



Reflections on the value concept in accounting

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Abstract

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The recent meltdown in global finances and the reasons for it may make people doubtful about the stewardship function of accounting. In the global financial markets, there is a great fascination with the reality that accounting values intend to reflect. However, what many people considered valuable is now suddenly of no value. The question can therefore be asked what is meant by the value concept as a foundation to modern-day accountancy.

“Value” is a concept that is open to different interpretations, based on the needs, perspectives and personal values of the interpreter. This article aims to reflect on the value concept from an accounting perspective in analysing the fundamental qualitative perspectives and how these perspectives might affect the quantitative value measurements, as reported in the financial statements. From a quantitative perspective, accountancy aims to measure and report the monetary values of items. However, there is a move towards a mixed valuation model with many financial statements, including both historical cost and value-based accounting information.

The article concludes that this questionable development opens up many additional and subjective interpretations of accounting value measurement and reporting. Both valuation measurement methods have merit when considered in the overall purpose of accounting information. However, subjective value-based measurements may cast a shadow of doubt on the reliability and comparability requirements of accounting value information.

Opsomming

Beskouings oor die waardekonsep in rekeningkunde

Die onlangse ineenstorting van wêreldfinansies en die redes daarvoor mag veroorsaak dat baie mense die rentmeesterskapsfunksie van rekeningkunde bevraagteken. In die globale finansiële markte is daar 'n groot bekoring ten opsigte van die realiteit wat rekeningkundige waardes poog om te reflekteer. Wat baie mense egter voorheen as waardevol beskou het, het nou skielik geen waarde meer nie. Die vraag kan tereg gevra word wat met die konsep van waarde as 'n grondslag tot moderne rekeningkunde bedoel word.

“Waarde” is 'n konsep wat vir verskillende interpretasies oop is, gebaseer op die behoeftes, perspektiewe en persoonlike waardes van die individu. Hierdie artikel poog om op die waardekonsep vanuit 'n rekenmeesterskapsperspektief te reflekteer deur die kwalitatiewe aspekte te analiseer en die impak hiervan op die kwantitatiewe aspekte van waardebepaling en die verslagdoening daarvan, te evalueer. Vanuit 'n kwantitatiewe perspektief poog rekeningkunde om die monetêre waardes van items te meet en te rapporteer. Daar is egter 'n beweging na 'n gemengde waardasiemodel met baie finansiële state wat sowel historiese koste as waarde-gebaseerde rekeningkundige inligting bevat.

Die artikel bevind dat hierdie twyfelagtige ontwikkeling die deur oopmaak vir heelwat addisionele en subjektiewe interpretasies van rekeningkundige waardebepaling en verslagdoening. Albei waardasiemetodes het meriete, gesien in die lig van die oorkoepelende doel van rekeningkundige inligting. Nogtans mag subjektiewe billike-waarde-gebaseerde inligting 'n skadu van onsekerheid werp op die betroubaarheids- en vergelykbaarheidsdoelstellings van rekeningkundige waarde-inligting.

1. Background

My advice to you, ... is to seek out gold and sit on it.
(Gardner, 1989:74.)

Considering the world's current financial woes, many people might consider the dragon's advice to Grendel to acquire wealth (in the classical Beowulf poem), as all important. It may seem as if Dante's deadly sin of greed is ruling modern society, and that accounting is providing the means to commit this sin. The accounting profession's image has been tarnished by the creative ways in which financial values have been distorted and manipulated. Ryan (2008:1607) and Kao *et al.* (2005:136) state that although fraudulent incidents are not

accounting's fault, accounting is responsible for identifying, measuring and providing reasons for such occurrences. This may be a valid comment, but is it reasonable to expect the profession to accurately measure and reveal *all* financial values?

A key purpose of a company's financial statements is to translate its operational data into financial information and to communicate such information to its stakeholders (Sundem, 2007:287; Damant, 2006:30; IFRS, 2006:26). This communication forms the basis for a wide range of internal and external business analysis tasks, from evaluating the company's relative financial performances and supporting its financial policies, to being a key means of communication to stakeholders. Furthermore, Mattessich (2003:129-146) states that accounting is confronted with the phenomenon of *relative* values. However, in the reality of the business world with its many rules and objectives, there is no clear-cut way of knowing whose (or what) financial values are reliable or what these values actually present.

