

## RELEASE FORM

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FAIR VALUE ACCOUNTING IN ZIMBABWE

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## **DEDICATION**

To my beloved family; Mr. and Mrs. Juawo and Simukai Juawo, with love.

## **ACKNOWLEDGEMENTS**

Praises, glory and honour to the Almighty Father for His guidance, wisdom and strength throughout the research. Many thanks towards my supervisor Mr. J Satande for his precise corrections and skepticism that led to the completion of this project. I am grateful to all the Accounting department lecturers for the assistance in the build up towards my final year and hence the compilation of this research.

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## **ABSTRACT**

This research undertook to examine the basic understanding of fair value accounting (FVA) in Zimbabwe and analyse the patterns within which it is adopted. The researcher's analysis focused on the Zimbabwe Stock Exchange (ZSE), listed banks and individual Small and Medium Enterprises (SME's). Accountants and auditors were also engaged in the research so as to determine their knowledge and their views on FVA. The researcher chose this topic because although a lot of authors have previously written about FVA, they dwell on its relevance, reliability, advantages and disadvantages and applicability to financial instruments without determining the adoption trends in their countries. Having established this gap, the researcher sought to analyse the adoption patterns of FVA in Zimbabwe. Quantitative data collection methods in the form of field surveys through a cross-sectional study of the listed banking sector, questionnaires and interviews were used in an attempt to establish the study's objectives. Chi-square analysis was used to determine the influential variables in FVA adoption in the banking sector. The significant variables for FVA adoption in the banking sector were competitiveness and internal organizational interest. The researcher established that 41% of the sample population had adopted FVA because of their knowledge and understanding of the principle. Institutional investors are of the opinion that FVA gives them a true and faithful presentation of financial reporting in order for them to make fruitful investment decisions. SME's and other management teams dismissed FVA as unnecessary due to high valuation costs, lack of knowledge and unreliability of measurement techniques. The researcher therefore recommended the PAAB and ICAZ to conduct training workshops for management in order to educate them on the principles of FVA.

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## **ACRONYMS**

AFS	Annual financial statements
FASB	Financial Accounting Standards Board
FV	Fair value
FVA	Fair value accounting
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAZ	Institute of Chartered Accountants in Zimbabwe
IFRS	International Financial Reporting Standards
ISA	International Auditing Standards
N.O.D	Non-executive directors
PAAB	Public Accountants Association Board
SME's	Small and Medium Enterprises
ZIMSTAT	Zimbabwe National Statistical Agency
ZSE	Zimbabwe Stock Exchange

# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

This chapter looks at the research problem and its setting, Matters to be looked at include background to the study, statement of the problem, research objectives, significance of the study, limitation of the study, assumptions, delimitations as well as the definition of terms used in the study.

### 1.2 Background to the study

The Chartered Professional Accountants Canada (CPA) (2005, p.2) state that in recent years, Fair Value Accounting (FVA) has made substantial headway in news outlets as it has been a popular element at the forefront of current accounting issues. Sibanda and Dubihlela (2010) argue that even after the financial crisis, usage patterns of fair value accounting have been frowned upon igniting the debate amongst accounting professionals. In reality, fair value accounting and quality of earnings are subjects that always trigger interest, particularly in the Zimbabwean environment. With FVA becoming an essential feature of International Financial Reporting Standards (IFRS) (Kaplan, 2011), accounting for assets and liabilities at market prices can produce results that sometimes dramatically change the underlying dynamics for certain businesses and activities (ICAZ, 2010), particularly during volatile and uncertain economic and market conditions (Bernanke et al, 1999) such as prevailing in Zimbabwe. The limitations inherent in fair-value accounting do not detract from the usefulness of fair-value measurements in providing a consistent starting point in analyzing financial statements (Ratcliffe, 2007).

The imperfect nature of FVA underscores the need for financial statements to be complemented with additional information about uncertainties in the measurement of assets and liabilities. Accounting systems provide a source of information to owners and managers operating in any industry for use in the measurement of financial performance. The concept of FVA emerged to cover gaps existing in the historical cost accounting (Holt, 2008). Historical cost accounting has co-existed with major corporate collapses and tremendous pressure from users of financial reports prompting the Financial Accounting Standards Board (FASB) and International

Accounting Standards Board (IASB) to refocus attention from historical cost accounting towards FVA (Rayman, 2007).

FVA was originally adopted because assets and liabilities measured using fair value are more relevant for decision making and financial reports based on historical costs are irrelevant when the assets' fair value exceeds the historical costs (Foster and Shastri, 2010). Fair value (FV) is said to enhance relevance but reduce reliability (Dietrich et al, 2008). In Zimbabwe, the application of FVA has received more negative comments than positive feedback, especially during the recent economic crisis. Firms are reported to happily adopt FVA when asset prices are rising but reluctant to write down impairment losses. FVA is also cited for bringing price bubbles into financial statements (Penman, 2007), leading financial institutions to react to market changes in the way that they would not normally act (Foster and Shastri, 2010).

The concept of fair value applies in Zimbabwe where government property is pre-valued before municipal accounts are prepared. According to the Urban Councils Act (2009, Section 2) government property such as Monomotapa, Kaguvi and Mukwati buildings and the Zanu PF headquarters are fair valued for the purposes of municipal accounting. Government analysts are required to revalue the property at the end of each financial year and this raises a question whether the fair values are reliable since independent analysts are not involved in the fair valuation process.

Old Mutual Zimbabwe also adopted fair value accounting when it revalued its properties after the adoption of the United States of America currency (US\$). Statistics from the World Bank show that although Zimbabwe was already experiencing rampant inflation in 2006, the cost of living was better because the Zimbabwean dollar (ZWS) equaled US\$1 at ZW\$100 000 (ZIMSTAT 2008). Rentals for a two bed roomed house cost ZW\$145 000 which was US\$145 at the time. ZIMSTAT statistics show that rentals in 2013 cost between US\$250 and US\$300 for the same apartment, showing that the revaluation of property caused a 100% increase for rentals comparing the period between 2006 and 2013.

Whittington (2008) states that in order to create fair value accounting to have reliable information for decision-making, markets have to be transparent for all assets and liabilities. However, because many assets and liabilities in Zimbabwe do not have an active market, the methods for estimating their fair value are more subjective and, therefore, the valuations less reliable. Another issue of concern about reliability is the management integrity in the judgment of the valuation process. Management bias, whether intentional or unintentional, may result in inappropriate fair value measurements and misstatements of earnings and equity capital.

The Council Of Institutional Investors (2008, p.4) states that “fair value has the advantage of being a more information-rich concept, given that it is a market-based value representing the outcome of the views of all the market participants, not just of one such participant, namely the reporting company (historical cost being specific to a single entity).” With economies like Zimbabwe where the stock market is 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.

Aitken-Davies (2009) purports that the use of fair value to measure a good proportion of financial instruments in accounts is, however, widely accepted. Financial reporting for listed companies is all about supplying the needs of investors in capital markets. Major investors and their associations seem to support fair value as the most relevant information for them and no major investor bodies are calling for fair value to be scrapped or suspended or even to be used less. Indeed, the reverse tends to be the case – there have even been calls for all cost-based measures to be scrapped. Accordingly in Zimbabwe, the best choice of firms to test the application of FVA permitted under IAS 40 Investment Property is the real estate firms such as Old Mutual. Old Mutual is the best choice of the firm with which to investigate the application of FVA because the investment property is the biggest and most material item in the statement of financial position and FVA could most likely be applied on this item (investment property). In other words, any fair value gain or loss on investment property represents an economically significant amount that is examined by analyst and investors (Dietrich et al., 2008).

### **1.3 Statement of the problem**

According to White (2008), FVA applies to jurisdictions with active secondary markets for financial instruments. Application of this in Zimbabwe is not wholly prudent. The inflationary economy simply does not have adequately qualified valuers; thus increased cost issues. Furthermore, use of fair values will make financial reporting more complex and less readily understood. In the face of Zimbabwe being such a volatile economy, FVA has found its way there. Therefore, it is essential to consider 'FVA' in Zimbabwe's context.

### **1.4 Main research objective**

To determine the adoption patterns of fair value accounting in Zimbabwe.

#### **1.4.1 Sub-objectives**

- To investigate knowledge of fair value accounting in Zimbabwe.
- To assess overall adoption of fair value accounting in Zimbabwe.
- To investigate whether fair value accounting contradicts with other accounting principles.
- To establish Accountants and Auditors opinions on fair value accounting.
- To examine the risks associated with decisions made through the use of fair value accounting.

