or liability has increased or is expected to increase, the company marks up the value of the asset or liability to its current market price to reflect what it would receive if it sells the asset or would have to pay to relieve itself from the liability. Conversely, the company marks down the value of an asset or liability to reflect any decrease in the market price. Shelly (2014) stipulates that the major advantage of fair value accounting is that it is a clear concept that provides the accounting department with an accurate valuation of assets and liabilities at any given time. Fair value is determined by reference to the external yes or directly on the market values or in the absence of active market by reference to a model based on the parameters of external data and all these are neutral values not influenced by the reporting company (Christea 2015). However Prochazka (2011) argues that valuations from fair value are

sometimes not accurate as there is lack of database transaction to the extent that it is not always based on an actual transaction of the entity.

2.5.2 True income

Fair value accounting limits a company's ability to potentially manipulate its reported net income. Sometimes management may purposely arrange certain asset sales, for example, to use gains or losses from the sales to increase or decrease net income as reported at its desired time (Scot, 2010). Using fair value accounting, gains or losses from any price change for an asset or liability are reported in the period in which they occur and any increase in asset value or a decrease in liability value adds to net income, and the opposite is true. When the historical cost method is used, not everything is accounted for and this principle implies not accounting for other financial instruments such as derivatives (Christea, 2015). Financial informaation users cannot take them into account in assessing future cash flows but this flaw disappears with the advent of fair value.

However the unrealized gains and losses from the changes in the fair values imply that dividends may be paid in advance of any cash flow obtained (Prochazka, 2011). Moreover the subjectivity in the estimates of fair values opens space for manipulation with earnings. Revaluation of assets and liabilities as at the balance sheet date to their up to date fair value can lead to recognition of unrealized gains which may result in the erosion of capital (Khan 2010). Mark to market and fair value accounting leads to premature recognition of profits in comparison to the traditional historical cost model.

2.5.3 It is the most agreed standard of accounting

Instead of the historical cost value that isn't always accurate after a long period of time, fair value accounting accurately tracks all types of assets. This makes it the most agreed upon standard of accounting because set prices, even if still accurate in value, aren't the same because of monetary inflation (Van-Baren 2014). $10 today is not worth the same $10 from 1992 and that is why fair value can be so beneficial. However the adoption and implementation of fair value accounting is likely to be problematic given its complex and controversial nature and given that nations abilities to determine fair value can different based on their underlying infrastructures (Peing & Benley 2010). In addition deeply rooted political and economic factors differ from one country to another, and the factors are likely to influence how fair value is measured and disclosed in each country. Holthaesum (2010) also points out that uniform accounting standards will not result in comparable financial reporting around the world unless the underlying infrastructure and economic factors become similar than they currently are.

2.5.4 Timely and relevant information

Since fair value accounting utilizes information specific for the time and current market conditions, it attempts to provide the most relevant estimates possible and has a great informative value for a firm itself and encourages prompt corrective actions (Christea, 2015). Furthermore fair value in this context can provide an early warning for investors, managers and regulators thus increasing its relevance to all users of financial information and allows them to take appropriate measures in response to changes (Abdalrahim & Elzain, 2015). However there is some doubt about the relevance of information contained in income statements and the

usefulness of the net income and a measure of management performance when mixed bases measure balance sheet accounts (Peng & Benley 2010).

2.5.5 More information in financial statements than historical cost accounting

Fair value accounting enhances the informative power of a financial statement as opposed to the other accounting method "the historical cost". Fair value accounting requires a firm to disclose extensive information about the methodology used, the assumption made, risk exposure, related sensitivities and other issues that result in a thorough financial statement (Greenberg et al 2013). Inclusion of more information is possible whenever there are observable market prices that managers cannot materially influence.(Van-Baren, 2014). Thusly produced financial statements therefore increase transparency of a firm, which is particularly useful to potential investors, contractors and lenders as they have a better perception of the stability of a given firm and an insight of its wealth.

2.5.6 Verifiable information

For financial data to be reliable it must be verifiable and neutral. Since fair value is inferred from the market price of a given asset, this value can be checked in hindsight from available information about current and past market prices (Skoda & Bilka, 2014). Subsequently it is necessary to include the methodology and disclose the information about possible deviations from a quoted price in the financial statement, this information can also be verified (Betakova et al 2014). Neutrality is meant to represent a value that is best explained as an objective value and therefore devoid of any factors that would cause a rise or fall in such a value, atypical of general

market conditions (Shelly 2014). For example, it is a value that does not include specific information related only to the owner of a given asset. A neutral value does not consider this asset-specific information and only makes an estimate of its value based on general publicly-known information and thus makes this estimate reliable.

However due to the increase in the variety and complexity of financial instruments there is need for verification of the estimates and verification of the valuations that are not based on observable market prices (Christea, 2015). The majority of these values will be on inputs methods selected by management and such estimates as they are based on personal judgment they will be difficult to verify (Kaur, 2013). Moreover the estimates depend on the assumptions and measurement error which may have the potential of deliberately masking miscalculations and manipulations of numbers. Elifoghi et al, (2010) also postulate that if all assets and liabilities had active market values then fair value was going to be reliable but due to inputs and methods of estimating their fair values they become subjective and therefore valuations become less reliable.

2.5.7 Solves the principal-agent problem

According to Serakibi (2016), the most significant problems that may arise from agency relationships are moral hazard and adverse selection both being caused by information asymmetry. Moral hazard occurs when the ex post behaviour of the agent is not appropriate, i.e. the agent with more information about its actions has an incentive to behave not in line with the principals'interest (Serakibi 2016). The principal-agent conflict is enhanced by HCA as it obscures real economic values and generates hidden-reserves (Kusano 2012) .During certain periods, hidden-reserves had been favorably accepted by managers and financial analysts, since

the concept of reserves is conservatism. A manager who has to report a decline in the firm's net income may find that his/her job is jeopardized. Managers may take advantage of the conservative characteristic of HCA and can initiate an accounting change in depreciation (amortization) of operating (intangible) assets, restate assets that are reported in the balance sheet at lower than their cost net of depreciation, change the estimation of doubtful debts, and sell undervalued assets (Cilibeti et al 2011). While HCA can cause severe damages to the shareholders FVA reveals the current values, prevents obscurity, and decreases costs of the principal-agent conflict by allowing shareholders to evaluate the outcome of their managers' decisions.

2.5.8 Summary

Fair values provide current information that investors need before making any financial decision and this make them superior than any other forms of measurement. As they reflect the market value of any given instrument, they allow investors to assess the risks that are involved in that instrument and they can take appropriate action as to keeping or disposing such an instrument depending on the trends shown by market flactuations. In addition, fair values provide accurate valuations and the information will be more relevant than historical cost basis which show the past value of an asset which in some cases will be irrelevant as depriciation or appreciation charged by managemnt will not be reflective of the actual gains or losses. Fair values also provide valuations that are verifiable in the case of market prices by reffering to other market partcipants and recalculations can be done in the case of management generated valuations. There are also benefits of having the true income reported by management for the reporting entity. Basing on the above advantages, it is in most cases advantageous for investors to make investment decisions basing on fair values.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes how the study was undertaken. The scope, design as well as the limitations will be spelt out in this chapter. Important basics in this segment will focus on research design, research population, research sample, data collection methods, research instruments which are questionnaires and interviews, data presentation and analysis. Analysis of the techniques used as well as the justification on why the techniques opted for will be done using supporting literature.

3.2 Research design

A research design identifies methods and process to be used by the researcher, when conducting research (Nkurunnah, 2014). The research design therefore is a plan for the whole research process and it gives the framework of the researcher's course of action. A research design thus provides answers for such questions: What techniques will be used to gain data? What kind of sampling to be used? How will constraints be dealt with?

3.3 Descriptive research design

The research was a field study, in which the researcher used the descriptive research design to provide more information on the objectives of study. The researcher used the descriptive research design technique as it enabled him to have a clear analysis of both qualitative and quantitative data through interviews and questionnaires.

3.2.1 Mixed Research Approach

The research combined the use of a descriptive research design as it uses both quantitative and qualitative analysis of data. Under a descriptive research, raw facts and figures were collected with the objective of establishing the nature of circumstances during the period under study. The descriptive research enabled the researcher to obtain detailed information since it asked the what, why and how questions.

3.2.1.1 Qualitative Method

In the mixed research approach, the researcher used qualitative design. Qualitative research method seeks in-depth and open ended responses. Qualitative research method gives respondents the leeway to air out their views on selected matters and obtains responses that are as extensive as possible. This approach was useful since questions were designed for respondents to air out their views on the relevance and reliability of fair values in decision making and other fair value accounting related information which provided data for the research from views of different respondents. The approach is supported by Bloomberg (2011) who explained that, the goal of qualitative research is to generate data in order to understand multiple perspectives.

3.2.1.2 Quantitative Method

This research method gives both responses which are quantifiable and structured. The approach is descriptive and generally presents all findings in figures. Since the study involved figures, the approach was of paramount importance in making the quantifiable data available. The approach also prompted the use of a correlation design so as to analyse the relationship between observable data Graffin G, (2013). This research design is greatly dependable and warrants that

the study can be replicated. This study implemented a quantitative research method for the collection and analysis of data.

3.3 Population and Sampling Design

3.3.1 Research Population

According to Nueman (2011) population is the number of elements available for study. Population is the group of interest to the researcher and it is upon this group that the researcher generalised the results of the study (Parker 2012). The population for this study was on investing companies and accounting firms as well as property valuators. The population included accountants from different accounting firms in Zimbabwe, managers of investing companies and valuators employed in the property sector. Managers were incorporated since they make strategic plans for the institutions, accountants who are involved in the preparation of financial statements for final use by investors, valuators who are involved in measuring the valuations used by accountants. Such a targeted group is essential in research since it gives the researcher sufficient data which supports Saunders (2011) who articulates that, the population should be enough for the researcher to draw samples statistically for the research. The total population of institutions involved in the study is 280 firms which were randomly selected by the researcher from all investing, accounting and valuation firms with the breakdown of each category being shown on the table below. The targeted population comprised of carefully selected institutions and these were selected basing on the reputations of each firm and the researcher considered how influential each institution was in its category. The target population was reduced in size as compared to the total population so as to minimise cost and to ensure that all the cost incurred were to maximise the quality of information obtained.