Even though conventional accounting and financial reporting are based on historical cost accounting, there is a global move to introduce fair value accounting (Ronen, 2008:181; Christensen & Frimor, 2007:35). According to Reis and Stocken (2007:557), fair value accounting (FVA) aims to determine the amount for which an item could currently be exchanged between knowledgeable and willing parties. Under the FVA approach, the fair value amount is approximated by the current market forces or by some kind of financial modelling (Perry & Nölke, 2006:562), which is then reported as the quantified value of the item. In contrast, under the historical cost approach, the actual historical amount is recorded (Buys, 2008:501; Scott, 2003:35), which means that the specific amount spent on the acquisition of the item is recorded and then reported as the quantified value of the item. The move from historical cost accounting to FVA therefore presents a major shift in accounting and financial reporting, because it removes the direct link between what was paid for an item and the value being attributed to it in the financial reports. Furthermore, while it is generally accepted that the creation of shareholder value is a key financial management objective (De Wet, 2004; Stiglitz, 2004), there are other stakeholders with their own financial and non-financial objectives (Stiglitz, 2004; Mitchell *et al.*, 1997). Hence, depending on the user's perspectives and requirements, there are different schools of thought on the approximation of accounting values (Sundem, 2007:288).

Considering the modern-day complexity of accounting data, the following underlying question may arise: What does value within the

context of accounting actually mean? Baier (1967:1) states that even though the quantification of value plays a crucial role (in the application of accounting), from a qualitative perspective, value also has a spiritual connection and personal ideologies may have an impact on how such value will be quantified. This is confirmed by Klamer (2003:207) when stating that the distinction of value in terms of economic, societal and ethical values helps to address other problematic situations as well, such as when discussions gravitate towards financial values.

2. Problem statement

As the role of the modern finance function shifts towards supporting business decisions, the demands on accounting information also shift to support the finance function in its role. Against the backdrop of relative monetary values and divergent perceptions on what value intends to reflect, the primary question under consideration can be defined as follows: Should we not reflect on the value concept, both from a qualitative and quantitative perspective, as a foundation for a modern-day accounting framework?

There is much debate in accounting circles (by academics, practitioners and standard-setters) about the advantages and disadvantages of alternative accounting valuation principles, and its role in supporting business decisions. In the debate around the value concept, Baier (1967:1) states that there is room for a philosophical overview of the entire conceptual area, while according to Klamer (2003:195), a pragmatic view on economic value measurement includes not only the worth of the thing, but also moral, social and cultural values. In order to make a contribution to this epistemological debate, this article aims to refocus the current discussion by bringing fundamental qualitative considerations into the debate and considering the role thereof in the formulation of a quantitative accounting framework.

3. Method and objectives

The core focus of this article, namely *value*, is a very encompassing concept. Although this article's consideration of the value concept is based in the discipline of accounting, the impact of philosophy on the economical sciences cannot be denied. However, it is not the primary purpose of this article to provide a thorough analysis of important philosophers and their contributions to the value concept. Its purpose can rather be found in the motivation that quantitative value measurement within the accounting framework is compatible

with qualitative values. The research method used in this article comprised a combination of literature study and philosophical discussion. The aim of the literature study is to reflect on the qualitative value concept and its implications on quantitative value measurement. The primary objective is therefore to reflect on value from two perspectives:

- Firstly, the qualitative aspects of value, including stewardship and related ethical considerations; and
- secondly, the quantitative aspects of value, including the concept of value and value theory foundations, as well as the historical versus value-based approaches.

4. Qualitative value perspectives

4.1 Introduction

The first objective of this article is to reflect on some key qualitative aspects of value, within the context of the economical sciences' stewardship function, and its impact on accountancy. Due to the pressures to deliver better (financial) performances, some individuals (accountants) may be open to a philosophy of "the end justifies the means" (Hunter, 2008:51; Gebler, 2006:30), which opens up a Pandora's box with regard to accounting practices. It may be argued that accounting is accounting and ethics is ethics, and that one has nothing to do with the other. However, ethical accounting behaviour is a broader concept as mainly that which is required by rules and regulations, and is often considered as the moral right or wrong (Horngren *et al.*, 2009:42-44; Gebler, 2006:29). According to Wilber (2004), ethics is also an integral part of the philosophy of human behaviour. Business ethics therefore becomes the application of ethics in a business context so that its activities become acceptable to society (CIMA, 2007:12; Mohon, 1999:1).