### **1.5 Research questions and Hypothesis**

- Do users and preparers know about fair value accounting?
- What adoption criteria are used by preparers and users?
- Is the use of fair value accounting in contradiction with other accounting principles?
- What is the accountants and auditors opinion on fair value accounting?
- What are the risks associated with fair value accounting?

#### **1.5.1 Hypothesis**

According to Borg and Channon (2012)" the variability selection hypothesis predicts the adoption of versatile behaviours in response to increasingly variable environments." In this context, the hypothesis that fair value accounting will be adopted over the historical cost principle will be tested using statistical methods with different variables. Based on this theory, the research will be based on testing the following hypothesis:

*H<sub>0</sub>: Due to competitiveness and internal organizational interests, fair value accounting has been adopted in Zimbabwe.*

*H<sub>1</sub>: Fair value accounting adoption is not influenced by competitiveness and internal organizational interests.*

## **1.6 Significance of the study**

The purpose of this study was to explore the definition and understanding of 'FVA' in Zimbabwe, identify how fair value is measured in this inflationary economy with a very sizeable market (for shares and property investments). The study further ascertains on the rate of adoption of FVA in Zimbabwe.

## **1.7 Delimitations**

- Telephone interviews will be conducted whenever respondents take long to respond to questionnaires.
- Some of the financial limitations will be overcome by sending the respondents some of the questionnaires by e-mails.
- The study will focus on companies in Harare whilst the researcher will be based in Gweru so financial problems will be covered by telephone and e-mail correspondence.
- Company directors might hold onto some information they will perceive confidential hence the internet may be used to search for the information.
- Respondents to questionnaires may take too long to respond due to busy work schedules and this may lead to the budget being blown.
- Research is limited to studies that have been widely published.

## **1.8 Limitations**

The major limitation of this study is the biasness of respondents in filling the questionnaires and answering interview questions. This study concentrates on the financial accounting of firms in Zimbabwe which cannot be generalized. Also primary data has the disadvantages of data mining and data inherent in its nature. Another limitation of this study is the lack of time and money. Therefore the researcher has to rely on a very strict budgeting in order to beat travelling, internet and printing costs.



## **1.9 Definition of Key Terms**

### **Fair value accounting**

Barth (2006) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Under **GAAP**, the fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, other than in liquidation. On the other side of the Statement of Financial Position, the fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, other than in liquidation.

## **1.10 Theoretical/ Conceptual Framework**

The conceptual frame work is based on the hypothesis that the adoption is in response to increasingly variable environment (Borg and Channon: 2012) therefore it structured as below:

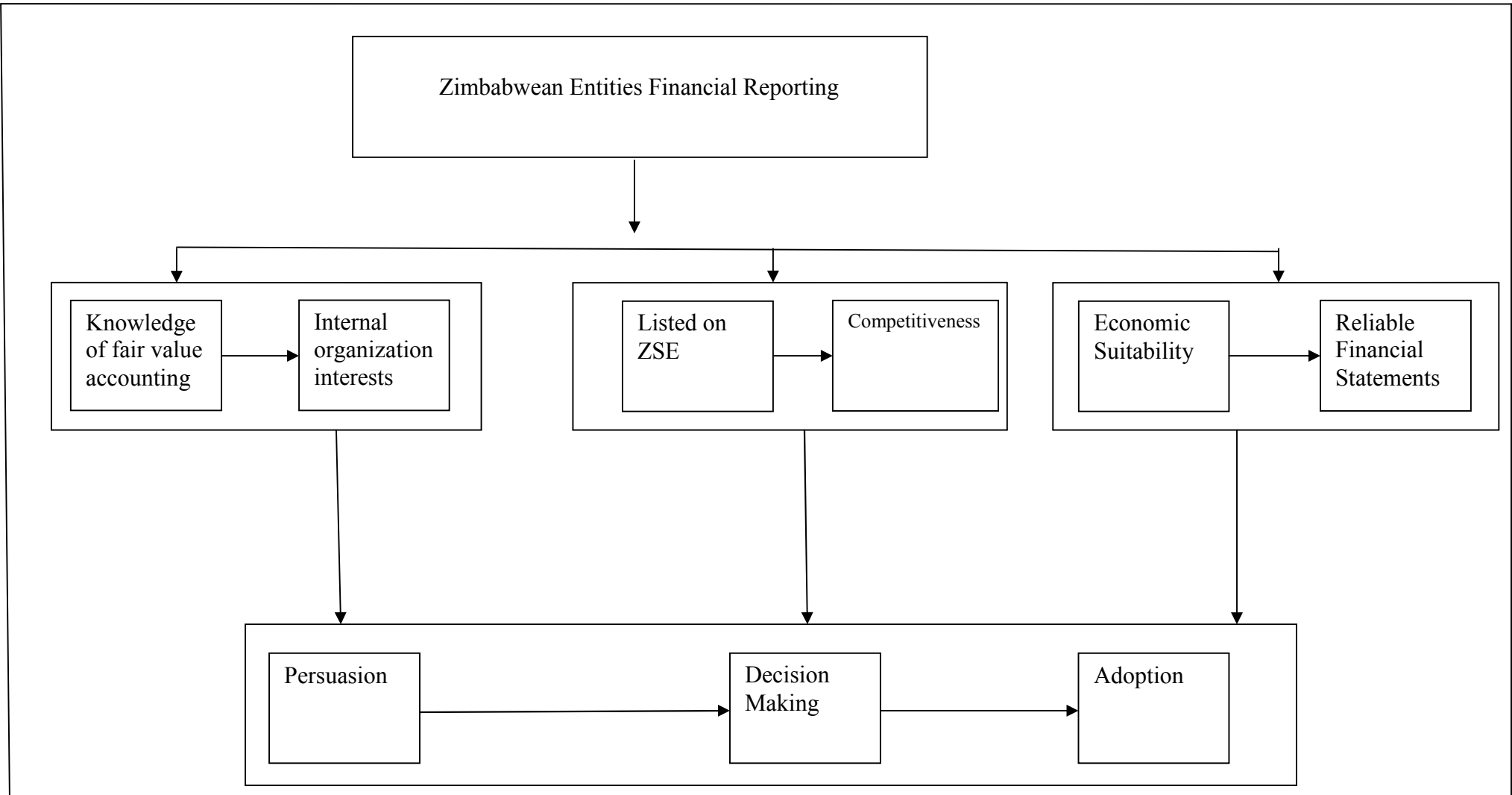


Fig 1.10: Explaining the sequence within which FVA is adopted.

Source: Adapted from Rodgers (2003)

## **1.11 Summary**

This chapter was concerned with providing a concise introduction of what the whole research paper will involve. It laid a base for the study on fair valued Statements of Financial Position that the researcher is about to undertake by highlighting the problem areas. This chapter also looked at the research objectives, and research questions that the researcher will focus on. It also looked at the significance of the research and assumptions of the research by referring to previous studies by other authors.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 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 International Standards of Auditing (ISAs) and Exposure Drafts on the topic. It also looks at how renowned scholars around the world have contributed to the FVA debate.

#### 2.2 Scope of the study

This study is limited to The Zimbabwe Stock Exchange (ZSE) and the listed banking sector. Individual accountants, investors and auditors will also be included in the study in order to come up with a neutral conclusion and recommendation.

#### 2.3 Analysis of the study

According to Barth (2006), “fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” Under **GAAP**, “the fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, other than in liquidation. On the other side of the balance sheet, the fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, other than in liquidation.” It was also defined in the IAS 39 as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction”. Now with FVA it is the use of these fair values in the reporting of such values in the financial accounts to the stakeholders of the firm.

The ICAZ Procedures Committee in the ICAZ Journal (2006, p.23) purport that FVA brings with it the challenge of ensuring that fair values are determined in a reasonable manner and reflect the situation on the ground. Fair valuing is an estimation process. The quality of estimates will always be influenced by the reasonableness of assumptions used, the quality of experts used and attributes of fair value model used.

The ICAZ Journal (2006, p.23) further states that quoted market price in an active market is the best evidence of fair value and is used as the basis for measurement. Many times quoted market prices for an asset are often unavailable, so an estimate of fair value can be used. As a result, difficulties can occur when making estimates of fair value.

“Although fair value can provide more transparency than historical cost based measurements, many claim that fair value reporting may make financial statements more subjective, too volatile and increasingly difficult for comparing companies for investment” Barth (2006) .