Table 3.0 Population and sample size

Targeted group	Population	Targeted Population	Sample size	Sample size %	Data collection method
Institutional investors	150	30	15	50%	Interviews and questionnaire
Institutional accountants	80	30	15	50%	Interviews and questionnaire
Institutional valuators	50	20	10	50%	Interviews and questionnaire
Total	**280**	**80**	**40**		

3.3.2 Sampling

The population was 40 participants with 15 institutional accountants, 15 institutional investors and 10 institutional valuators. The approach selected random respondents due to a large sample size as alluded by Kish, (2011). The respondents feel motivated since it involves everyone within a targeted population (Bryman 2012).

3.4 Sampling Technique

These are various sampling methods which are used to determine the individual who constitute the sample (Creswell, 2012). The sampling procedure involved both probability and non-probability sampling methods, this enabled the researcher to use both statistical and own personal judgment of who to include in the sample.

3.4.1 Judgmental Sampling

Judgmental sampling was used to come up with the sample. This sampling technique requires the use of own judgment to select a sample that will be able to answer the research questions and objectives as suggested by Saunders (2011). The non-probability sampling method, precisely the purposive technique was chosen. Bethlehem (2010) defined purposive sampling as a judgmental technique where sample members are strictly chosen by the researcher to meet a predetermined criterion on the basis that the chosen individuals provide the information required by the researcher.

The researcher used judgmental sampling in selecting respondents to questionnaires and interviews. In judgmental sampling, the selection of the sampling units was consciously shaped by the research agenda. The basis of the target population was on the subjective instinct that those members represent the entire group. The sampling technique was used because it is convenient, fast and relatively cheaper and conclusive judgments could be made on the work under the study. It also minimized costs of research and was based on the knowledge of the researcher and preference. This was a fast way of collecting data as no time consuming calculations had to be done in order to come with a sample to interview.

3.5 Data Sources and Collection Techniques

Cooper, (2013) define data as the facts presented to the researcher from the study environment. It is from this data that the researcher draws conclusions to a research study. Data is set into two forms namely primary and secondary data. Primary data refers to data structures of variables that have been specifically collected and assembled for the current research problem. In this case, it is the data specifically collected to analyze the relevance and reliability of fair value financial statements.

Secondary data is data at hand prior to the research (Bloomberg 2011). The information would not have been gathered to give answers to the research in question but data can be drawn from such sources. Secondary data already existed at the time of research and was not originally gathered to answer the problem at hand.

3.5.1 Primary Sources

Data was gathered from participants using questionnaires and interviews. Primary data was of use especially in obtaining the most current data from the field. Primary data also covered areas where secondary data could not and was inapplicable. Creswell (2012) defined primary data as data which is used specifically for the research. Questionnaires were useful in the research for instance in getting the opinion of individuals on how relevant and reliable fair value accounting was in decision making, the risk associated with the usage of fair values, impact of fair value accounting on other accounting principles, as well as a discussion on the benefits of fair values in decision making. Qualitative data suited the use of questionnaires and enabled feasible data for

the research to be gathered in a flexible manner which is in line with Nueman (2011) .The method suited the nature of the research as people could express their knowledge on the questionnaire and what's happening on the ground in the financial sector. In support of Nkurunnah (2014), questionnaires made it possible for the data to be analysed in a statistical way which helped in the presentation of data. Interviews were also carried out with the view of getting immediate responses within a reasonable space of time and also additional information which might have been left out from questionnaires.

3.5.2 Secondary Data

According to Saunders (2011) secondary data is information that already exists which has been collected for another purpose. This source of data comprised of information and studies that were made by other authors for their own purposes and the data which was collected to compliment primary data for the purpose of this study. The researcher made reference to financial statements, journals, books, periodicals and the internet. The data could be obtained quickly and at a lower cost than primary data. The information is less subjective to intentional bias as compared to primary data. It also provides information that could not be obtained through interviews and questionnaires. The researcher also decided to use secondary data since the area of study has been studied in other countries.

Both primary and secondary data sources were used in gathering data for the research as this improves the credibility of data in accordance to the views of Cooper (2013).

3.6 Data collection instruments

Data collection instruments are the tools which are used to collect or gather data for research purposes (Uma &Pansiri, 2011).Questionnaires and personal interviews were used by the researcher in the collection of the research data.

3.6.1 Questionnaires

According to Walliman (2011) a questionnaire maybe defined as a systematic compilation of questions that are directed to a sample of population from which relevant information is desired. Bloomberg (2011) defines a questionnaire as an outline which consists of a set of questions and gauges designed to produce primary data. The researcher used both closed and open-ended questions. A questionnaire is an instrument used for observing data which is beyond the physical reach of the eyewitness. The use of questionnaires was used since they can be administered in limited time. More so; questionnaires made it possible for the respondents to fill in the details outside their daily pressure at work. This type of instrument was targeted at the staff from accounting firms, investing companies and valuation firms. Each individual received same set of questions contained in the questionnaire making the data uniform and more comparable which is in line with Bloomberg (2011) who articulates that questionnaires contain yes or no questions as well as open-end questions containing uniform data for comparability.

The responses in the questionnaires were scored using a five point Likert type scale, which ranges from strongly agree to strongly disagree, with the respondents putting a tick on the appropriate response. Parker (2012) defines the likert scale as the scale of responses used in questionnaires to obtain the degree of agreement by participants to a given statement.

Table 3.1 Likert scale

Strongly Agree	Agree	Indecisive	Disagree	Strongly disagree

3.6.1.1 Closed-ended questions

Quantification of data was carried out easily and also in an effective way as a result of closed-ended questionnaires. Close-ended questions were of use in merging literature and field research data. Close-ended questions only allow respondents to choose a category and are straightforward (Cooper, 2013).

3.6.2 Interviews

The researcher also collected data from the management through the use of a face to face interview technique. Bloomberg (2011) explained interviews as ways of collecting data whereby an interviewer get responses on the matter face to face. The researcher had to choose interviews since they garnered the attitudes, perceptions, values, experiences as well as beliefs from respondents. In addition; interviews helped the interviewer in observing non-verbal behaviour, thus evaluating the motives of the respondents. The method was concentrating on the management of all the three categories of firms since they have more information concerning the company as compared to lower level employees. An interview guide was also given to the management.

3.6.2.1 Open-ended questions

Open-ended questions allow respondents to answer in the manner they want without a limited choice of words (Cooper, 2013). The researcher made this type of question available to respondents since it allowed them to answer fully using the words they prefer in clarifying issues and add what they felt was not discussed. This also allowed self-expression as well as creativity by respondents.

3.7 Data Presentation and Analysis

3.7.1 Data Presentation

The collected data was mainly quantitative and qualitative in nature. It was presented through the use of illustrative methods that included bar graphs, pie charts and data tables and these were used to identify important variables, their significance, allowing for literature review and interpreting them thereon.

The use of these methods is justified because they are easy to understand and also give a clear depiction of trends and clearly illustrate a summary of the information gathered.

3.7.2 Data Analysis

Data analysis is the process of separating into constituent elements in order to study the nature and function or meaning of information (Kumar, 2011). Raw data collected was sorted and edited as the first step towards its analysis. The questionnaires were organized and classified according to the patterns given by the respondents and their homogeneity. The responses from

the questionnaires were organized in line with the research questions and descriptive narratives were used.

3.8 Validity and Reliability of data

3.8.1 Validity

Kumar (2012) defines validity as the extent to which the instruments measure what its purports to measure. Information is valid when it is relevant and appropriate for the research area and if it is more directed to the concepts under scrutiny. The validity of information for this research was ensured through asking of relevant questions relating to the research objectives.

3.8.2 Reliability

Reliability of data literary refers to the extent to which one can rely on the source of the data and the data itself (Polit and Hungler, 2013). Questionnaires were pre-distributed to see if the respondents understood the data to ensure if the questions were precise and clear. Data triangulation was used for more persuasive evidence for data collected through questionnaires and interviews.

3.8.3 Pilot testing

In order to validate the questionnaire, the researcher conducted a pilot test. This is the preliminary analysis that is carried out before the actual sending out of the questionnaires according to Lukka & Modell (2010). This was done so as to establish clarity, validity and reliability of the instruments employed. The pilot study helped to reveal the misconceptions of the respondents and the need to rephrase some of the questions for clarity and relevance.

A set of questionnaires were given to some selected professional and fellow students for recommendations and the changes to some questions which would be confidential and that could not be answered in the field. The results of the pilot testing were as follows.

Table 3.2 Results of pilot testing

Sample	Total number of questions	Number of questions approved
Professional 1	11	10
Professional 2	11	11
Fellow student 1	11	11
Fellow student 2	11	10
Fellow student 3	11	11

3.9 Summary

Chapter three of the research provided the research methodology which was adopted by the researcher in the study. The chapter has specified research design used, the target population, sampling frame, methods of data collection that were used by the researcher. Research instruments such as questionnaires were used in performing the research and data presentation ways as well as analysis. Presentation of charts, tables and graphs were also done in chapter three.

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS PLAN

4.0Introduction

This chapter presents and analyzes the data that was collected in the field by the researcher through interviews and questionnaires. Data analysis is a means of giving structure to raw data that was collected from the field. The results will be presented diagrammatically and then expressed in percentages for better assessment and the findings will be full interpreted to relate them to the objectives of the research. Conclusion by the researcher will be based on this analysis.

