

## Chapter 2

# Fair Value Accounting: A Systematic Literature Review

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### ABSTRACT

*This study aims to analyse the present state of fair value accounting research. A search on the Web of Science database was conducted. Article type documents containing “fair value” and “accounting” in the title were searched, and results returned 34 documents. A systematic literature approach was used to evaluate the articles. Results indicate that the banking sector is the main source of data for fair value accounting research. On the other hand, the adoption of fair value accounting seems to produce different results according to the type of industry sample used, the temporal context of the study, financial turmoil, or the evaluated assets and liabilities.*

### INTRODUCTION

The Financial Crisis Advisory Group (FCAG) jointly created by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) sought to improve the decision usefulness of the financial instrument reporting. According to the Financial Crisis Advisory Board (2009), accounting standards and their application face several weaknesses. Among these weaknesses, the FCAB report pointed to the difficulty of applying fair value (“mark-to-market”) accounting in illiquid markets; and complexity of accounting standards for financial instruments, including multiple approaches to recognizing asset impairment. On the other hand, some of these weaknesses also highlighted areas in which International Financial Reporting Standards (“IFRS”) and the United States generally accepted accounting principles (“US GAAP”) diverged. Furthermore, according to the proponents of the fair value, fair value measurements are timelier and more relevant to shareholders, given that fair values directly reflect the current value of assets and liabilities. On the other hand, fair value critics point out that fair value estimates are less reliable than historical costs because there is of significant subjectivity in measuring the fair value of the assets and liabilities (Hairston & Brooks, 2018).

DOI: 10.4018/978-1-7998-2136-6.ch002

Therefore, this work aims to review the fair value accounting literature, providing a synthesis of the existent literature, contributing, therefore, as guidance for standard setters, accounting academics, and practitioners.

## **Methods**

Following Tranfield, Danyer, and Smart (2003), the Centre for Reviews and Dissemination (2009), Harris, Quatman, Manring, Siston, and Flanigan (2013) and Moher, Liberati, Tetzlaff, Altman, and Prisma Group (2009) guidelines, on the procedures in conducting a systematic literature review, this study focuses on the study of the fair-value accounting research, following, therefore, a three-stage process. This section addresses two stages, (1) planning the review, which describes the identification, preparation and the development of the review protocol, (2) conducting the review, where the identification of research, the selection of studies, the quality assessment, data extraction, and monitoring progress and data synthesis are conducted. The third stage is assessed in the next section when, the reporting is described.

### **Planning the Review**

The systematic literature review seeks to answer specific questions and, differing from traditional narrative reviews, is a more specific and transparent process (Petticrew & Roberts, 2008). Furthermore, high-quality systematic reviews can define the boundaries of what is known and what is not known and can help avoiding knowing less than has been proven, helping practitioners to solve specific problems (Cook, Mulrow, & Haynes, 1997). It adopts a methodology in an endeavour to limit bias, with the overall aim of producing a scientific summary of the evidence in any area (Petticrew & Roberts, 2008). Therefore, in seeking to reduce the research bias, the Centre for Reviews and Dissemination (2009), Harris et al. (2013), Moher, Liberati, Tetzlaff, Altman, and Prisma Group (2009) and Tranfield, Danyer, and Smart (2003) guidelines were followed, with adaptations.

### **Conducting the Review**

According to the research objectives, a systematic literature review on fair-value accounting was conducted. Web of Science database was selected to search for research on fair value accounting because of its multidisciplinary and because it is one of the top leading databases, composed of Science Citation Index Expanded and Social Sciences Citation Index. Therefore, a search in the Web of Science database was conducted in August 2019. All the title articles containing the words “fair value” and “accounting”, published between 2013 and 2019, were selected. In this process 103 results were found. Nevertheless, further refinement was conducted. Document that are not “Articles” indexed in the Social Sciences Citation Index, were excluded. This decision was made to focus the analysis on high impact factor articles. Research returned 34 articles. The 2013 to 2019 time frame was selected due to the International Financial Reporting Standards (IFRS) 13, *Fair Value Measurement* (International Accounting Standards Board (IASB), 2012), which has been applicable for annual reporting periods from 1 January 2013. Nevertheless, articles on fair value accounting, reporting other than the IFRS 13, were not excluded from the study. Accounting research usually uses historical data (e.g., Amel-Zadeh, Barth, & Landsman, 2017; Barron, Chung, & Yong, 2016; Blankespoor, Linsmeier, Petroni, & Shakespeare, 2013; Bowen & Khan, 2014; Marabel-Romo, Guiral, Luis Crespo-Espert, Gonzaloc, & Moonb, 2017; McInnis, Yu,

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