In the real world, hard assets such as plant facilities, land or illiquid securities are typically reported at historical purchase prices. In recent years, standard setters, including the FASB, have asked companies to more accurately reflect changes in the value of assets and liabilities using comparable transactions in the marketplace and management's best understanding of the fair values.

*"All non-market- based fair values are subjective because they are based on and sensitive to the estimates, assumptions and measurement methods management uses to determine fair value. However, subjectivity need not be a deterrent to using fair value accounting. Whether we like to admit it or not, estimated fair values are the basis of our economic decisions. Just as when you lease a car, or turn it in, you want the best estimate of the car's current fair value, regardless of its original price. This movement by the FASB reinforces the relevance of fair values to effective decision making."* Horton and Macye (2000, p.245)

Many also fear that fair value will bring a level of volatility to financial statements that will make it more difficult for investors to make sense of them. Deaconu et al (2010) state that the degree of judgement involved in many historical cost measurements, which are regarded as involving an unacceptable level of subjectivity, is the major reason for the risks that are associated with fair value. Where fair values reflect active market prices, they may also be regarded as embodying the best available measure of the present value of the risk-adjusted cash flows that the assets in question are likely to generate thus the risk will be at its minimal. The risks of fair value accounting are as below:

- A major risk is the lack of active markets for most assets and liabilities. This means that most fair value measurements are estimates. They are at least as subjective as historical cost measurements.
- Fair value information can be costly. This will thus be an incentive for cutting corners by responsible parties in order to cut costs of arriving at the fair values.
- Recognising profits based on fair values means that unrealised profits are recognised. Some would doubt the prudence of this for the purposes of either dividend decisions or calculations of management bonuses as well as its fairness for taxation.

Despite all these risks, in 2006 the International Accounting Standards Board (IASB) issued a discussion paper, 'Measurement Bases for Financial Accounting – Measurement on Initial Recognition', which proposed that assets and liabilities should preferably be measured at fair value on initial recognition.

The CPA Journal (2006, p.11) states that the issue is also likely to arise in the context of the IASB's work with the US FASB to prepare a joint conceptual framework. This is scheduled to cover the question of measurement and may prepare the way for more extensive use of fair value.

## **2.4 Relevance of the study**

The international accounting standards board (IASB) provides the financial accounting standard (FAS) no.157 which embodies the development and enhancement of accounting reporting that caters for FVA (IASCF, 2007). These require an entity to use the principal market for the asset or liability (Willing, 1988). In absence of such, the entity uses the most advantageous market. Herz (2008) argues that a principal market is one in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity. He further asserts that the most advantageous market is one in which the reporting entity maximizes the amount received for the asset or minimizes the amount paid to transfer the liability, considering transaction costs.

Wilson (2010) identifies three valuation techniques of the FASB statement; namely the market approach, income approach, and cost approach, requiring use of a given technique when sufficient data is available and where appropriate. The market approach uses observable prices and other relevant information generated by transactions involving identical or comparable assets (Holmes & Nicholls, 1988). The income approach converts future amounts to a single present value amount. The cost approach is based on the amount that would be currently required to replace the service capacity of an asset. In some instances, there is use of a single technique, whereas in others, multiple valuation techniques may be appropriate.

Yanez (2008) posited that observable inputs reflect assumptions used by market participants in pricing the asset or liability based on data obtained from sources independent of the reporting entity. On the contrary, unobservable inputs reflect the reporting entity's own assumptions developed based on best information available in the circumstances. The reporting companies must use fair value techniques that maximize observable inputs and minimize unobservable ones (Pannese and DelFavero, 2010). The hierarchy determines the level of disclosure required in financial statements.

According to White (2008), inputs are unobservable inputs based on the reporting entity's own assumptions about the assumptions that a market participant would use. These assumptions are those that are reasonably available, without undue cost or effort on the part of the reporting entity. These sentiments exclusively apply to the Zimbabwe situation. Holt (2008) indicates that fair value is regarded as conceptually superior to historical cost values. It reflects open and competitive markets assessment of current economic conditions, showing all available information, up to the measurement date. Accounting on this basis will reduce anomalies in the existing mixed accounting approach. Ratcliffe (2007) explains the objective of new principles-based guidance is to improve balance sheet management, clarity and consistency of financial reporting. This is achieved by eliminating incidents in which related assets and liabilities are measured differently.

## **2.5 Revealing of knowledge gaps**

Campbell (2004) states that the implementation of economic valuation techniques requires that accountants abandon traditional accounting principles. Yet, the movement toward FVA has been undertaken without evidence that the valuations produced are actually “better” than the old valuations. In contrast, recent evidence indicates that use of fair valuation has the potential for spectacularly misleading results.

All the above literature suggests that the authors have compound knowledge and understanding of FVA. In Zimbabwe’s context, only the ICAZ has ever written about FVA and its implications. This suggests that only professional preparers have knowledge of the principle and only those high profile companies which are audited by these preparers can be influenced towards FVA adoption. The researcher therefore determines to cover the knowledge gap and seeks to analyse the adoption patterns of FVA in Zimbabwe.

## **2.6 Areas of agreement and disagreement**

Previous studies have identified various benefits of FVA over historical cost. Edwards (2005) asserts that it is little comfort to know that the historic cost of every asset held by business firms has not changed since its acquisition. Young (2008) expresses that FVA is an evolution in financial reporting, which seeks to give users more timely and useful information. Barth (1994) notes that advocates of FVA believe it provides measures of assets, liabilities and earnings, which are more relevant.

Accounting standards discuss different ways of measuring fair value. IAS 39 Financial Instruments: Recognition and Measurement requires an entity to use the most advantageous active market in measuring the fair value of a financial asset or liability when multiple markets exist (Seay and Ford, 2010), whereas IAS 41 Agriculture requires an entity to use the most relevant market.

Conversely, literature also identifies limitations of FVA. A byproduct of FVA, as discussed by Yanez (in Young 2008) is increased volatility. Due to subjective judgment, results derived will be questionable, and may lead to litigation. Rayman (2007) believes that FVA may be



misleading or flawed. Botosan et al (2005) also considered research, which demonstrated that due to differences in interpretation of terms, if valuation information is seen as misleading, and taken to court, it would result in litigation costs. Hitz (2005), states that the stewardship function is discharged through provision of a historical record. He stresses the contractual relationship between the reporting entity and those who provide resources. In addition the fair value option for financial assets and financial liabilities standard does not consider certain items (Seay and Ford, 2010). For example, assets and obligations associated with pensions and other post-retirement benefit plans, financial assets and liabilities recognized under lease agreements, and more. This indicates that IAS 39 may be incomplete. Such lack of guidance leads to inconsistencies in reporting practice.

FVA has also been criticized for being subject to managerial discretion and for not having properly defined valuation methods. This allows preparers to use their judgments in determining the factors or elements being used in the valuation models, and therefore, making it subjective. Valuers will have differing opinions on factors involved in these models. For example, deciding on appropriate discount rates (Herz, 2008). This could lead to under-or over-valuation of assets, leading to preparation of misleading reports. Thus, financial reports will have to be thoroughly verified, before being made accessible to users, which will in turn affect timeliness in reporting. The choice between historical cost and FVA results in a tradeoff between reliability and relevance of financial information. Since these qualities are mutually exclusive, increasing relevance of information compromises its reliability and vice versa. This creates a problem if reported information does not “provide useful information to financial statement users in making economic decisions” (IASB, 2008).

Possibly, the analytical worth of FVA is not considered high enough to warrant the cost of producing it (Seay and Ford, 2010). Moreover, other advantages can only be realized if the method is widely practiced. According to Herz (2008), financial institutions now require more rigorous disclosures and thus, a greater number of assets are being carried at fair value. In Zimbabwe, lead is taken from the IASB. Thus, regulations already permit (and often direct) reporting entities to employ fair values.

## **2.7 Citations**

As the variety and complexity of financial instruments increases, so does the need for independent verification of fair value estimates. However, verification of valuations that are not based on observable market prices is very challenging. Many of the values will be based on inputs and methods selected by management. Estimates based on these judgments will likely be difficult to verify. Accountants, auditors and users of financial statements will need to place greater emphasis on understanding how assets and liabilities are measured and how reliable these valuations are when making decisions based on them.