4.1 Response rate analysis

4.1.1 Questionnaire response rate

The researcher issued 40 questionnaires and 35 were completed and returned. The following table shows the response rate of the questionnaires issued by the researcher.

Table 4.1 Questionnaire response rate

Targeted personnel	Number of targeted	Number of completed and returned	Response rate
	respondents	questionnaires	Percentage (%)
Institutional accountants	15	14	93.33%
Institutional investors	15	13	86.66%
Institutional valuators	10	8	80%
TOTAL	**40**	**35**	**87.5%**

From the 40 questionnaires distributed 14 out of 15 accountants, 13 out of 15 investors and 8 out of 10 valuators completed and returned the questionnaires. Calculating the total percentage of the response rate in total it will be the number of completed and returned questionnaires over the number of targeted respondents which is 35 /40 which gives us 87.5%. Since the response rate of 87.5% is above 50% it will be reliable as it is in line with what Bryman (2012) who articulated that the response rate should be greater than 50% to yield a better and reliable result.

4.2 Background Information

4.2.1 Duration in the organization

The duration of employees in the organization is very crucial when collecting research data. Those employees who will have served in an organization for more years have more relevant information as they are more knowledgeable than those who have served in the industry for a few years. The following table shows the years which employees who responded to the questionnaires had experienced in their relevant industries.

Table 4.2 Employee work duration

Duration in industry	0 to 2 years	3 to 4 years	5 years and above
Number of respondents	4	7	24
Total respondents	35	35	35
Percentage outcome	11.43%	20%	68.57%

The table shows that 4 out of 35 (11.43%) respondents had been in their relevant industries for a period between 0 and 2 years and as far as experience in their industry is concerned the number of years they have experienced may not be enough for them to know much about their profession. Out of 35 employees 7 had an experience of 3to 4 years which is 20% and 24 out of 35 (68.57%) which is the majority of the respondents had experienced 5 and above years in their relevant industries. The above outcome is in line with what Creswell (2015) suggest, that is the majority of the respondents must be from experienced employees so as to increase the reliability of the outcome of the research.

4.3 PRESENTATION AND ANALYSIS OF FINDINGS

4.3.1 Valuation method mostly used by both preparers and users of financial information

Figure 4.1 Valuation method mostly used
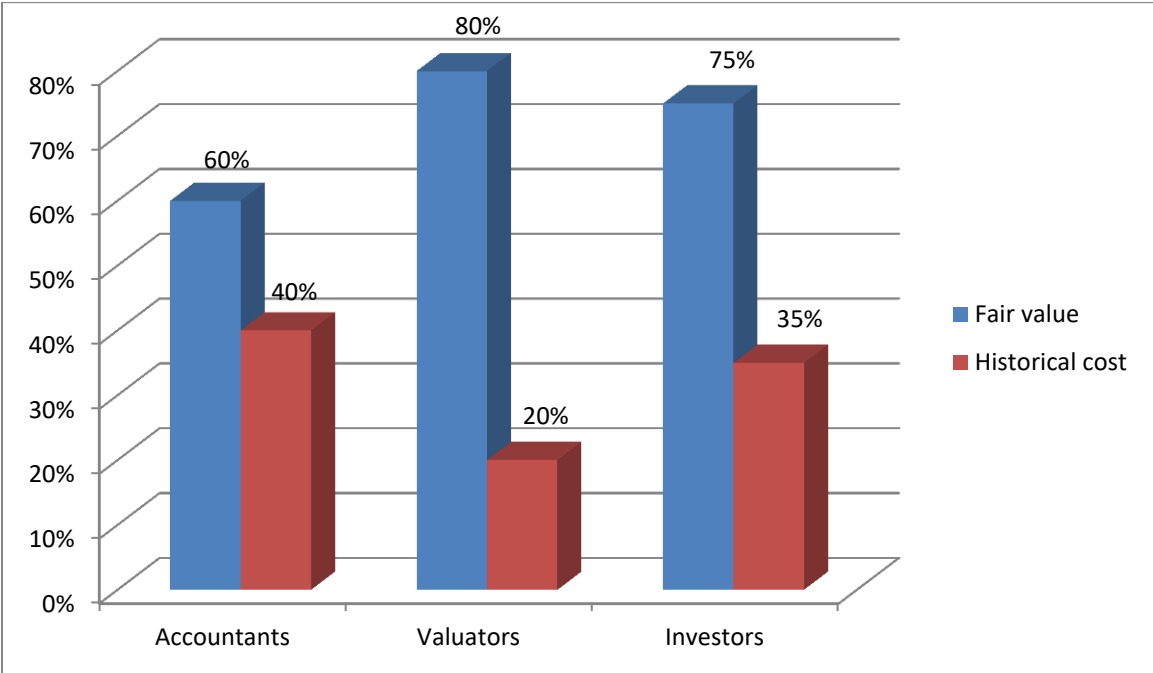
From the data above 9 out of 13 accountants (60%) used fair values, 4 out of 13 accountants (40%) used historical cost accounting in the preparation of financial statements. Some of the reasons put across in support of fair value accounting by accountants were that fair value allowed financial information to show the current value of financial instruments owned by an entity and allows management to manage risk. Those who seconded historical cost also said that historical cost was easy to apply and use. On valuators 8 out of 10 (80%) vouched for fair value and the main reason was that as valuators they had to consistently adhere to market changes and only fair

value allowed that. The investors majority which is 75% used fair values in their decision making and their major reason was that they always wanted to know the current value of any investment and all the risks involved in it before they make a move and fair value gave them all that information.

In conclusion the majority (74.28%) of financial statements users and preparers use fair values in both decision making and preparation of financial information. The above findings are in support with Liner (2011) who postulated that there is a worldwide adoption of fair value accounting because of the view that fair value gives relevant and timely valuation of accounting information than historical cost accounting.

4.3.2 Use of personal judgment affecting fair value credibility.

Figure 4.2 Personal judgment affecting fair value credibility
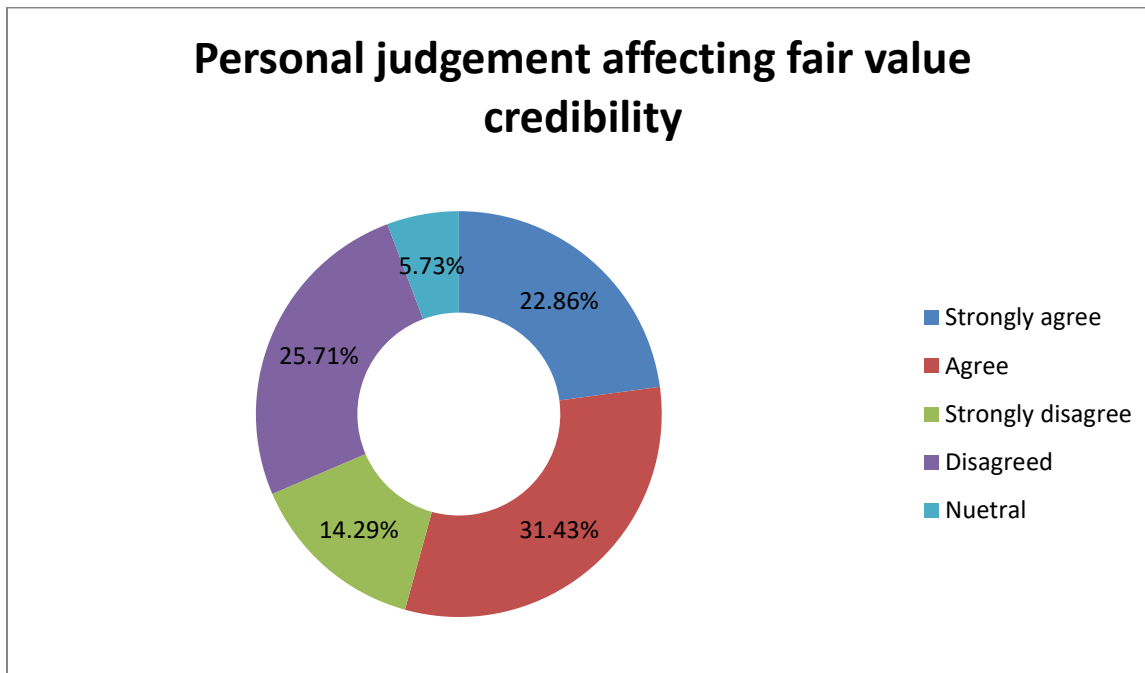
From the data above 8 out of 35 (22.86%) strongly agreed, 11 out of 35 (31.43%) agreed, 5 out of 35(14.29%) strongly disagreed, 9 out of 35 (25.71%) disagreed and 2 out of 35 (5.73%) were neutral. The above data shows that 19 out of 35(54.28%) agreed that the use of personal judgment in coming up with fair values especially in Level 2 and Level 3 fair value measurement reduced credibility of valuations as these were subjected to manipulation. This is supported by Kaur (2013) who postulates that the use of personal judgment in fair value reduced their reliability. 14 out of 35(40%) disagreed that use of personal judgment reduced credibility and Betakova et al (2014) supports the disagreement stating that since there is need to include the methodology and disclose the information about possible deviations from quoted prices then the manipulations can be seen if any are done.

As the majority of the respondents which is 54.28% and the mode of the data which is 11 agreed to the above assertion then it can be concluded that the use of personal judgment affected the credibility of fair value measurements.