To set the context of accounting's qualitative value aspects in perspective, the roots of stewardship within the economical sciences will be considered at first, before linking it to accounting and some related issues facing the accountant.

4.2 Stewardship

The concept of *stewardship* is now considered from two perspectives. Firstly, within the context of the economical sciences, the original English term *economy* is translated from the Greek word *oikonomia* (οἰκονομία) (Pring, 1982:136; Swanson, 1959:111). There

is, however, some debate about the root words of *oikonomia*. One school of thought suggests that it came from a combination of *oikos* and *nomos* (*house* and *law*), translating it into the *law of the house* (Warshall, 2009; Anon., 2008). Another school of thought suggests that it came from *oikos* and *némein* (*house* and *manage*), translating it into *household management* (Mohr & Fourie, 2004:4). In Latin, the adjective *oeconomicus* is defined as relating to household management, while the subjective *oeconomus* is defined as the patron of the household property (Deferrari, 1960:722).

Secondly, the stewardship function also has its roots in the Greek *oikonomia*, with Pring (1982:136) translating *steward* from οἰκονόμος, while the Greek version of the New Testament (Bible NT, 1984:308) translates *stewardship* from οἰκονομῶν. Furthermore, stewardship is also linked to a management function of a master's property (Bible NT, 2005:104; 1984:308), and as being a servant for the good of others (Bible NT, 2005:265; 1984:792).

The broader concept of *oikonomia* can thus be seen as having two perspectives, namely a management function of items of value, and a stewardship function in relation to these things of value. In the Biblical context, the stewardship function can also be seen as a position of responsibility in managing others' property yet, humbling as standing in servitude of others.

4.3 Stewardship and accounting

The word *steward* is defined as one who manages the domestic concerns of a family or institute (Webster's Dictionary and Thesaurus, 2006:370), or a manager of money or goods, and to manage it according to the will of the rightful owner (Mohon, 1999:56). Furthermore, according to Kao *et al.* (2005:140) and Mohon (1999:52), stewardship is the right and duty of individuals to assume responsibility for their resource usage. Taking the concept a little further, Kao *et al.* (2005:67) state that all people have stewardship accountability for their actions involving resource allocation and human interest. Taking it further still, Mohon (1999:2) states that stewardship is often linked to the accounting function.

Accounting has developed from a practical skill into a sophisticated business and management tool (Buys, 2008:497) and thus became an integral and crucial component of human society. Not only is accounting's aim the recording of transactions impacting on resources and the tool to communicate financial information, it also became an integral part of the overall wealth management and

distribution system. Wealth can only be distributed if it has been accounted for properly prior to its actual distribution. This point is illustrated by Kao *et al.* (2005:140) when stating that economics is about the resources, but accounting is about how resources are allocated through usage and distribution.

This brings to the fore accounting's important contribution to the stewardship function, which includes the recording, allocation and distribution of resources in a responsible and fair manner. However, Kao *et al.* (2005:140) are of the opinion that the mechanism of the modern market economy has altered the course of distribution by eroding the fundamental principles of economics, and that current accounting practices are part of this erosion process. Why then is it, that although many professional accounting governing bodies have codes of conduct (Buys, 2008:496), and in spite of the accounting standards of the International Accounting Standards Board (IASB) and the United States' (US) Financial Accounting Standards Board (FASB) (Epstein *et al.*, 2005:12; Schroeder *et al.*, 2005:59), the occurrence of major corporate accounting scandals is a common occurrence? It is therefore necessary to give some consideration to stewardship and the individual accountant.

4.4 Stewardship and the accountant

Hunter (2008:52) states that most financial analysts agree that no single variable affects the organisational climate more than the values, practices and ideas of its management team. A strong ethical climate is, according to Verschoor (2009:13), very important to prevent fraudulent activities from occurring in the first place. Every accountant could therefore benefit from the *Daniel effect*, which comes from the Old Testament account of a governing body trying to discredit Daniel, as found in Daniel 6:4 (Bible OT, 2005:906):

Then the other supervisors and governors tried to find something wrong with the way Daniel administered the empire, but they couldn't, because Daniel was reliable and did not do anything wrong or dishonest.