### **2.7.1. The changing role of the Accountant**

The FASB, knowingly or not, is pushing to change the role of the independent accountant from objective reviewer of financial information to subjective valuation specialist. Accountants will become both judge and jury regarding financial valuation. The role of security analysts in creating market efficiency will be dramatically reduced because they will be receiving a highly processed end product based on thousands of assumptions by a single firm about a company's future. Even if independent accountants have no intentional bias, the capital allocation formula will transform from a review by many analysts to a review by a single analyst. Independent security analysts are unlikely to have access to all the accountants' assumptions.

### **2.7.2 Corporate governance issues**

According to the King III report, "the governance of corporations can be on a statutory basis, or as a code of principles and practices, or a combination of the two. The United States of America has chosen to codify a significant part of its governance in an act of Congress known as the Sarbanes-Oxley Act (SOX). This statutory regime is known as 'comply or else', meaning that there are legal sanctions for non-compliance. There is however an argument over this approach because it is the duty of the board of a trading enterprise to undertake a measure of risk for reward and to try to improve the economic value of a company. If the board has a focus on compliance, the attention on its ultimate responsibility, namely performance, may be diluted."

Following King III, the ZSE required listed companies to include in their annual report a narrative statement as to how they had complied with the principles set out in King III, providing explanations that followed practices recommended but have explained the practice adopted and have prospered. In these examples, the board ensured that acting in the best interests of the company was the overriding factor, subject always to proper consideration of the legitimate interests and expectations of all the company's stakeholders. The King Committee therefore believes that there should be a code of principles and practices on a non-legislated basis.

## **2.8. Overall implications of the literature**

According to Ryan (2008), it is the aspect of measurement that has proved to be the most problematic one. Valuations are normally easily determinable with reference to active markets. Distortions may arise in Zimbabwe, as sizeable active markets are limited. Where there are significant uncertainties, entities in the same sector need to combine forces and come up with fairly uniform guidelines to ensure comparability. This is the case with the Zimbabwean banking sector, where the Accounting Procedures Committee of ICAZ has set up a bank sub-committee that considers fair value adjustments within the sector. It is particularly important in an environment where there is significant uncertainty.

The ICAZ Journal (2006, p.24) stated as an example the release of the five to seven year-paper by the RBZ in December 2006. Estimates of value looking forward more than three months were already difficult in Zimbabwe. No one could truly forecast forward rates for a five-year paper. Even if such a paper were left at historical cost and was not fair valued, users of financial accounts would still wonder whether such a paper were impaired since the capital amount is only repaid after five years. What value would the capital amount have at that time, from today's perspective?

Laux and Leux (2009) state that assumptions underlying estimates need to be monitored year after year and reviewed against and assumptions used by other companies and the same industry. Even after such consideration, companies will continue to record significant fair value gains or losses due to the inherent nature of a hyperinflationary environment. It is only in Zimbabwe where share prices and property prices can double within a couple of weeks and again fall by a

similar margin. Preparers of accounts need to reflect this reality. It would be wrong to try to smooth away such volatility and deny its existence.

Gottdiener (2008) states that the determination of accounting estimates may be simple or complex.. Similarly, fair value measurements may be relatively simple for certain assets or liabilities, such as investments that are bought and sold in active markets such as the Zimbabwe Stock Exchange, which provides readily available and reliable information on the prices at which actual exchange has occurred. However for other assets and liabilities, the process may be more complex. For example some intangible and “special Treasury Bills” may not have an observable market price or may pose such characteristics that it becomes necessary for management to estimate fair value based on the best information available in the circumstances.

The Council of Institutional Investors Journal (2008, p.16) warns investors to continually evaluate the quality of earnings, that is the extent to which earnings are cash or non-cash, recurring or non-recurring, based precise measurement or on estimates that can change.

The ICAZ Journal (2006, p.25) states that the trend in Zimbabwe is that, while press releases with abridged accounts are published within three months, actual financial statements with supporting detail can be published up to six months later, just in time for an Annual General Meeting. This is one of the factors that create doubt within the investing public, where there is insufficient information to understand the numbers presented. Thus detailed financial information has to be conveyed in a timely manner in order to be relevant, particularly in Zimbabwe, where levels of uncertainty are great arise over time purely due to inflation.

## **2.9 Summary**

The above literature has reviewed what the available literature say about the inclusion of fair values in financial statements and how this has affected the accountants in Zimbabwe and world over in order to come up with fair value financial statements that are relevant and relied upon by both preparers and users such as investors. It also highlighted the deficiencies in the measurements of fair values in the Zimbabwean environment. The general consensus as per the standards is that agreed upon methods of measurement be used.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter is set out to give a description of how the research study was executed, embracing all the activities and procedures undertaken during the study. The chapter explains the selection of the research subjects and the research methods used in data gathering. The chapter begins by detailing the research design that was used by the researcher in critically analyzing the adoption of fair value accounting in Zimbabwe.

#### **3.2 Research Philosophy**

This study adopted the Positivist philosophy. A Positivist approach to research is based on knowledge gained from positive verification of observable experience. Cohen and Crabtree (2006) states that scientific methods or experimental testing are the best way to achieve this knowledge. According to Nightingale (2012) these methods ensure that there is a distance between the subjective biases of the researcher and the objective reality under study. This generally involves hypothesis generation and testing: proving or refusing. Typically, quantitative methods are used.

##### **3.2.1 Research Design**

Cooper and Schindler (2003:146) outlined that “a research design as a plan and structure of investigation so conceived as to obtain answers to research questions. The research design therefore is a plan for the entire research study that gives the framework of the research’s plan of action.

##### **3.2.2 Quantitative research methods**

Quantitative research methods are based on collecting data that is in form of numbers. The data is obtained by means of survey questionnaires and interviews which are then analysed statistically. In this type of research method numerical data and results are important because they are used to test a hypothesis and draw a conclusion from the phenomena. The hypothesis is either approved or disapproved through mathematical and statistical means.

### **3.2.2.1 Justification for using Quantitative research methods**

The quantitative approach ensures the objectivity of data by maintaining the distance between the researcher and the participants. This approach is also the most effective and efficient way of finalizing statistical results and proving or disproving a hypothesis. A comprehensive result can be reached after a mathematical analysis and the results gained can be seen as factual and unbiased since it side lines external factors.

### **3.2.3 Data Sources and Collection Techniques**

Cooper and Schindler (2003:87) define data as the facts presented to the researcher from the study environment. Data is set into two forms, 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 analyse the adoption of fair value accounting in Zimbabwe.

Secondary data is data at hand prior to the research. The data would not have been collected to serve answers to the research questions but information can be drawn from such sources. Secondary data already exist at the time of the research and was not originally gathered to answer the problem at hand.

### **3.2.4 Primary Sources**

To derive primary data pertaining to the adoption of fair value accounting in Zimbabwe, the researcher will employ questionnaires and face-to-face and telephone interviews. The researcher based most of the study on this type of data collection procedure due to the following reasons:

- Current data encompassing all the latest developments running concurrently with the research is obtainable for the research.
- Data, which validates the research, is acquired through this means
- Data collected is more reliable, valid and relevant.

Primary research has its own flaws which when well controlled; the quality of the research study is not compromised. Primary research poses the following challenges:

- Because primary research is very intensive it is expensive to effectively carry out

- Primary research is time consuming and requires proper planning to use time efficiently. The researcher designed a time schedule for collecting data such that every minute was used fruitfully.

### 3.3 Methods of collecting data

A cross sectional survey of banks listed on the ZSE, self-administered questionnaires and in-depth interviews were the main sources of primary data collection methods that were employed in the research.

#### 3.3.1 Cross-sectional study of listed banks

A cross-sectional study is a type of observational study that involves the analysis of data collected from a population or a representative subset, at one specific point in time, that is, cross-sectional data. The researcher will analyse listed banks’ AFS to determine whether their adoption of FVA is influenced by competitiveness or internal organizational interests. The banks to be studied are as follows:

**Table 3.3.1: Banks Listed on ZSE**

<b>Banks listed on ZSE</b>
Banc ABC
Barclays
CBZ
FBC
First Mutual Holdings
NMBZ Holdings
Standard Chartered Bank
ZB Bank

Source: Secondary data

#### 3.3.2 Questionnaires

A self-administered questionnaire is one in which the respondent fills in the questionnaire rather than the interviewer. A questionnaire presents information in writing to the respondents and requires a written down response targeting information as per the research question. There are three characteristics of a good questionnaire, which are clarity, devoid of leading and complex

questions. Questionnaires therefore, appeals for simple and easily understood questions those individuals can interpret and make sense out of them.

The questionnaires included both closed-ended questions that only provided a simple choice of answers such as 'yes' or 'no' and open-ended questions, allowing the respondent to fully express their answer.