4.3.3 Challenges associated with the usage of fair values

Figure 4.3 Challenges associated with the usage of fair values
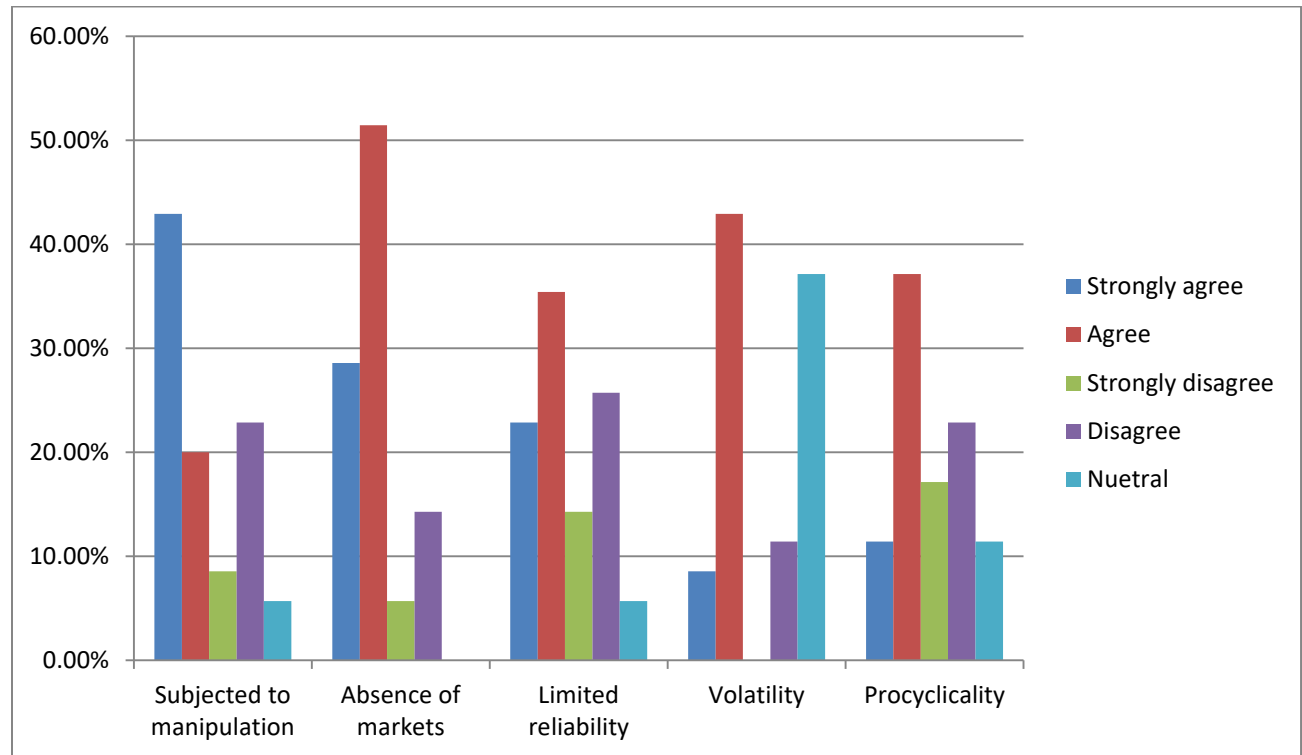
4.3.3.1 Fair values are subjected to manipulation

A total of 20 out of 35 (54.29%) agreed that fair values are subjected to manipulation and this is in line with Massadah (2016) who asserts that in the absence of active markets fair values are impaled by personal judgment and such values may be susceptible to manipulation. 42.86% disagreed to the assertion that fair values are subjected to manipulation and this is in support to Skoda & Bilka (2012) who postulates that since fair values are inferred from the market prices, this values can be checked in hindsight from available information about past and current and past prices.

The overall mode of the data is 11, and this represents respondents who agreed that that fair values are subjected to manipulation which is supported by Skoda & Bilka (2014) who stated that management the opportunity to manipulate this estimate as the management of firm are the ones to decide which model to use and what parameters will the model work under. No respondent was neutral on the view that fair values are subjected to manipulation, all respondents either agreed or disagreed on the matter.

4.3.3.2 Absence of markets

28 agreed that lack of active markets is a challenge that is associated with both coming up and using fair values. This is in support with Betakova et al (2014) who stated that it is often very difficult to obtain fair value if the market value of a given asset is not available in the actual market and coming up with estimates that give a true value of such an asset is more challenging. 7 out of 35 (20%) disagreed that the absence of markets is a challenge in usage of fair values and can be in support to the usage of Level 2 and Level 3 inputs which use the prices of other related quoted market price (derived from prices) and unobservable inputs (Shamkuts 2010).

The overall mode of the data is 18, which reflects that mostly the absence of active markets is a challenge in the usage of fair values. Skoda & Bilka (2014) are in support of the above and state that in the absence of market prices management use mark to model methods which allow them to manipulate the estimates.

4.3.3.3 Limited reliability

A total of 19 (54.29%) agreed that fair values have limited reliability and this is in support to what is postulated by information in financial statements provided by fair values is reliable for a limited period of time as any change in the financial markets prices renders the information presented in those financial statements useless (Skoda & Bilka 2014). However 40 % disagreed with the point that fair values have limited reliability and this in support of Allen & Carletti (2010) who points out those fair values does not have limited reliability as more frequent valuations can be done by the management and this allows management to be involved in a behavior that maximize market discipline and reduce unnecessary risk. 2 out of 35 (5.71%) were neutral regards the limitedness of fair values reliability.

The overall mode of the data is 11 and it represents respondents who agreed that fair values have limited reliability and this is supported by Boyer (2010) who states that fair value evaluates the worth of assets based on the expected returns over time and the underlying assumption is that the financial markets will be efficient and in the case that the market is not then the valuations will be biased.

4.3.3.4 Fair values cause market volatility

18 respondents agreed that fair values cause volatility in the prices of financial instruments and this is seconded by Duh et al (2012) who stipulated that volatility of both income and comprehensive income increased after applying fair values to financial instruments. However 11.43% disagreed that fair values caused volatility in financial markets and 37.14% were neutral showing that they were not sure on how fair values related to market volatility.

The overall mode of the data is 15 which represent respondents who agreed that fair values causes volatility in the markets and this is supported by Way (2016) who states that fair value accounting may further affect a down market adversely, an asset that had been revalued downward because of drop in current market price can trigger greater selling of such an asset and will result in such assets being further undervalued.

4.3.3.5 Fair values cause pro-cyclicality to the economy

A total of 48.57% agreed that fair values caused pro-cyclicality in the economy and this is supported by Khan (2010) who states that it is believed that fair value accounting spreads this resurgent contagion among banks and thus can potentially lead to breakdown of the banking system with possible impact to the real economy. However 40% of the respondent disagree that fair value accounting caused pro-cyclicality and they are in support of Prochazka (2011) whose view is that fair value accounting is just a messenger which transmit what will be actually happening in the market and blaming fair value on economy pro-cyclicality will be like shooting the messenger. 4 out of 35 (11.43%) expressed no knowledge on the relationship between fair value accounting and pro-cyclicality.

The overall mode of the above data was 13 out of 35 which represented 37% who agreed that fair value accounting caused pro-cyclicality in the economy and this is supported by Prochazka (2011) who states that fair value accounting is highly pro-cyclic and should be abandoned or at least be modified to ensure that financial statements report information of stability of the entity rather than its earning powers.

4.3.3.6 Conclusion on challenges associated with fair values

From the statistics drawn from the data above it can be concluded that the challenge of manipulation and absence of markets were most agreed upon than other challenges. There was an equal vote for and against the reliability of fair values. In conclusion the challenges of manipulation and lack of markets were mostly agreed upon than other challenges.

4.3.4 Impact of fair values on other accounting principles

Figure 4.4 Impact of fair values on other accounting principles
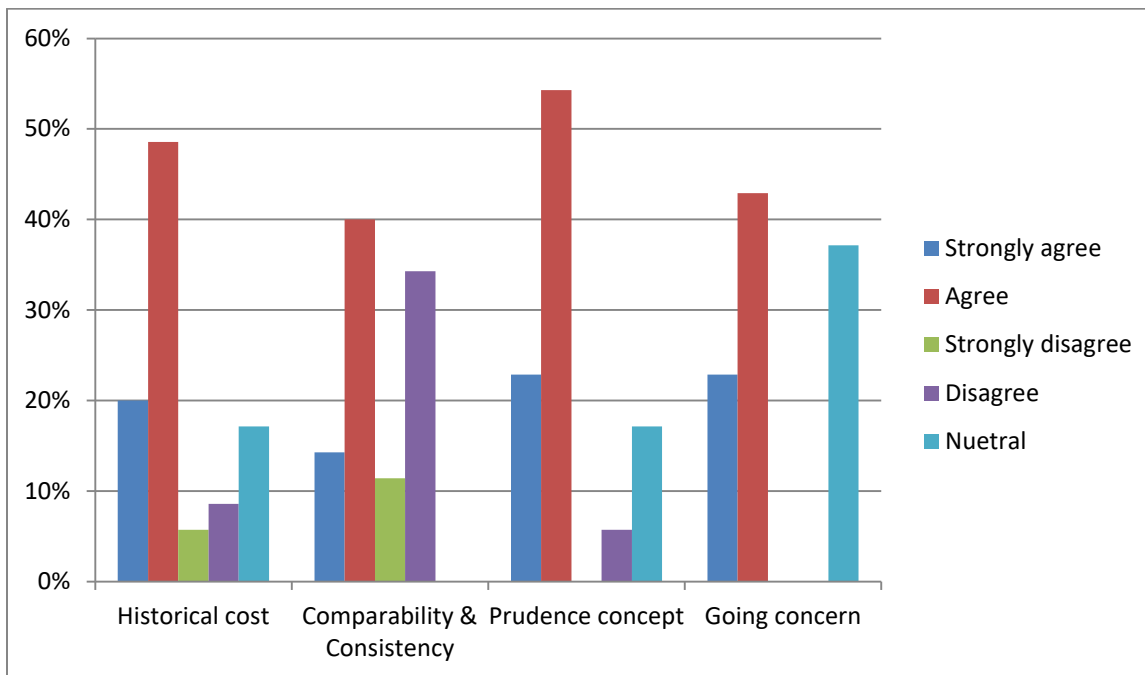
4.3.4.1 Historical cost principle

24 out of 35 (68.57%) agreed that the application of fair values had adversely affected the historical cost principle and this is supported by Skoda & Bilka (2012) who postulates that fair value accounting had becoming the best alternative to cater for the shortcomings of historical cost principle. However a total of 5 out of 35(14.29%) disagreed that fair values had an impact

on historical cost accounting and the remaining 6 out of 35 (17.14%) were indecisive regarding the matter.