Even though accountancy's stewardship role makes the maintenance of high standards of moral conduct important, the reality of the business world makes it easier said than done. Some decisions, such as the manipulation of accounting values and operational data, are simply a matter of right versus wrong. The really tough issues are the right versus right dilemmas, such as truth versus loyalty, individual versus community, or short versus long term. In Roman

mythology, Janus, the god of gates and doorways, is often depicted as having two faces, one facing forward and the other facing rearward. With this analogy in mind, the problem facing the accountant can be understood. There are many acceptable interpretations of raw accounting data and many legitimate stakeholder requirements pulling the accountant in different directions, for example certain shareholders wanting to maximise their dividend payouts, while others are looking for long-term growth, or even meeting taxation or social development and upliftment requirements.

When facing tough dilemmas as highlighted above, the fundamental principles of accounting institutes' codes of conduct, such as professional competency, integrity, objectivity and confidentiality (IMA, 2008; CICA, 2007; ICAEW, 2006; AICPA, 2003), are crucial in guiding the accountant's behaviour. However, one should always remember that no code of conduct will address all possible moral conflicts an accountant might encounter. It merely sets the framework for guiding his/her behaviour, while the accountant's interpretation of this framework is often formed through personal training, experiences and value perceptions.

5. Quantitative accounting value framework

5.1 Introduction

The second objective of this article is to reflect on the key quantitative value aspects as related to accounting. A key purpose of financial reporting is to make financial information usable for the stakeholders' decision-making purposes (Sundem, 2007:287; Damant, 2006:30). Therefore, the quantified accounting information disclosed in the financial statements should be relevant, reliable and comparable in order to support decision-making.

- **Relevant**

Something is relevant if it has bearing upon the matter in hand, or if it is pertinent (Webster's Dictionary & Thesaurus, 2006:317; Livingstone, 2008:553). Relevant accounting information is therefore capable of influencing business decisions (Schroeder *et al.*, 2005:50; Riahi-Belkaoui, 2000:139; Libby *et al.*, 1996:252), while according to the IFRS's Conceptual Framework, it must assist in evaluating past, present and future business events (IFRS, 2006:40).

- **Reliable**

Something is considered reliable when it is trustworthy (Webster's Dictionary & Thesaurus, 2006:317; Livingstone, 2008:553). Reliable accounting information must therefore be accurate, unbiased and verifiable (Schroeder *et al.*, 2005:50; Scott, 2003:79; Riahi-Belkaoui, 2000:140), while according to the IFRS's Conceptual Framework, it must faithfully represent that which it purports to represent (IFRS, 2006:41).

- **Comparable**

Comparability refers to something that is usable for comparison or capable of being compared (Webster's Dictionary & Thesaurus, 2006:317; Livingstone, 2008:553). Comparable accounting information means that stakeholders can compare relevant information across businesses (Schroeder *et al.*, 2005:51; Riahi-Belkaoui, 2000:140; Libby *et al.*, 1996:252). The IFRS Conceptual Framework (IFRS, 2006:43) extends this by stating that stakeholders must also be able to compare the information through time in order to identify trends.

In reality, the above indicates that the accounting information should be believable and plausible in the specific circumstances, as well as having common features to permit the possibility of comparison. In order to better appreciate accounting values within the contexts of relevancy, reliability and comparability, some consideration is now given to the concept of *value*.

5.2 The value concept in an accounting context

Value has been part of human understanding from early times and is often used when referring to something tangible in terms of some monetary value (Mohr & Fourie, 2004:355; Ekelund & Hébert, 1990:26; Mundell, 1968:47). However, the term may also be used when referring to some intangible concept (Botton, 2007:169; Ekelund & Hébert, 1990:26; Mundell, 1968:12), for example when stating that the value contribution of Luca Pacioli's treatise on bookkeeping, *Particularis de computis et scripturis*, to the development of modern accounting practices cannot be measured. In order to lay the foundation for considering an accounting value measurement framework, we firstly need to give some consideration to the development of the concept of *value*.