### **3.3.2.1 Justification for using questionnaires**

A questionnaire saves time and is an inexpensive way of surveying a large cross-section of people. It allows the researcher to guide participants along lines of thought and responses obtained mostly from close-ended questions are easy to analyze. Self-administered questionnaires offer respondents the flexibility of filling in the questionnaires at their own convenient times and have enough time to think about their responses.

More closed ended questions were used because they are easier to administer and faster for data tabulation. Open-ended questions require respondents to answer in their own words. They were used because they do not restrict the respondent thus widening the scope of response obtained. They were however few because they give information, which is difficult to categorize and summarize.

### **3.3.3 Interviews**

The researcher used face-to-face interviews as another main research tool in soliciting data. Interviews were held with respondents and the research questions were used as a guide in the interviews. These gave the opportunity of instant feedback and enabled probing of complex answers.

There are two forms of face-to-face interviews namely individual and group interviewing. The researcher used individual interviewing to collect information. The interviews employed by the researcher were in-depth in nature. This was high due to the desire by the researcher of encouraging respondents to go deeper into their levels of thought.

#### ***3.3.3.1 Justification for using in-depth interviews***

Although respondents may hold back important information, the interviewer can use probing to get information especially on complex and emotional questions. The researcher is also able to



use non-verbal communication during interviews and read facial gestures of respondents on sensitive issues. Interview response rate is quick thereby reducing the time constraint and almost all questions were answered as the respondents could clarify and further understand the questions.

### **3.3.4 Secondary sources**

The researcher extensively used publications by accountants and investor's world over since it is cheaper to use secondary sources than to set up investigations but care was taken to ensure that the data is relevant; adjusted to suit the problem and is reliable.

## **3.4 Population**

Population is a collection of all the elements being studied. A research population thus refers to the total set of units in which the investigation is interested. The chosen population is made up of:

- i) Listed banks
- ii) Management
- iii) Accountants and Auditors
- iv) Investors

### **3.4.1 Population Sample**

A sample is a representative part of a target population taken to show what the rest of the population is like. It is ideally synonymous with the entire population conveniently scaling down the study elements where it is impossible to study the whole population. The sample for this research was drawn from The Zimbabwe Stock Exchange and various accountants and individuals.

#### **3.4.1.1 Sample Unit**

The sampling unit is a single group of elements subject to selection in a sample. In this study the sampling unit is the Listed banks, Accounts staff, auditors and both individual and institutional investors.

### 3.4.1.2 Sample Size

The sample of the research is more inclined to accountants and auditors as they are the ones who make compute and analyze fair valued financial statements. Other important players in this system are considered equitably. The respondents have been chosen on the basis of the magnitude of the knowledge they are expected to have on the topic. The sample is broken down as below:

**Table 3.4.1.2: Sample Population**

Respondent group	Sample size	Data collection method
Listed banks	8	Cross-sectional survey
Management	15	Questionnaire
Individual Accountants and Auditors	10	Questionnaire
Individual investors	5	Interviews
Institutional investors	10	Interviews

The selected sample is a representative proportion of the target population used in the collection of data consistent with the pre-determined research objective. The sample's characteristics are synonymous with the population under study.

### 3.5 Measurement of variables

Variable	Explanation and Measurement
<b>Dependent:</b> Adoption of fair value accounting	Measurement of financial instruments at fair value: 0= partial measurement 1= full measurement 2= not at all
<b>Independent:</b> Competitiveness	Measured by increase or decrease in market share in relation to previous year: 0= increase  1= decrease  2= no change
Internal organisational interests	Measured by board composition:  0= more than 5 non executive directors (N.O.D)  1= less than 5 non executive directors (N.O.D)

#### 3.5.1 Reliability and validity of research instrument

The researcher will use a cross sectional study of AFS presented by banks on the ZSE. These AFS have assured reliability because all assumptions made and methods of preparation are fully disclosed. The main purpose for these AFS is to depict a true and faithful representation of financial reporting to investors and shareholders so that reporting entities can convince them to increase capital and investments.

### 3.6 Data Analysis and Presentation

In this research, chi-square analysis will be used to provide information on the relationship between the variables of adopting fair value accounting in Zimbabwe. Raw data will be assessed to determine the data patterns of various types such that a hypothetical relationship can be established.

### 3.7 Conclusion

The chapter outlined sampling issues, types of data obtained and the methods of data collection and analysis procedures. The study is based on a positivist approach and quantitative data collection methods will be used. The researcher now moves to the next chapter of data presentation, analysis and discussion of the research findings.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION

#### 4.1 Introduction

This chapter mainly presents the analysis of the results from the questionnaires and interviews with the aid of data presentation techniques so that a conclusion could be drawn. In this chapter, the researcher analyses adoption of fair value accounting in Zimbabwe with references to the responses to the questionnaires and interviews.

#### 4.2 Response rate

Though it was hard for the researcher to convince the respondents to respond to questionnaires, the researcher exerted a lot of effort to achieve the expected response rate as alluded to earlier in chapter three. The response rate for the study was within the acceptable range as shown below.

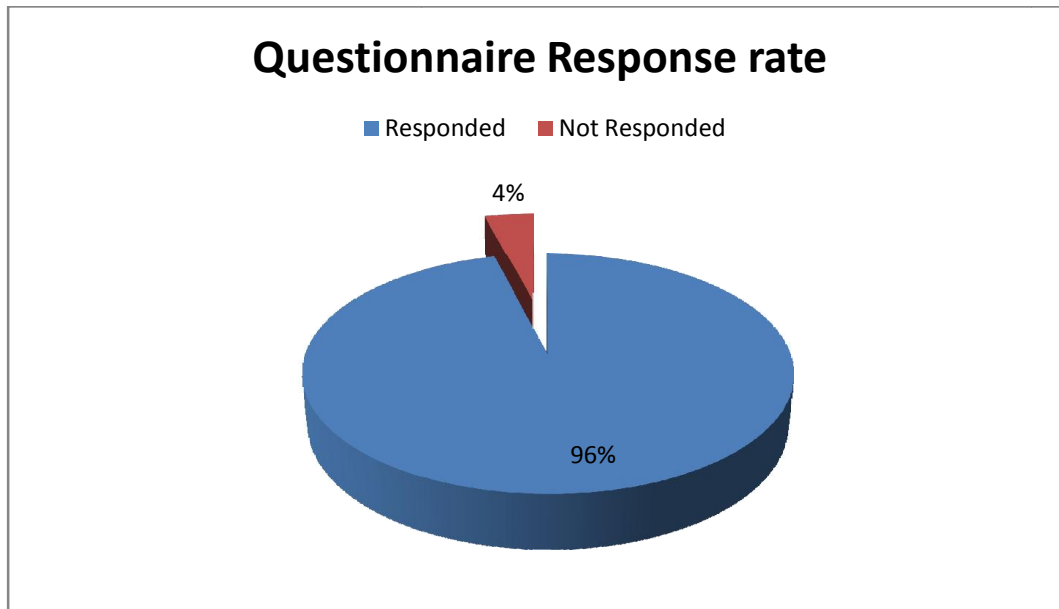


Fig 4.1: Questionnaire response rate

Source: Field Survey

In Fig 4.1, the most responses came from management with 40% contribution followed by accountants at 34% and auditors had the least contribution of 20%. 4% of the questionnaires were not responded to due to confidentiality of information. However there is no greater difference between the three contributions to materially affect the expected outcome of the research.