The overall mode of the data is 14 (48.57%) which represents respondents who agreed that fair value accounting had adversely impacted historical cost accounting principle and this is in supported by Masadah (2016) who said points out that due to short falls in historical cost accounting of failing to reflect the economic value of assets, inability to reflect changes in purchasing power of currency and failure to account for complex assets like derivatives and hedging instruments it has seen itself replaced by fair value accounting.

4.3.4.2 Comparability and consistency

In total 19 out of 35 (54.29%) agreed that fair value accounting had adversely affected comparability and consistency in financial reporting and this was supported by Kekung & Effiong (2012) who stated that different firms use different accounting principles making comparison among firms even within the same industry difficult, fair value accounting does not ease the comparability problem but exacerbates it. However a total of 14 out of 35 (40%) disagreed and this in support of Christea (2015) who states that fair values provide equivalent financial instruments comparable values regardless of their date of entry in the accounts and there is active management of price risk using derivatives to avoid assets value falling or liabilities to rise

The mode of the data is 14 (40%) which represents respondents who agreed that fair value accounting affected comparability and consistency as stipulated by Kekung & Effiong, (2012) that fair value accounting also has a significant impact upon consistency, when the market financial assets decline precipitously and the valuation inputs change overnight, it is impossible

for the information to be consistent. In conclusion fair value accounting negatively impacted comparability and consistency as 19 out of 35 respondents agreed to the above assertion.

4.3.4.3 Prudence concept

From the above data a total of 27 out of 35 (77.14%) agreed that fair value accounting affected the prudence concept and this is in support to Prochazka (2011) who states that revaluation of assets and liabilities at the balance sheet date to their up to date fair values can lead to the recognition of unrealized profits and if the unrealized profit is to be distributed to owner this will result in the erosion of capital and it is against the prudence concept. Of the total respondents only 2 out of 35 disagreed that the prudence concept is adversely affected by fair value accounting and 6 out of 35 were neutral.

The mode of the data is 19 which represented respondents who agreed that fair value accounting affected the prudence concept and this in support to Benue 2014 who stipulated that the risk of inn of inappropriate distribution of unrealized profits is in question especially in the case of a bubble price development. In conclusion fair value accounting affected the prudence concept as most respondents of 27 out of 35 agreed to that assertion.

4.3.4.4 Going concern concept

The total of 22 out 35 agreed that the going concern principle was affected by use of fair values in financial reporting and this in support to ACCA (2010) which states that fair value measures assets at exit price which is somehow irrelevant as it goes against the going concern principle, fair value measures what the business will get if it sells an asset today which is more like all companies are reporting at a break-up basis not as going concern. No respondent disagreed on

that fair value accounting adversely affected going concern and 13 respondents were neutral on the matter.

The overall mode of the data is 14 representing respondents who agreed that fair value accounting affected the going concern principle and this is in support to Magnun & Thorntorn (2010) who questions the purpose of marking financial elements to their market values when financial statements are supposed to present the value of an entity as a going concern and not as a liquidating entity. In conclusion the going concern principle has been negatively affected by fair value accounting.

4.3.4.5 Conclusion on impact of fair values on other accounting principles

The historical cost principle was the most affected accounting principle according to the outcome of the research; this had been so as the majority of respondents agreed that historical cost principle was slowly being replaced by fair value accounting principle. This was followed by the prudence concept which respondents showed that it was adversely affected as its application was now compromised due to fair value accounting. The comparability and constancy principle had an almost same number of participants agreeing and others disagreeing and this shows that it was not yet clear as to how fair value affected this principle.

4.3.5 Benefits associated with fair values

Figure 4.5 Benefits associated with fair values
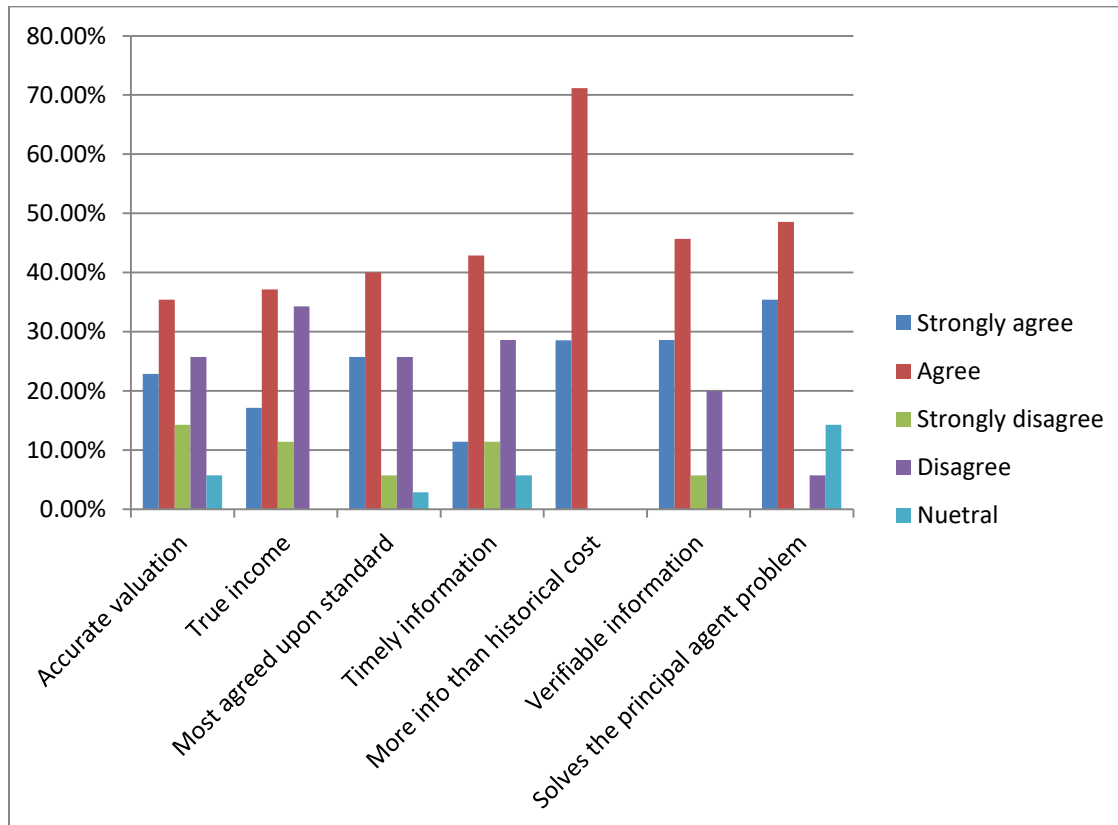
4.3.5.1 Accurate valuation

19 out of 35 (54.29%) agreed that fair values provided an accurate valuation and this is supported Dubihlela & Sibanda (2014) who postulates that the primary advantage of fair value accounting is that it provides accurate asset and liability valuation on an ongoing basis to users of a company's reported financial information. On the other hand 14 out of 35 (40%) disagreed that fair values provided accurate valuations and this is in support to Prochazka (2011) who argues

that valuations from fair value are sometimes not accurate as there is lack of database transaction to the extent that it is not always based on an actual transaction of the entity.

The mode of the data is 11 and it represents respondents who agreed that fair values provided accurate valuations. Christea (2015) supports the above and states that fair values are determined by referencing to the external yes or directly to the market values or in the absence of active markets by reference to a model based on the parameters of external data and all these are neutral values not influenced by the reporting company. As the majority of respondents 19 out of 35 (54.29%) are in agreement that fair values provide accurate valuation then it can be concluded that fair values provide accurate valuations.

4.3.5.2 F air values reports true income

Of the total respondents 19 (54.28%) agreed that fair values allows for the true income to be reported in financial statements. Fair value accounting limits a company's ability to potentially manipulate its reported net income by purposely arranging certain asset sales to use gains or losses from the sales to increase or decrease net income as reported at its desired time (Scot, 2010). However 16 out of 35 (45.71%) disagreed that fair value accounting resulted in the reporting of true income and this is supported by Khan (2010) who asserts that revaluation of assets and liabilities as at the balance sheet date to their up to date fair value can lead to recognition of unrealized gains which may result in the erosion of capital.

The overall mode of the data is 14 which represent respondents that are in support that fair values result in the reporting of true income and also the majority of the respondents 54.28% are in support of that and this can lead to a conclusion that fair values allows true income reporting.

4.3.5.3 It is the most agreed accounting concept

From the above data it is shown that a total of 23 out of 35(65.71%) agreed that fair value accounting is the most agreed upon accounting standard. This is supported by Van-Baren (2014) who asserts that fair value accounting accurately tracks all types of assets and this makes it the most agreed upon standard of accounting because set prices, even if still accurate in value, aren't the same because of monetary inflation. 11 out of 35(31.43%) disagreed to the above and this is supported Peing & Benley (2010) who points out that the adoption and implementation of fair value accounting is likely to problematic given its complex and controversial nature and given that nations abilities to determine fair value can different based on their underlying infrastructures.

Basing on the mode of the date 14/35 (40%) it can be concluded that fair value is the most agreed upon accounting standard. To add to that the majority of the respondents which is 65.71% seconded to that fair value accounting is the most agreed upon accounting standard.