- **The definition of value**

Values are, according to Usher (1917:713), attributed to things by some reasonable logical method in order to describe judgements of desiredness, or judgements of scarcity, or some relation between desiredness and scarcity. More recent sources define *value* as a worth that renders something useful or estimable (Webster's Dictionary and Thesaurus, 2006:418), the amount of money something is worth (Livingstone, 2008:732), or as the amount of money for which something can be exchanged in a market (CIMA, 2003:282). From a more philosophical perspective, Audi (2005:948) categorised it into several forms, such as intrinsic value, instrumental value, inherent value and relational value, while the Brief Accounting Dictionary (2000:122) defines it as a belief or principle that somebody uses to make judgements. Finally, Blackbury (1994:390) states that to acknowledge value is to acknowledge some feature of things to take into account in decision-making.

Considering the above, value judgements may therefore be defined, analysed and described from many perspectives in terms of its *purpose*, or of the *process* by which it is determined, or of an *assumed absolute measure* of value.

- **Perspectives on value**

As a starting point, it might make sense to consider one of the great philosophers, Aristotle's (BC 384-322) perspective on value theory, which was based upon wants and its satisfaction (Comim, 2004:478), and the distinction between *value in use* and *value in exchange* (Schumpeter, 1954:60). Although thirteenth century scholastic economical analysis has been expelled from the corpus of modern economic knowledge, it has contributed significantly to the evolution of value theory. For example, Albertus Magnus (1206-1280) planted the idea that value exchange must comply with the market estimate at the time of the sale (Stark, 2005:65; Formaini, 2002:3; Ekelund & Hébert, 1990:28); Thomas Aquinas (1225-1274) introduced the phenomenon that price varies with need (Langholm, 2006a:396; Formaini, 2002:3; Ekelund & Hébert, 1990:29-30); Henry of Friemar (1245-1340) proposed that value is determined by the common need of something scarce (Langholm, 2006b:281; Ekelund & Hébert, 1990:30-31); Jean Buridan (1295-1358) advanced the notion of *need* into the generalisation of *every desire* (Langholm, 2006b:279; Formaini, 2002:3; Ekelund & Hébert, 1990:32); while Gerald Odonis (1290-1349) recognised different skills and the

relative cost of acquiring such skills (Formaini, 2002:3; Ekelund & Hébert, 1990:32-33).

Other key theories on value include the cost-of-production theory and the theory of the parity of labour, capital and land (Grossmann, 2007:10-11; Usher, 1917:714), which accepted the contribution of the various resources in the creation of commodity value. Such values might typically be considered as the natural price, because it is determined by the long-run cost of production (Ekelund & Hébert, 1990:108-109). In contrast, the market prices are determined by the interaction of supply and demand (Ekelund & Hébert, 1990:108-109).

- **Evolutions in value**

According to Grossmann (2007), Usher (1917) and Young (1911), a commodity's dual value, i.e. its exchange and use values, is still recognised in value theory. These two meanings, according to Ekelund and Hébert (1990:106), relates to the commodity's utility (its value in use), or its purchasing power (its value in exchange). The utility of money also comes from two sources, namely an exchange value that is derived from the value of the goods it can buy, and a (subjective) use value of its own because it can be held for future use (Ekelund & Hébert, 1990:562).

Taking it a little further, the concept of *use value* may even be considered more than physical utility, but a psychological utility (Grossmann, 2007:24), a reflection of individual attitude (Gordon, 2005:402) or even cultural attitude (Klamer, 2003:200). Either way, value in use is therefore seen as utility, which is a quality of being useful (Webster's Dictionary and Thesaurus, 2006:859), or a numeric indicator representing consumer satisfaction (Pindyck & Rubinfeld, 2005:75). By inference this could be interpreted that the higher a commodity's utility, the higher its (use) value should be.

However, eschewing any pretensions of direct measurability, Comin (2004:492), Ekelund and Hébert (1990:358) and Richter (1971:29) are of the opinion that behaviour might very well reveal actual utility. Ekelund and Hébert (1990:131) also state that utilitarianism is overly narrow in its approach to human behaviour, with little room for behavioural motives. The mainstream of contemporary economic theory frequently defers ontological questions, and merely assumes that preference structures conforming to certain rules can be usefully proxied by associating goods, services, or uses thereof with quantities (Taylor, 2004:107), and defines utility as such a quantification

(Stigler, 1972:571; Stigler, 1950:373). In contrast, the so-called Austrian School generally attributes value to the subjective satisfaction of needs (Klein, 2008:165; Miller, 2008:43), and do not depend upon a presumption of quantification (Ekelund & Hébert, 1990:565-567) and could perhaps even reject the possibility of quantification.