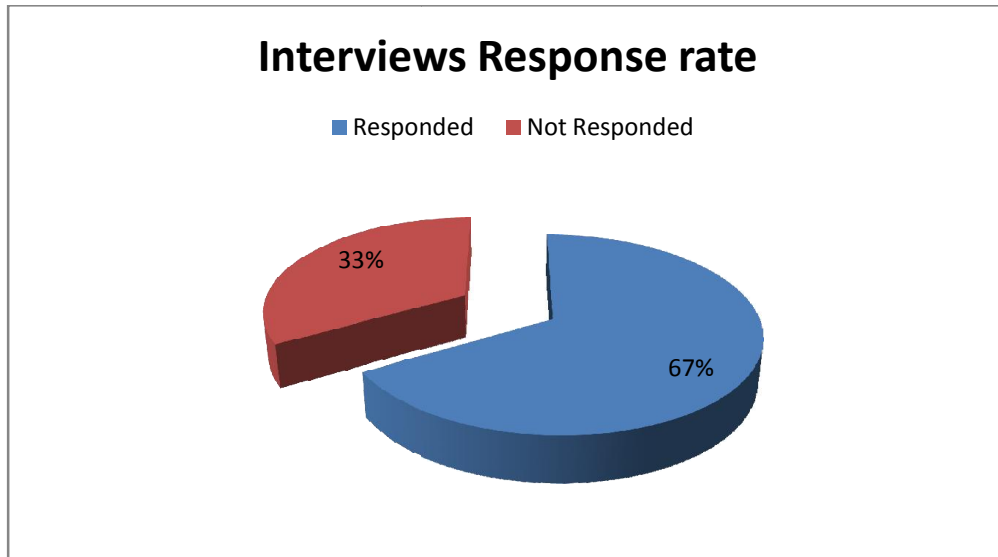


Fig 4.2: Interviews response rate

Source: Field Survey

Fig 4.2 shows a response rate of 67%, contributed greatly by institutional investors at 47% and individual investors at 20%. 33% of the interviews were not completed because the investors felt that that the information was too confidential and others related to time constraints.

### 4.3 Demographic characteristics of the respondents

#### 4.3.1 Age

The researcher observed that the average age of the respondents ranged between 34 years and 45 years for those who were willing to disclose their age. Board members and investors were skeptical as to why their age was needed, thus they were reluctant to release that information.

#### 4.3.2 Gender

80% of the questionnaire population sample were male, whereas only 20% were female, consisting of accountants and an auditor. Investors were 100% male.

#### 4.3.3 Position Held

Respondents holding the management position were 25% of the targeted population size. Board members, auditors, accountants and individual investors occupied 12.5% each, adding to 50% of the population. The remaining 25% consisted of institutional investors.

#### **4.3.4 Working Experience**

This information was withheld by most of the respondents and the researcher resorted to making statistical assumptions with the few questionnaires that had been fully answered. The researcher alluded to the conclusion that most respondents had a working experience of more than 5 years.

### **4.4 Research Findings and discussions**

#### **4.4.1 Knowledge of fair values**

*Q: Do you understand what fair value accounting is? Give your brief understanding of the term?*

All individual investors showed that they are ignorant of the presence of fair values in the accounting statements they use for decision-making. All the respondents in professional positions proved that they are very much aware of the presence of fair value accounting and understood the presentation and disclosure necessary for its adoption. 64% of the questionnaire respondents do not know what fair value accounting consists of and this percentage is made up of management.

As presented below, only 14% of the institutional investors were ignorant of the presence of fair values in the financial statements and know what it is as compared to 100% for individual investors. Accountants and auditors showed to be very much aware of fair values in financial statements at 100% awareness.

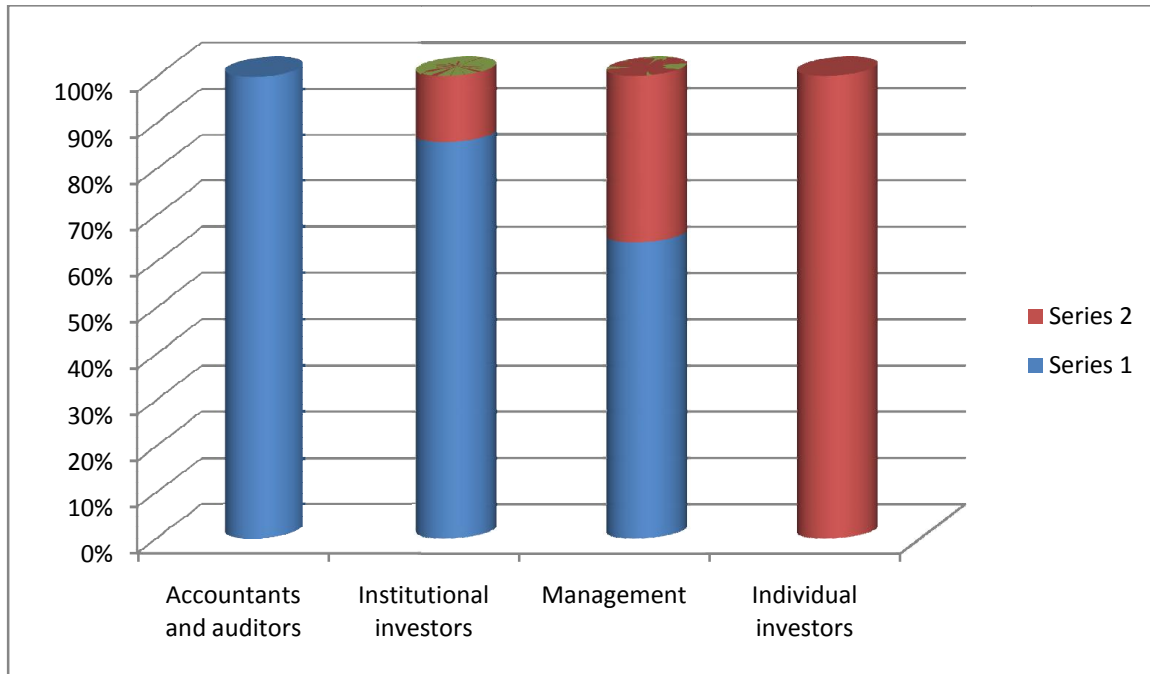


Fig 4.3: Knowledge of FVA

Source: Field Survey

#### 4.4.2 Hypothesis testing

The hypothesis tests were done using chi-square. In order to test the null hypothesis that FVA has been fully adopted due to competitiveness and internal organizational interests, two variables were analysed in relation to adoption itself.

**Table 4.4.2.0 Contingency Table for Adoption and Competitiveness**

Variables	Partial measurement	Full measurement	Not at all	<b>Total</b>
Increase	0	3	0	<b>3</b>
Decrease	2	0	1	<b>3</b>
No change	0	2	0	<b>2</b>
<b>Total</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>8</b>

Source: Cross-sectional survey

##### 1. Establishment of the degree of freedom

$$\begin{aligned}
 V &= (\text{no. of rows}-1) \times (\text{no. of columns}-1) \\
 &= (3-1) \times (3-1) \\
 &= 4
 \end{aligned}$$

\*Therefore critical point is 9.488

**NB \* Critical point is given on the Chi-square Critical Values Distribution Table**

## 2. Expected frequencies

**Formula-** 
$$\frac{\text{row total} \times \text{column total}}{\text{Number of respondents}}$$

**Table 4.4.2.1 Expected frequencies table**

Variables	Partial measurement	Full measurement	Not at all
Increase	0.75	1.88	0.23
Decrease	0.75	1.88	0.23
No change	0.50	1.25	0.25

**Table 4.4.2.2 Calculation of Chi-square for Competitiveness**

**Formula-** 
$$X^2 = \sum \frac{(O - E)^2}{E}$$

Observed [O]: Competitiveness	Expected [E]	O-E	(O-E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
0	0.75	-0.75	0.56	0.75
3	1.88	1.12	1.25	0.66
0	0.23	-0.23	0.05	0.22
2	0.75	1.25	1.56	2.08
0	1.88	-0.88	0.77	0.41
1	0.23	0.77	0.59	2.57
0	0.50	-0.50	0.25	0.50
2	1.25	0.75	0.56	0.45
0	0.25	-0.25	0.06	0.24
<b>TOTAL</b>				<b>7.88</b>



The calculated chi-square of 7.88 Chi-square is lesser than the critical point of 9.488 therefore the researcher analysed that competitiveness is an influential variable in FVA adoption. It is however to a lesser extent because of the small difference between the critical point and the calculated result. The hypothesis that competitiveness does not influence FVA adoption is therefore rejected and the null hypothesis that competitiveness influences the adoption of FVA is accepted.