4.3.5.4 Timely information

19 out of 35(54.28%) agreed that fair values provide timely information and this is supported by Christea (2015) who asserts that since fair value accounting utilizes information specific for the time and current market conditions, it attempts to provide the most relevant estimates possible and has a great informative value for a firm itself and encourages prompt corrective actions. Of the total respondents 14 out of 35 (40%) disagreed and this is supported by Peng & Benley (2010) who asserts that there is some doubt about relevance of information contained in income statements and the usefulness of the net income and a measure of management performance when mixed bases measure balance sheet accounts.

The mode of the data is 15 which represented of those respondents who agreed that fair value accounting provides timely and relevant information. Abdalrahim & Elzain, (2015) supports this by stating that fair value in this context can provide an early warning for investors, managers and regulators thus increasing its relevance to all users of financial information and allows them to take appropriate measures in response to changes.

4.3.5.5 More informative than historical cost

All respondents agreed that fair value accounting provided more information than historical cost accounting and this can be the conclusion as all respondents agreed. Fair value accounting requires a firm to disclose extensive information about the methodology used, the assumption made, risk exposure, related sensitivities and other issues that result in a thorough financial statements as postulated by Greenberg et al (2013).

4.3.5.6 Verifiable information

16 out of 35(45.71%) agreed that fair value accounting provided verifiable information and this is supported by Skoda & Bilka (2014) who asserts that since fair value is inferred from the market price of a given asset, this value can be checked in hindsight from available information about current and past market prices. However 9 out of 35(25.71%) disagreed that fair value accounting provided verifiable information and this was supported by Kaur (2013) who stated

that the majority of these values will be on inputs methods selected by management and such estimates as they are based on personal judgment they will be difficult to verify.

The mode of the above data is 16 which represented respondents who agreed that fair values provided information that could be verified and this is supported by Betakova et al (2014) who stipulates that since it is necessary to include the methodology and disclose the information about possible deviations from a quoted price in the financial statement, this information can also be verified.

4.3.5.7 Solve the principal agent problem

Of the total respondents 28 out of 35 (80%) agreed that fair value accounting solve the pricipal agent problem and this is supported by Kusano (2012) who asserts that the principal-agent conflict is enhanced by historical cost accounting as it obscures real economic values and generates hidden-reserves. 2 out of 35(5.73%) disagreed and 5 out of 35(14.29%) were nuetral on the matter

The overal mode of the data17 and the majority of the partcipants agreed that fair values solve the principal agent problem and this can be the conclusion as also the majority of the respondends which is 80% also agreed that fair values solved the principal agent problem.

4.3.5.8 Conclusion on the benefits of fair value accounting

The most agreed upon benefit of fair value accounting was on that it gave more information than historical cost basis as all respondents were in support of this. There were mixed opinions on other benefits like presenting true income, accurate valuation, true information and being the

most agreed upon accounting standard. Respondents were also in high support of fair values solving the principal agent problem. In conclusion the majority of respondents acknowledged the benefits of fair values.

4.3.6 Relevance and reliability must be traded off

Figure 4.6 Relevance and reliability must be traded off
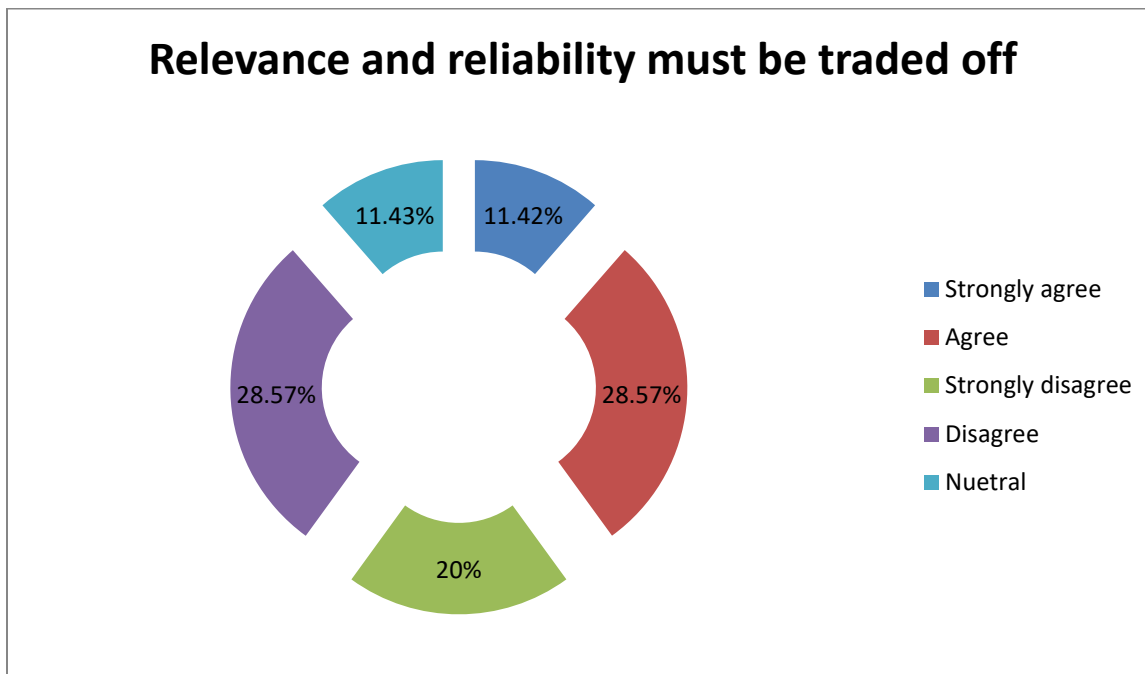
As shown in the data above 4 out of 35 (11.42%) strongly agreed, 10 out of 35 (28.57%) agreed, 7 out of 35(20%) strongly disagreed, 10 out of 35 (28.57%) disagreed and 4 out of 35 (11.42%) were neutral. The data above 14 respondents out of 35 (40%) agreed that relevance and reliability can be traded off as it was impossible to have all qualities perfectly attained. The other 17 out of 35(48.57%) disagreed that relevance and reliability must be traded off and were of the

view that both characteristics should be in fair values without compromising the other. The remaining 4/35 (11.43%) were neutral on this regards.

The mode of the data was 10 being of respondents both agreeing and disagreeing that relevance an reliability must be traded off. The majority of the respondents disagreed and stated that both reliability and relevance must be in fair values without trading off the other quality.

4.3.7 Fair value accounting as one of the major causes for fraud in recent years

Figure 4.7 Fair value accounting as a fraud tool
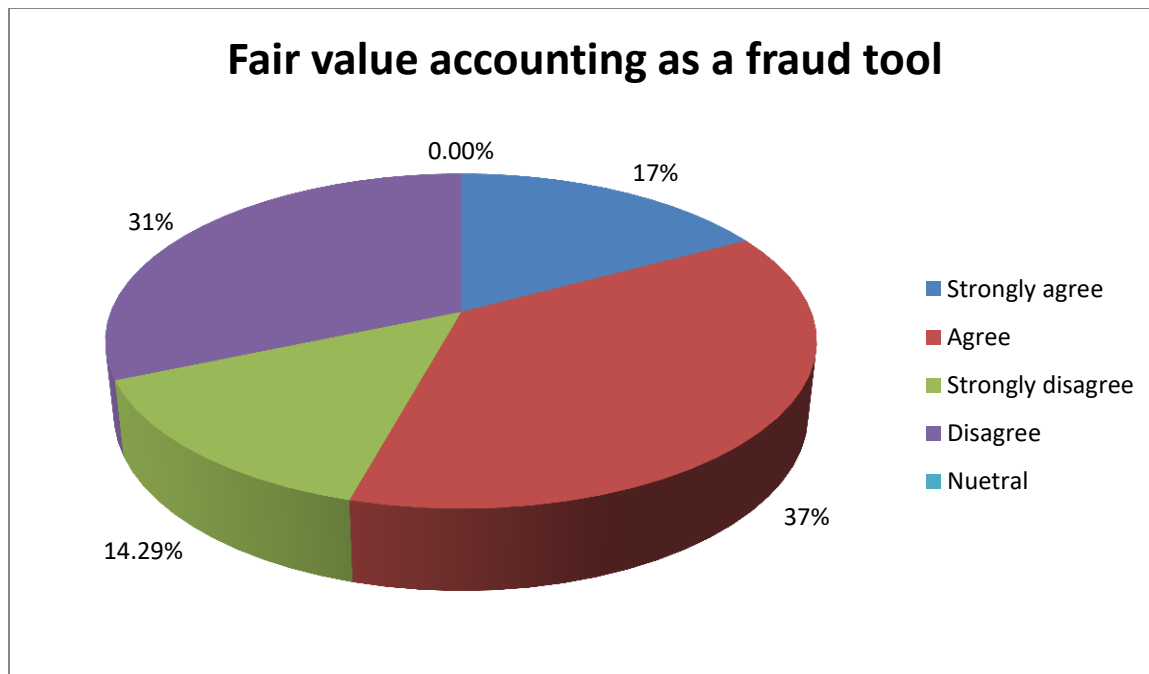
As shown in the data above 6 out of 35 (17.14%) strongly agreed, 13 out of 35 (37.14%) agreed, 5 out of 35(14.29%) strongly disagreed, 11 out of 35 (31.43%) disagreed and 0 out of 35 (0%) were neutral.19 out of 35 (54.28%) agreed that fair value accounting was a cause of some frauds

in recent years. This is supported by Zengeni (2015) in the Telecel Zimbabwe scandal in which there was plot to overvalue the company and also there was fraud in Allied Bank where the major shareholder failed to transfer the assets which they had pledged as part of purchase consideration because they had initially been overvalued (Musoko, 2015). However 16 out of 35 (45.71%) disagreed that fair value accounting was the reason for recent frauds. Some of the interviewees were in support of this and said that economic instability, corruption and political interference contributed to major recent frauds that took place in Zimbabwe especially the cases of Telecel and Allied Bank

In conclusion the mode of the data 13 out of 35 (37.14%) indicated that fair value accounting was a major cause of fraud and this is in support to Skoda & Bilka (2014) who points out that management was presented with a chance to manipulate financial instruments values through fair value accounting and they can practice creative accounting.