When considering the above, it is clear that value is a complex concept, which attracted much debate over the years. In the determination of the value, the following concepts do seem to be crucial:

- There is a potential difference in the value of an item (whether it is a commodity or money), when the objective is to either use or exchange the item.
- There must be a certain desire for a particular item that needs fulfilling. However, this desire is often very subjective and based not only on economics, but also on social and moral desires.
- The more urgent the desire for fulfilment is, the higher the perceived value thereof may be and, similarly, the scarcer the desired item, the higher its perceived value may be.

Bringing these concepts together, Schumpeter (1954:589) states that value theory essentially relates to the exchange ratio between two commodities or services. Seen in the light of accounting's objective of translating operational performances into financial terms, the absence of clear guidelines on the contextual concept of value can lead to the phenomena of different values for different purposes. Accounting debates on value interpretations, as well as on the methods and policies around value measurement, have considerable room for subjective value judgements.

5.3 Accounting value measurement

There is a great fascination in the reality that accounting information intends to reflect. However, Mattessich (2003:129-146) states that the phenomenon of relative values is a key issue facing accounting theory. Therefore, *how* operational data is valued and recorded, are key factors in perceived financial performances. A company's primary financial statements include the income statement (Wild, 2008:17-18; Epstein *et al.*, 2005:64) or statement of comprehensive income (IFRS, 2008:915) that reflects its operational results, and the balance sheet (Wild, 2008:17-18; Epstein *et al.*, 2005:64) or statement of financial position (IFRS, 2008:909) that reflects its financial position at a given time.

In the reality of the business environment, it may be difficult to prepare financial information that meets all the earlier mentioned requirements of relevancy, reliability and comparability. Consequently, there may have to be some trade-off between such requirements. The historical cost basis of accounting presents such a trade-off because its objective nature means that the reliability and comparability of value information is enhanced (Scott, 2003:35). However, according to Boyles (2008:29), the USA-based FASB has also long believed that a value-based accounting approach is the most relevant basis of accounting.

5.3.1 Value-based accounting

The proponents of value-based accounting techniques believe it provides more relevant and timely information despite its increased use of estimates and subjective judgments (Ryan, 2008:1608), while opponents believe it provides unreliable information (Krumwiede, 2008:34). According to King (2009:28), Boyles (2008:31), Krumwiede (2008:33), and Ryan (2008:1607), the misuse (intentional or otherwise) of fair value financial reporting is (at least partially) being blamed for the sub-prime meltdown, bank failures, credit crunch, economic recessions and global corporate failures.

Campbell *et al.* (2008:32) define fair value as the accounting practice to value certain assets and liabilities at their current market values. The FASB (2006:2) on the other hand, defines it 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.

In the determination of fair values, the FASB (2006) requires companies to disclose the level used. These levels are, according to Boyles (2008:32), Krumwiede (2008:36), Campbell *et al.* (2008:33-35) and Ryan (2008:1626), based on the objective nature and quality of the inputs used in determining the value of an item.

- Level 1 is objective and observable prices in active markets for identical assets, and is considered the most reliable level of data.
- Level 2 is objective, and observable pricing inputs other than in active markets for identical assets.
- Level 3 is considered the least reliable and objective level of values, and is typically unobservable firm-supplied estimates.

Even though from the IASB's perspective there are no set standards on such levels, there is currently a proposal that the same levels as required in the USA are used (IFRS, 2009).

5.3.2 Challenges facing fair values

Reis and Stocken (2007:576) argue that even though FVA may have better predictive value, there are many subjective assessments in the preparation of FVA statements. Furthermore, the periodic relativity of values aggravates this valuation predicament (Christensen & Frimor, 2007:36-50; Reis & Stocken, 2007:576). This predicament becomes even more important within the context of the balance sheet approach, under which financial performances are judged based on the asset values, as opposed to cash flow (Van Cauwenberge & De Beelde, 2007:4; Perry & Nölke, 2006:563). A concern with this approach is that a constant remeasurement of assets may lead to increased profit volatility. Because many values are based on estimates, it is quite likely that even well-intended management estimates may be incorrect to the extent that the underlying assumptions are incorrect. Furthermore, opportunistic managers may take advantage of judgments that have been used in the estimation process to manipulate the accounting numbers in order to get closer to the desired financial performance indicators.