**Table 4.4.2.3 Contingency Table for Adoption and Internal organizational interests**

Variables	Partial measurement	Full measurement	Not at all	<b>Total</b>
>5 N.O.D	1	4	1	<b>6</b>
<5 N.O.D	1	1	0	<b>2</b>
<b>Total</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>8</b>

Source: Cross sectional survey

### 1. Establishment of degree of freedom

$$\begin{aligned}
 V &= (\text{no. of rows}-1) \times (\text{no. of columns}-1) \\
 &= (2-1) \times (3-1) \\
 &= 2
 \end{aligned}$$

\*Therefore critical point is 5.991

**NB \* Critical point is given on the Chi-square Critical Values Distribution Table**

### 2. Expected frequencies

**Formula-** 
$$\frac{\text{row total} \times \text{column total}}{\text{Number of respondents}}$$

**Table 4.4.2.4 Expected frequencies table**

Variables	Partial measurement	Full measurement	Not at all
>5 N.O.D	1.50	3.75	0.75
<5 N.O.D	0.50	1.25	0.25

**Table 4.4.2.5 Calculation of Chi-square for Internal Organizational Interests**

Observed [O]: <b>Internal Organizational Interests</b>	Expected [E]	O-E	(O-E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
1	1.50	-0.50	0.25	0.17
4	3.75	0.25	0.06	0.02
1	0.75	0.25	0.06	0.08
1	0.50	0.50	0.25	0.50
1	1.25	-0.25	0.06	0.05
0	0.25	-0.25	0.06	0.02
<b>TOTAL</b>				<b>0.84</b>

The calculated chi-square of 0.84 is lesser than the critical point of 5.991. The great difference between these two points shows that internal organizational interests have great influence over fair value adoption. Raw data shows that those banks with more than five non-executive directors tend to adopt full disclosure of corporate governance and the tendency to abide with the correct principles leads to full fair value adoption. The null hypothesis that internal interests influence fair value adoption is therefore accepted.

#### **4.4.3 Is the use of fair value accounting in contradiction with other accounting principles?**

*Question: How do you view the fact that the introduction of fair values in financial statements has been in contradiction with other accounting principles?*

Respondents were of the opinion that although principles like conservatism were being made irrelevant, it benefits both the professional preparers and the investors for fair values to be included in financial statements.

#### **4.4.4 What is the accountants and auditors opinion on fair value accounting?**

*Question: Do you think fair value accounting is suitable in the Zimbabwean economy? If yes to above, in what ways?*

Respondents were of the opinion that FVA is highly suitable for the Zimbabwean dynamic economy since this would lead to faithfully represented and fair financial statements unlike historically based statements. Zimbabwe's economy changes on a daily basis and fair value accounting will depict an entity's true finances in the current economy.

#### **4.4.5 What are the risks associated with fair value accounting?**

*Question: Have you ever taken part in the computation of fair values? What are the risks associated with the computation of fair values?*

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 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.

#### **4.4.6 The Zimbabwe Stock Exchange (ZSE)**

The ZSE is caters for sixty-seven listed companies. This is a small margin compared to all the companies in Zimbabwe. The researcher established that mainly high profile companies are listed on the ZSE. Moreover, there is no active market for assets and liabilities apart from property development and shares. Therefore, the amount of trading is minimal and values obtained may not be representing the actual market values.

In the absence of an active market, reference is made to market prices of identical assets and liabilities of its competitors or similar industries. Since companies in Zimbabwe do not face rigorous competition and they differ in terms of size and operations, it is quite difficult to make comparisons. To allow for the use of fair values, the reporting entity would have to make the companies comparable by discounting selected values using some percentages. As a result, the fair value derived would be subjective and unreliable.

#### **4.4.7 Zimbabwean Municipalities and Government Properties**

Municipalities are bound by law to prepare fair valued financial statements. Government analysts value governmental properties yearly and disburse the figures to municipalities and respective companies occupying the properties. These entities do not fully adopt fair value accounting since only properties are included in their financial statements at fair value amounts.

Although these entities are few as they are numbered by cities, governmental influence is their significant variable for fair value accounting. The adoption is however partial because most town clerks lack knowledge on the subject and they have minimal interest in their financial reporting because financial statement preparation is often delegated to external accountants.

### **4.5 Summary**

The above analysis has showed that knowledge of fair value accounting and internal organizational interests are the main factors influencing the adoption of fair value accounting in an entity. Other variables such as government influence and competitiveness do not largely influence fair value adoption. Management knowledge of fair value accounting is however low, regardless of their entity being listed on the Zimbabwe Stock Exchange. Auditors and accountants are supportive of fair value accounting despite the dynamic economy currently prevailing in Zimbabwe.

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

After analysing the research findings as well as the literature available on the inclusion of fair values in financial statements, the researcher was able to conclude on these findings as well as give recommendations on the topic. The researcher was in a position to carry out an assessment of the objectives the research was supposed to achieve. The researcher was also in a position to identify future work that need to be done on this topic so as to compliment this research.

##### 5.1.1 Statement of objectives

This study undertook to determine the adoption patterns of fair value accounting in the Zimbabwe. The researcher employed statistical methods and objective analysis to achieve the following objectives:

- To investigate knowledge of fair value accounting in Zimbabwe.
- To assess overall adoption of fair value accounting in Zimbabwe.
- To investigate whether fair value accounting contradicts with other accounting principles.
- To establish Accountants and Auditors opinions on fair value accounting.
- To examine the risks associated with decisions made through the use of fair value accounting.

##### 5.1.2 Analysis of Objectives

The assessment of overall knowledge and adoption of fair value accounting in Zimbabwe was fully achieved, with the assistance of statistical means. Investigations on auditors and accountants opinions and contradiction of fair value accounting with other accounting principles were concluded through the researcher's objective analysis. However, the researcher's objective to examine the risks associated with decisions made through the use of fair value accounting was not achieved to the researcher's satisfaction because the motives of most Zimbabwean investors are short term. Investments are taken as a hedge against the spiraling inflation. Thus this shift of motives on the part of investors to short-termism instead of the normal long-term view expected

had a restrictive bearing on the answers I got as most investors had ceased considering financial statements as a decision base to the daily share prices.

## **5.2 Conclusions**

### **5.2.1 On the Cross-Sectional study**

The cross-sectional study on the banking sector supports the null hypothesis that FVA has been adopted due to competitiveness and internal organizational interests. Banks with more than 5 non-executive directors have full disclosure on corporate governance, for example, Barclays, hence they have a tendency to abide to the accounting principles and do the right thing; therefore they adopted IFRS 13 “Fair value measurement of financial instruments.” The researcher established that banks with increased market share and full disclosure of corporate governance had fully adopted FVA while those with decreased market share and a board composition of few non-executive directors, hence no disclosure of corporate governance partially adopted FVA for only market traded assets and realized the rest of the financial instruments at historical cost. The researcher therefore concluded that the variables “competitiveness” and “internal organizational interests” yield full adoption of FVA when they are applied together rather than individually.

### **5.2.2 On the questionnaire and interviews**

Based on the study’s findings, the researcher also concludes that knowledge of fair value accounting and internal organizational interests are the main variables influencing adoption of fair value accounting. 41% of the total entities studied adopted fair value accounting due to knowledge and their board members and management were in full support of this principle. Without sufficient knowledge on the topic, entities are still abiding to historical costing principles. This conclusion is in line with Edwards (1975), Barth (1994) and Campbell (2004) who specified the need for understandability in undertaking fair value accounting.

Another factor influencing adoption is the fact that most management personnel are of the opinion that fair values cannot be reliably measured since most of them do not take part in the computation of fair values. They consider it costly to employ analysts to value properties when they can simply use historical costs. This conclusion is not in line with Young (2008) who stated

that FVA is actually an evolution to financing reporting, seeking to give users more timely and useful information, despite the fact that reliance is given to analysts' values.

Users also expressed their concerns in regards to increased costs involved in adopting FVA. Also, most businesses in Zimbabwe are family owned or private companies. In such cases, fair value reporting may not be relevant, as it does not bring in incremental revenues. Since many organizations in Zimbabwe are SMEs, it they consider it impractical and a cost burden for them to comply with FVA. This conclusion is in line with Seay and Ford (2010) who states that the fair value option for financial assets and liabilities does not consider items such as pensions and assets under lease agreements.

In addition, users also believe that valuation techniques adopted by businesses in Zimbabwe may not provide them with reliable information, even though it may provide relevant information to some extent. Reliability of fair values is questionable, as this information is subjective. Intentional or unintentional management bias may result in inappropriate measurement and misstatements in earnings and equity capital. Even when valuations are done and reports are disseminated to users, there will be volatility in earnings. This is in agreement with Yanez (2008) who posits that due to subjective judgments results derived will be questionable, thereby increasing volatility and leading to litigation. There will also be problems in terms of understandability. If users are not familiar with FVA, how it is measured and the reasons for applying this concept, then eventually such reporting will be of little or of no value to them. Users will have to educate and familiarize themselves with FVA, to gain better understanding of financial reports.