4.4 Interview data analysis

Table 4.3 Interview response rate

Targeted personnel	Number of targeted respondents	Number of interviews conducted	Response rate Percentage (%)
Institutional accountants	1	1	100%
Institutional investors	1	1	100%
Institutional valuators	1	1	100%
TOTAL	**3**	**3**	**100%**

The response rate for the interviews was 100% as all the three interviews that the researcher wanted to conduct were all successfully conducted. The researcher interviewed one participant from each group of participants and these were 1 accountant, 1 investor and 1 valuator.

4.4.1 Question 1

Which valuation method provides better information between fair value and historical cost?

All respondents (100%) were in support of using fair values in presenting financial statements and were of the view that fair values were more useful than historical cost valuation though they also sighted that historical cost valuation was also important as it made it possible to see the history of an asset. The investor was in full support of fair values and he stated that as an investor he was more concerned with what he can fetch on the market in the event that he wanted to dispose any of his investment. He further stressed out that historical cost valuation in some cases obscured his decisions when making investments as with historical valuations made on an instrument he could not ascertain the risk involved with such investment. The valuator clearly stated that regards his sector fair value was the most useful valuation method and he was obliged to constantly update the valuations of assets to market values. He stated that historical valuation were only important for keeping records of what the values for the assets were at original purchase but these values usually become irrelevant as most participants in the industry are concerned with what any given financial instrument can fetch on the open market.

In conclusion fair values proved to be more useful than historical cost valuation as all respondents were in support of fair value giving a 100% vote. The above result is also supported

by the outcome from the questionnaires which showed that 26/35 (74.28%) used fair values rather than historical cost valuations and it is also supported by Liner (2011) who noted that there was a worldwide adoption of fair value accounting.

4.4.2 Question 2

The effects of delisting of companies from ZSE, adoption of the multicurrency system, absence of a value guide in the property sector and lack or reasonable data bases and statistics on the valuation done in Zimbabwe.

33.3% of respondents raised many points regarding the above issues, on the delisting of companies from ZSE pointed out that fair values were now difficult to come up with as there were few companies left on the countries major market, back in the days it was easy to value financial instruments as reference was to be made on listed companies which were regulated by the ZSE regarding their reporting. On the adoption of the multicurrency system only stated that the move rendered all the valuations made before 2009 obsolete and linked the issue of multicurrency system as the reason why there were no reasonable databases and statistics as all available statistics were now obsolete.

Another 33.3% of the respondent showed major concern on the effects of the multicurrency on the valuation made in the country. Also pointed out that the majority of financial instruments were overvalued during the introduction of the multicurrency system and this had resulted in them as investors losing some of their investments as the values had continuously been falling on the market. Respondent showed no knowledge of the relevance of databases in the property sector. The other 33.3% of the respondents raised points on the multicurrency system and absence of data bases in the property sector and stated that the multicurrency system affected the

property sector negatively as they faced challenges in changing the values of assets from the Zimbabwean dollar to the introduced currencies. This was further made challenging because of the ever changing exchange rates during that era. He also pointed out the valuations that were made in 2009 were overvalued with a margin of around 40%. Regarding the absence of a value guide in the country he stated that even it was a challenge for the sector to operate without a value guide specifically made for Zimbabwe and they tried in all way possible to comply with internationally set standards in making valuations.

In conclusion all respondents showed that the multicurrency system, delisting of companies and absence of value guide in Zimbabwe affected the valuations made in the country.

4.4.3 Question 3

Relevance and reliability of fair values and their effect of other traditional accounting policies.

All respondents stressed out fair values were relevant and reliable and should be encouraged to be used in every financial reporting. They pointed out that fair values reflected the economic value of financial instruments making them more relevant. They further emphasized on how fair values allowed changes in the economic values of financial instruments to be reflected in the financial statements thereby increasing their relevance. On reliability they showed that in some cases the reliability of such values was questionable depending on their source. Lastly on the effects on other accounting principles they pointed out that fair value had little interference on accounting policies but it only depends on the organizational policy on adhering to traditional accounting policies.

The above results conformed to the results from the questionnaires which had 19 out of 35 (54.29%) supporting the relevance and reliability of fair values. The above findings were also supported by authors such as Allen & Carletti (2010) who supported the relevance and reliability of fair values.

4.4.4 Question 4

Challenges and benefits associated with the usage of fair values.

All respondents noted challenges of failing to get active markets for other financial instruments which they stated resulted in another challenge of using estimates or related assets price which in the end reduced the reliability of fair values. They also highlighted that fair values were complex to come up with and needed complex disclosures and this delayed the issuing of financial statements. Also fair values were expensive to come up with, had reduced reliability and caused instability in the financial markets.

On the benefits of fair values all respondents sighted the advantage of having up to date information that reflected the true economic values of financial instruments. They also pointed out that fair values created harmony in the business environment as all transactions showed transparency and this was in support of the view of Kusano (2012) who postulated that fair values solved the principal agent problem.

In conclusion to the above all the respondents agreed on the same challenges and benefits that are posed by fair value accounting and the results are also confirmatory to the results of the questionnaires which showed some agreements in some of the challenges and benefits stated by the respondents in the interviews.

4.5 Chapter Summary

This chapter looked disclosed the findings of the research and presentation and analysis of data was done using tables, pie charts and graphs. Analysis of the results was done by linking every finding to supporting literature. The findings of this chapter will be used to make conclusion on this research and recommendation as well as area of further study in the next chapter.

CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMENDATIONS

5.0 INTRODUCTION

This chapter recaps all the chapters of the research and comprises of the major findings, conclusions as well as recommendations of the study. Recommendations of the study are attributable to the research data collected as well as research outcomes in order to make knowledgeable and solid recommendations.

5.1 CHAPTER SUMMARIES

5.1.1 Chapter One

This chapter introduces the topic of the research which titled the analysis of fair value accounting focusing on its relevance and reliability to prospective and current investors. The main objective of the research was to find out if fair value financial statements were relevant and reliable in decision making by investors. Cases where fair value accounting had led to major loses on the side of investors were sited in this chapter as well as some major hindrances to the adoption and implantation of fair values in Zimbabwe. Research objectives, limitations and delimitations of the study were outlined in this chapter.

5.1.2 Chapter Two

This chapter discussed the available literature of fair value accounting giving details on how fair value measurements are done and stating some of the major principles that are followed when coming up with fair values. More detail is given on the major question of the study which is to find out if fair values are relevant and reliable for decision making. Arguments against the relevance and reliability of fair values as well as the challenges associated with the usage of fair

values are explored into. The impact of fair value accounting on traditional accounting principles is discussed .The chapter lastly looks at the benefits of fair value accounting and sited among these were its ability to provide accurate valuations.

5.1.3 Chapter Three

This chapter explained the research method and design used in collecting and analyzing data. A mixed descriptive research approach which used qualitative and quantitative designs was used by the researcher. The targeted population was 80 professionals and a sample of 40 was used and this sample was made up of 15 institutional accountants, 15 investors and 10 institutional valuators. For reliability purposes, the researcher used secondary and primary data and a pilot test was conduct to assess the reliability of the questionnaires before they were distributed to the actual participants. Primary data was collected using questionnaires and interviews.

5.1.4 Chapter 4

This chapter contains the findings of the research. Data presentation was done using tables, pie charts, bar graphs and line graphs. The mode of the data was used as a measure of central tendency and was used for data analysis. Further analysis was done by linking all research findings to existing literature. Data collected from interviews was used in comparison with data generated through questionnaires so as to ensure reliability of the data.

5.2 Major Research Findings

Research findings showed that fair values were relevant to investors for decision making and the majority of both respondents of questionnaires and interviews were in support of this. Supporters of fair value accounting argued that it provided more relevant information because it could give up-to date information consistent with market and this increased transparency and prompted

correctional measures to be taken by decision makers. The reliability of fair values received a mixed feeling and there was a balance between those who supported and those who were against fair value reliability. Fair values must be used in decision making by all investors for the betterment of the financial decisions made.

5.3 Research Conclusions

The research was successful in analyzing the relevance and reliability of fair values in decision making by investors, the challenges associated with the usage of fair values in decision making as well as coming up with the valuation, the impact of fair value accounting on other traditional accounting principles and siting the benefits that are associated with the usage of fair values in decision making.

5.4 Recommendations

In this era of economic turmoil it is fair values that can only bring a sense of sanity on the financial statements presented by companies. For decision makers to come up with an up to date decision they need to use fair value financial statements. This view has been supported by responses mainly from institutional investors who use financial statements for decision making. In that light the researcher recommends investors to use fair valued financial statements as a base for investment decision-making, as they are relevant and up to date as compared to historical statements.

The researcher has found that reliability on fair valued financial statements cannot be absolute as there is always a degree of skepticism on the part of investors as far as the investment is concerned. Although the statements published will be audited, investors still acknowledge the

inadequacy of the audit processes in enhancing reliability by being skeptical whenever they use such statements. It can thus be concluded that fair valued financial statements are relatively less reliable as compared to being their relevance.

Respondents have been of the view that were the application of fair values are in contradiction with principles like conservatism, fair valuation will have to take precedence if the resulting financial statement are to be relevant for decision making. Standard setters can also make up for this by incorporating fair valuation in the updating of new standards thus reinforcing the precedence of fair valuation of financial statements to those traditional principles.