Another concern of value-based techniques that is raised by Boyles (2008:32) and Eaves (2007) is that many companies have been reporting sizable portions of their earnings using subjective level 3 inputs, which lead to many analysts questioning the quality of information, which in turn cast doubt on the quality of decisions based thereupon. Furthermore, Boyles (2008:30-31) states that with the complexities and subjectivity involved in value-based measurements, it becomes important that management understands additional implications involved, such as on

- corporate governance, where the subjective nature of value determination means that companies should adopt governance policies to evaluate the quality of internal methodologies as well as the external fair value information, and
- financial reporting whereby additional financial reporting concerns are coming to the fore, such as financial executives needing to be more cognisant of key market events that may cause changes in the asset values.

Whether or not managers are well intended, the use of subjective value inputs will result in accounting figures that are difficult to verify.

Krumwiede (2008:38) states that the company's management would typically have the best business information at their disposal and would be in the best position to make value predictions, which in turn means that independent auditor verification would need to place a greater reliance on such management estimates. However, if these predictions turn out to be incorrect, the question is how it would be possible to determine whether these estimates were the result of honest mistakes or intentional data manipulation.

5.3.3 The contrast of historical cost

Riahi-Belkaoui (2000:419) states that historical cost accounting assumes either a stable monetary unit, or immaterial value changes in the monetary unit. Both these assumptions may be challenged in the current market conditions, and over time the historical cost values may become less relevant for decision-making (Schroeder *et al.*, 2005:208; Scott, 2003:36). Furthermore, in order to smooth out current period cash flows, the matching principle is applied, which attempts to match costs and revenues (Scott, 2003:37; Riahi-Belkaoui, 2000:132). However, it is here that a challenge may arise. There is often not a single objective way to match costs with revenues, which complicates the ability of historical cost-based earnings to reveal persistent and true performance measurement.

A key difference between historical cost and value-based accounting is the timing of recognition of value changes, for example:

- The FVA approach is a balance sheet approach to accounting (Van Cauwenberge & De Beelde, 2007:4; Perry & Nölke, 2006: 563), which means that value changes are measured and recognised as they occur by discounting future cash flows and capitalising it on the balance sheet (Campbell *et al.*, 2008:32). The net income essentially becomes the change in the periodic present values.
- Historical cost accounting is an income statement approach (Ronen, 2008:184; Scott, 2003:36), in which the unrealised value changes are not recognised on the balance sheet. The recognition of value changes is only recognised (in the income statement) once an actual transaction or cash flow occurs. According to Scott (2003:36), the income statement therefore provides information on the current instalment of the value created by the company.

It may therefore be argued that historical cost accounting is more reliable because the cost values are less prone to estimation errors as might be the case with value-based estimates.

6. Concluding discussion and recommendations

According to Mattessich (2003:129-146), the phenomenon of relative values has been a topic of contention throughout the history of accounting. This is still the case in the current accounting environment where there is a move to introduce value-based accounting. However, value-based accounting practices are often inherently more subjective in its value determination, which means that an accounting concept of value should focus on more than just the quantitative aspects of value and include the ideological aspects of the preparers of the value information.

6.1 Qualitative perspectives

In the modern-day performance-driven business environment, accountancy's stewardship function is less a question of black and white, and more a situation of shades of grey. The early philosophers and civilisations recognised the importance of proper accountability and resource management. Within this management process, accountancy plays an important role in not only the recording and reporting of resource consumption, but also in how the created wealth is being distributed. The moral and ideological values of the accountant therefore play a central role in business and society, as well as the interaction between business and society.

Even though the accountant's interpretation of ethical values is often formed through personal experiences and training, the accountant should resist questionable short-term pressures and focus on the calling and responsibility of the profession and its reputation, as well as on his/her own long-term reputation. Within an accounting context, stewardship should not only focus on individual resources or organisations, but should also follow a more holistic corporate social responsibility approach for the greater good of all stakeholders, including the corporation itself. Such a responsible stewardship approach belongs to the entire human race, and individual ownership per se should be subservient to the overall stewardship role. Furthermore, stewardship responsibility matters to our personal lives and the sustainability of the global economies.