## **5.3 Recommendations**

### **5.3.1 To the banking sector**

The research recommends that the Zimbabwean banking sector should abide to a universal accounting principle. Findings show that banks with partial adoption of FVA are suffering a loss in market share because investors are now interested in current market value investments. Banks with full adoption of FVA are also reluctant to loan finances to these banks because comparison of assets will be different.

Auditors should also enforce corporate governance to the banks' board members so that a good relationship is maintained within the banking sector between both customers and other banks.

### **5.3.2 To the Individual Entities and SME's**

The findings suggest that Zimbabwean companies have not fully adopted fair value accounting due to lack of knowledge on the subject. Municipalities have only adopted this principle due to government influence which requires its properties to be fair valued. Small and medium enterprises still abide to historical cost accounting.

It is therefore recommended that accounting associations such as ICAZ and PAAB should conduct workshops for management training to increase awareness of FVA and its benefits in the Zimbabwean economy. Accountants and auditors should be able to educate the management teams in their companies about fair value accounting and influence its adoption in the major companies so that it can be fully adopted in Zimbabwe.

## **5.4 Future research**

There is still a lot of work that has to be done concerning fair value accounting. Thus, there remain possible motivating questions for future research.

1. Are financial statements the best source of fair value estimates? Is determining fair value the comparative advantage of accountants? If investors need this information, should they obtain it from other sources?
2. 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? 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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## LIST OF APPENDICES

### Appendix 1: Questionnaire

#### QUESTIONNAIRE FOR THE ANALYSIS OF THE ADOPTION PATTERNS OF FAIR VALUE ACCOUNTING IN ZIMBABWE.

This survey is being carried out for academic purposes in order to obtain information on *An analysis of the adoption patterns of fair value accounting in Zimbabwe*, by **Phillipa T. P Juawo** a student at Midlands State University undertaking a Bsc Honors Degree in Accounting. The student would be grateful if you could spare an hour of your time to answer the following questions. The information you give will be used in the strictest confidence and mainly for academic purposes and will not be used for any other purposes. (There are no wrong or right answers)

**Questionnaire No:..... Date:.....**

#### Instructions

1. Do not write your name on the questionnaire
2. Show response by ticking the respective answer box where applicable and or filling in the spaces provided.
3. If not certain of your response omit the question.

#### QUESTIONS

1. i) Sex M  F   
ii) Age   
iii) Position held-----  
iv) Working experience -----years
2. Do you understand what fair value accounting is?  
YES   
NO

Give your brief understanding of the term?

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3. Do you think fair value accounting is suitable in the Zimbabwean economy?

YES

NO

NOT SURE

4. If yes to above, in what ways?

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5. Do you prepare financial statements using fair value accounting?

YES

NO

6. Have you ever taken part in the computation of fair values?

YES

NO

What are the risks associated with the computation of fair values?-----

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7. Does the Government influence your company's presentation or disclosure of items in the financial statements?

YES

NO

8. Can we measure fair value reliably?

YES

NO

NOT SURE

9. How much reliability is enough? Is there some absolute scale? Or, is the appropriate benchmark the reliability of other presently recognized amounts?

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10. Is your company listed on the ZSE?

YES

NO

11. Did the company adopt fair value accounting so as to be competitive on the ZSE?

YES

NO

NOT SURE

12. How does key management personnel and board members relate to fair value accounting?

Do they:

Strongly Agree

Agree

Strongly Disagree

Disagree

13. Do you think the need for fair valued statements is the major reason for management frauds in recent years?

YES

NO

14. How do you view the fact that the introduction of fair values in financial statements has been in contradiction with other accounting principles?-----

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**THANK YOU!!**



## **Appendix 2: Interview Schedule**

### **INTERVIEW SCHEDULE**

1. Do you understand what fair value accounting is about?
2. Are fair valued financial statements of value to you for your investment decision making?
3. What do you understand by the terms relevance and reliability of financial statements?
4. Are fair valued amounts in the Statement of Financial Position reliable enough for you to base investment decisions on?
5. Given the fact that in Zimbabwe financial statements are published 3 to 6 months after the year-end do they still have the relevance for decision-making they are expected to provide?
6. Before coming with a decision based on fair valued financial statements, do you need to know assumptions that will have been applied in coming up with the fair values?
7. What do you think should be done to maintain the reliability as well as the relevance of fair valued financial statements?
8. What other information do you think should be included in these fair valued statements to make them more useful?

**THANK YOU!!**

### Appendix 3: Chi-Squared Critical Values Distribution Table

#### Chi Squared Critical Values Distribution Table

The distribution table shows the critical values for chi squared probabilities. The critical values are calculated from the probability  $\alpha$  in column and the degrees of freedom in row of the table.

df/ $\alpha$	0.995	0.99	0.975	0.95	0.90	0.10	0.05	0.025	0.01	0.005
1	0.000	0.000	0.001	0.004	0.016	2.706	3.841	5.024	6.635	7.879
2	0.010	0.020	0.051	0.103	0.211	4.605	5.991	7.378	9.210	10.597
3	0.072	0.115	0.216	0.352	0.584	6.251	7.815	9.348	11.345	12.838
4	0.207	0.297	0.484	0.711	1.064	7.779	9.488	11.143	13.277	14.860
5	0.412	0.554	0.831	1.145	1.610	9.236	11.070	12.833	15.086	16.750
6	0.676	0.872	1.237	1.635	2.204	10.645	12.592	14.449	16.812	18.548
7	0.989	1.239	1.690	2.167	2.833	12.017	14.067	16.013	18.475	20.278
8	1.344	1.646	2.180	2.733	3.490	13.362	15.507	17.535	20.090	21.955
9	1.735	2.088	2.700	3.325	4.168	14.684	16.919	19.023	21.666	23.589
10	2.156	2.558	3.247	3.940	4.865	15.987	18.307	20.483	23.209	25.188
11	2.603	3.053	3.816	4.575	5.578	17.275	19.675	21.920	24.725	26.757
12	3.074	3.571	4.404	5.226	6.304	18.549	21.026	23.337	26.217	28.300
13	3.565	4.107	5.009	5.892	7.042	19.812	22.362	24.736	27.688	29.819
14	4.075	4.660	5.629	6.571	7.790	21.064	23.685	26.119	29.141	31.319
15	4.601	5.229	6.262	7.261	8.547	22.307	24.996	27.488	30.578	32.801
16	5.142	5.812	6.908	7.962	9.312	23.542	26.296	28.845	32.000	34.267
17	5.697	6.408	7.564	8.672	10.085	24.769	27.587	30.191	33.409	35.718
18	6.265	7.015	8.231	9.390	10.865	25.989	28.869	31.526	34.805	37.156
19	6.844	7.633	8.907	10.117	11.651	27.204	30.144	32.852	36.191	38.582
20	7.434	8.260	9.591	10.851	12.443	28.412	31.410	34.170	37.566	39.997
21	8.034	8.897	10.283	11.591	13.240	29.615	32.671	35.479	38.932	41.401

22	8.643	9.542	10.982	12.338	14.041	30.813	33.924	36.781	40.289	42.796
23	9.260	10.196	11.689	13.091	14.848	32.007	35.172	38.076	41.638	44.181
24	9.886	10.856	12.401	13.848	15.659	33.196	36.415	39.364	42.980	45.559
25	10.520	11.524	13.120	14.611	16.473	34.382	37.652	40.646	44.314	46.928
26	11.160	12.198	13.844	15.379	17.292	35.563	38.885	41.923	45.642	48.290
27	11.808	12.879	14.573	16.151	18.114	36.741	40.113	43.195	46.963	49.645
28	12.461	13.565	15.308	16.928	18.939	37.916	41.337	44.461	48.278	50.993
29	13.121	14.256	16.047	17.708	19.768	39.087	42.557	45.722	49.588	52.336
30	13.787	14.953	16.791	18.493	20.599	40.256	43.773	46.979	50.892	53.672
40	20.707	22.164	24.433	26.509	29.051	51.805	55.758	59.342	63.691	66.766
50	27.991	29.707	32.357	34.764	37.689	63.167	67.505	71.420	76.154	79.490
60	35.534	37.485	40.482	43.188	46.459	74.397	79.082	83.298	88.379	91.952
70	43.275	45.442	48.758	51.739	55.329	85.527	90.531	95.023	100.425	104.215
80	51.172	53.540	57.153	60.391	64.278	96.578	101.879	106.629	112.329	116.321
90	59.196	61.754	65.647	69.126	73.291	107.565	113.145	118.136	124.116	128.299
100	67.328	70.065	74.222	77.929	82.358	118.498	124.342	129.561	135.807	140.169