The concern for risks associated with fair value estimates is a recurring concern. Some believe that the concern is greater for non-financial assets, such as fixed assets, than it is for financial assets largely because often non-financial assets are unique and, thus, there are no active markets in which they trade. The lack of market values increases the risk not only of unintentional estimation error, but also of the exercise of opportunistic managerial discretion in determining the amounts. This will increase the risk of the investor using misleading figures for decision making and thus the researcher urges both prospective and current investors to be cautious in using fair values for decision making.

5.5 Area of further study

Are financial statements the best source of fair value estimates and if investors need this information, should they obtain it from other sources? What are the valuation and other implications of measuring different financial statement amounts using different measurement attributes, e.g., using impaired historical cost for some assets and liabilities and using fair value for others and do these implications relate to the ability to determine financial position and performance in one period, or to comparing changes in financial position and performance over time?

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Appendix A: Questions List

APPENDIX A: QUESTIONNAIRE

I am Shelton Phiri (R131348C), a fourth year student at Midlands State University doing Bachelor of Commerce Accounting Honours Degree. Essential to my academics is the undertaking of a research project on a preferred topic which reads:

RELIABILITY OF FAIR VALUE PRESENTATION TO INVESTORS IN A DEPRESSED ECONOMY (Case of Zimbabwe)

The information provided is for academic purposes and will be treated with outermost confidentiality.

QUESTIONNAIRE FOR ACCOUNTANTS AND VALUATORS

Instruction

Show your response by ticking in the appropriate box.

 PERSONAL DATA

Tick in the provided box

1. Name of Institution……………………………………………………………………………..

2. For how long have you been working for this institution?

0-2yrs ☐   3-4 yrs. ☐   5-above yrs. ☐

3. Position held …………………………………………………………………………………

RESEARCH DATA

1. Which valuation method do you use in coming up with values for financial instruments and preparation of financial statements and why?

Fair value ☐

Reasons……………………………………………………………………………………

……………………………………………………………………………………………………

……………….

Historical cost ☐

Reasons…………………………………………………………………

……………………………………………………………………………………………………

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2. The Zimbabwean economic market had become unreliable since the introduction of the multicurrency system in 2009 and this has affected values of financial instruments. How are valuations done where there are no value guides for instruments, limited statistics and no data bases?

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3. Fair value accounting had been noted as the main reason for the fall of Enron one of the energy giant in the world, Telecel Zimbabwe in 2015 was involved in a scam that had it being

overvalued at 200 million while its worth was only 50 million. In your opinion do you think fair value accounting played a role in the demise of Telecel Zimbabwe?

YES   ☐

NO   ☐

4 Relevance and reliability are of prime importance when coming up with fair values to be used in financial reporting.

YES   ☐

NO   ☐

5. In the absence of quoted prices (Level 1) management use market equivalents (Level 2) and estimates (Level 3) which are both subjected to manipulation and error.

In your opinion does the usage of level 2 and level 3 fair value estimates in financial reporting reduce the credibility of financial statements?

Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

6 The following are some of the challenges that are arise when financial reporting is done using fair values.

Challenges of fair value usage	Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

Fair values are subjected to manipulation by management				
Absence of liquid or active market for some financial instruments				
Limited reliability of information presented using fair values				
Fair value accounting causes volatility and confusion on markets				
Fair value accounting causes procyclicality in the economy				

7. Management manipulate valuations in some cases to attract investors and hide flaws in the economic positions of their entities.

Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

8 The application of fair values in presenting financial information had adversely affected the application of other major accounting principles. The following accounting principles affected by the use of fair values.

Accounting principle	Strongly agree	Agree	Indecisive	Disagree	Strongly disagree
Historical cost principle					
Comparability and consistency					
Prudence concept (conservatism principle)					
Going concern principle					

9 The following are some of the benefits of using fair values in financial reporting.

Benefits of using fair values	Strongly agree	Agree	Indecisive	Disagree	Strongly disagree
They provide accurate valuations for investment decisions					

They present true income for specific entity					
Most agreed accounting standard					
Timely and relevant information					
More information than historical cost					
Verifiable information					
Solves the principle-agent problem					

10 Relevance and reliability cannot be simultaneously achieved and therefore they must be traded off.

Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

11 In recent years there had been a chain of scandals in companies in Zimbabwe where most of the companies had been exposed on reviewing their net worth. Fair valued financial statements are the major reason for management frauds in recent years?

Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

Additional comments:

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Your contribution will be greatly appreciated

Thank you

APPENDIX B: Research letter

P BAG 9055 GWERU, ZIMBABWE

September 2016

Dear Sir / Madam

RE: <u>REQUEST FOR CONDUCTING A PROJECT RESEARCH</u>

I am a fourth year student at Midlands State University doing Bachelor of Commerce Accounting Honours Degree. Essential to my academics is the undertaking of a research project on a preferred topic which reads:

Reliability of fair value presentation to investors in a depressed economy. "Case of Zimbabwe".

May you kindly assist by filling in this questionnaire to the best of your knowledge. The views you provide shall be for academic purposes only and would be treated with outermost confidentiality. For further information, please conduct my supervisor Mrs Mashiri (0774898441) or the Chairperson of the department of Accounting Mr. Mazhindu (0772251404). In anticipation of your consideration and positive cooperation, I thank you.

Yours faithfully

Phiri Shelton

QUESTIONNAIRE FOR INVESTORS

Instruction

Show your response by ticking in the appropriate box.

PERSONAL DATA

Tick in the provided box

1. Name of Institution……………………………………………………………………..

2. For how long have you been working for this institution?

0-2yrs ☐   3-4 yrs. ☐   5-above yrs.☐

3. Position held ……………………………………………………………………………

RESEARCH DATA

1. Which valuation method provides more relevant and reliable information for decision making?

   Fair value basis   ☐

   Historical cost basis ☐

2. Based on the selection made above, what are the reasons for the selection made?

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3. Relevance and reliability are of prime importance to investors when making decisions based

on fair values presented in financial statements?

   YES   ☐

NO ☐

4. What are the sources of information that you use for decision making?

Financial statements ☐

Market publications ☐

Other (specify) ………………………………………………………….

5 In the absence of active markets, management use personal judgment and estimates to come up with fair values for financial instruments and these are subjected to manipulation and human error.

In your view does the use of personal judgment and estimates reduce the usefulness of fair values in decision making by investors?

Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

6 The following are some of the reasons why investors can't rely fully on fair values.

Shortcomings of fair values	Strongly agree	Agree	Indecisive	Disagree	Strongly disagree
Fair values are subjected to manipulation by management					

Absence of liquid or active market for some financial instruments					
Limited reliability of information presented using fair values					
Fair value accounting causes volatility and confusion on markets					
Fair value accounting causes pro-cyclicality in the economy					

7. The application of fair values in presenting financial information had adversely affected the application of other major accounting principles. The following accounting principles are affected by the use of fair values.

Accounting principle	Strongly agree	Agree	Indecisive	Disagree	Strongly disagree
Historical cost principle					
Comparability and consistency					

Prudence concept (conservatism principle)				
Going concern principle				

8. Relevance and reliability cannot be simultaneously achieved and therefore they must be traded off.

Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

9. The following are some of the benefits of using fair values to investors when making financial decisions.

Benefits of using fair values	Strongly agree	Agree	Indecisive	Disagree	Strongly disagree
They provide accurate valuations for investment decisions					
They present true income for specific entity					
Most agreed accounting standard					

Timely and relevant information				
More information than historical cost				
Verifiable information				
Solves the principle-agent problem				

10 In recent years there had been a chain of scandals in companies in Zimbabwe where most of the companies had been exposed on reviewing their net worth. Fair valued financial statements are the major reason for management frauds in recent years.

Strongly agree	Agree	Indecisive	Disagree	Strongly disagree

Additional comments:

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Your contribution will be greatly appreciated

Thank you

APPENDIX C: INTERVIEW GUIDE

I am Shelton Phiri (R131348C), a fourth year student at Midlands State University doing Bachelor of Commerce Accounting Honours Degree. Essential to my academics is the undertaking of a research project on a preferred topic which reads:

RELIABILITY OF FAIR VALUE PRESENTATION TO INVESTORS IN A DEPRESSED ECONOMY. (Case of Zimbabwe)

The information provided is for academic purposes and will be treated with outermost confidentiality.

Appendix C: Interview Guide

Interview questions

1. Which valuation method provides reliable and relevant information for decision making between fair value and historical cost?

2. How are fair values in Zimbabwe obtained, especially taking into consideration that the countries major market the Zimbabwe Stock Exchange is on the verge of collapse after major companies have delisted?

3. The multicurrency system that was introduced in 2009 saw many companies and assets being overvalued on its onset, to what extent do you think the multicurrency system affected the use of fair values in Zimbabwe?

4. The property sector in Zimbabwe does not have a value guide for making valuations and there are no reasonable statistics and data bases to refer to in making valuation. Given such conditions in the valuation sector are the valuations made still reliable for decision making as well as for preparation of financial statements?

5. In your opinion are fair values used in financial statements relevant and reliable for decision making by investors?

6. What do you think are the reasons why relevance and reliability of fair values is still questionable among investors?

7. It is believed that it is challenging for fair values to be reliable and relevant at the same time. In your view which quality between the two should fair values apprehend most and why?

8. What challenges or risks do investors face when they make investment decisions based on fair value financial statements?

9. In your opinion has the introduction of fair valued financial statements affected other accounting principles? If your answer to the above is yes, which accounting principles have been affected and how have they been affected?

10. Inasmuch as there are some shortfalls in fair value accounting, what do you think are the benefits of using fair valued financial statements in decision making for investors?

11. For fair values to be more useful for decision making they should incorporate the current needs of users to allow for continuous improvement. What more information do you think should be included in fair values to make them more useful for investors?

Thank you for your cooperation

Shelton Phiri (R131348C)