Finally, stewardship bestows on us the responsibility, as custodians of God's property, to support the continuing need of the common

good. The accountant should therefore remember that ultimately God is the stakeholder of all, and that he/she is in effect God's financial manager.

6.2 Quantitative perspective

Within a more materialistic context, the concept of value often relates to the price of an item. However, the price thereof need not always be expressed in monetary terms. Even in times before currencies, when an exchange of goods took place, such an exchange was based on the parties' perception of the item's value. When we depart from the assumption that there is not a single correct application of the value concept, we see that value is governed by varying situations and scenarios. However, a pragmatic adaptation of the fluctuations of values according to current circumstances may detract from the scientific foundation of value theory. An objection against this opportunistic viewpoint of value is that it acknowledges a value based on current prices and economic realities, while at the same time acknowledging values based on the historical prices and economic realities. In this way, the foundations of value determination are distorted to the pragmatic illusions to suit a particular situation.

In the consideration of accounting value, there are three essential objectives to which accounting theory should point. Firstly, the primary purpose of the recording and collection of the value data should be understood. Secondly, it should facilitate the provision of relevant, reliable and comparable information concerning the company's historical economic events. Finally, it should facilitate the understanding of business decisions made upon such information. The question is then whether historical cost or value-based accounting provides better information.

The first consideration revolves around the reliability of accounting information. One of the key accounting postulates, the going concern assumption, justifies the valuation of assets on a non-liquidation basis (Wild, 2008:9; Epstein *et al.*, 2005:377), which underpins the historic cost values in the balance sheet. Therefore, abandoning the historic cost value principles could imply that values are to be reported on a realisable value basis (Riahi-Belkaoui, 2000:165). Seen in this context, the historic cost values might therefore present more reliable balance sheet information. As stated earlier, accountants serve a stewardship role, and because the historical cost measures the actual resources exchanged in the transaction, it indicates how resources have been used.

This raises the second concern of relevancy of the information. Values are key quantitative anchors on which capitalism is based, and the valuation method can be considered a key parameter in socio-economic relations. In an education environment where financial accounting education is very much focused on the application and interpretation of accounting standards, it may be difficult for the accountant to determine whether the value-based amounts for financial disclosure and reporting purposes are reasonable and based on sound value theory, which may put the information's relevancy in doubt. Furthermore, it becomes important to understand whether the value-based information received from third parties is of adequate quality and in compliance with disclosure standards, which not only places some doubt on whether the value information is relevant, but also on the comparability thereof. For example, is the information being compared from period to period, or from entity to entity based on the same set of accounting assumptions and foundations?

A further concern with the increase of fair values is the resource efforts that are required to gauge the reliability and relevance of such measurements. Even well-resourced auditors cannot be expected to properly verify huge amounts of level 2 and 3 assets on a balance sheet. Furthermore, the determination of fair values becomes difficult to determine when there is a disconnection between the supply and demand for such items. When the supply exceeds the demand, there is uncertainty and difficulty for companies to determine with any degree of certainty what the assets they hold are truly worth.

6.3 In conclusion

A key flaw in the current mixed-characteristic accounting model with both value-based and historic cost information is that some assets and liabilities are recorded at fair values, while others are not. As a result of this mixed model, it may become difficult for stakeholders to compare the financial performances of companies based on the elections these companies made regarding the value-based items, when such elections are based on subjective determinations on a case-by-case basis. It also becomes difficult to imagine the extended use of value-based measurements without an ever-increasing set of disclosure requirements and corresponding rules as to the determination of such values. This makes it conceivable that any movement to a value-based model, governed by multiple accounting

rules, could be inconsistent with a principles-based accounting standard-setting approach.

Finally, experience has shown that the sinful and greedy human nature often gives in to temptations of greed and creative accountancy practices. Providing more subjectivity into the recording and reporting of financial information might be creating even more opportunities for such temptations. The historical cost accounting approach, with its shortcomings in reflecting current financial values, may therefore not be the ultimate accounting and reporting method, but overall, it may be the best method we have.

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Key concepts:

accountancy
accounting ethics
fair value accounting
stewardship
valuation
value measurement

Kernbegrippe:

billike-waarde rekeningkunde
rekeningkundige etiek
rekenmeesterskap
rentmeesterskap
waardasie
waarde-bepaling

