The Importance and Necessity of Heritage Evaluation

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Abstract

Valuation in accounting has gained considerable importance lately due to the fact that the value obtained as a result of this assessment can be the basis for positive results in the financial statements, which can lead to dividends or the sale of the company to potential investors. For this, the measurement obtained must be a present value or fair value, a market value of the company's assets. Although there are still some companies that value assets at a historical cost, many other companies prepare a fair value measurement, as the legislation allows for the existance of a mix of methods for valuing assets. We cannot say that the valuation at fair value is the best accounting method but it is increasingly accepted because, after the economic crisis of 2007-2008 as well as the Sars COV-2 pandemic, it reflects a value close to current reality.

Key words: valuation, assets, historical cost, current cost, fair value
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1. Introduction

The issue of valuation is a controversial topic in accounting. Valuation is the basis for determining the value, at a given date, preferably at the date of the financial statements preparation, of all assets, liabilities, equity, income, expenses, and financial results. Furthermore, it can be said that the valuation of assets in the accounts is carried out both when the items are entered in the accounts and at the time of the inventory, which is usually carried out at year-end, as well as when the assets are removed from the accounts.

The more assets and liabilities are valued at fair value, the more viable the company becomes, and the more attractive it is to investors, being that many companies that reach a certain value become attractive even to competitors.

The need for valuation of the assets is dictated by the fact that these items appear in the accounts in different units of measurement (hours worked, kg, m^2, m^3, etc.), the only common ground being their monetary value. Therefore, a periodical evaluation or even re- evaluation of the assets is advisable.

Being that the value of these assets represents the basis for the calculation of the economic and financial indicators of the company's performance, it is all the more important to value these assets.

2. Theoretical background

The legislation requires that valuation bases are chosen for the assessment of items in the financial statements, which can be used in various combinations. These bases may be the historical cost, current cost, disposable value and present value, or fair market value in the case of certain assets. (Aivaz, 2021, p. 19)

These assessment bases, if compared, can be explained as follows: the historical cost refers to the input (original) value of the assets and liabilities, while the current cost refers to the amount of money that would be payable if a particular asset were acquired on current terms or if a liability were settled on current terms; the disposable value refers to the cash that would be obtained on current terms as a result of the valuation of the assets, and the present value (fair or market value) is that value that can be included in future cash flows arising in the normal course of business.

The most widely used valuation basis is the historical cost or entry cost, which can be combined with other valuation bases, however, in recent years, and because of changes in legislation, the present value basis is gaining ground through the re-evaluation of assets to real, market values. (Munteanu and Aivaz, 2017, p. 440)

As mentioned in the introductory part, the valuation of assets and liabilities can be done at any time throughout the "life" of an economic entity. Thus, at the time of entry into the assets and liabilities there is a valuation at the purchase price, at the time of the inventory at the end of the financial year there is another valuation of the assets and liabilities, and in some cases, there is a valuation at the time of disposal from the assets and liabilities.

The initial valuation takes place when the assets or liabilities enter the structure of the economic entity's patrimony, as well as the formation of equity, the establishment of revenue, expenses, and the determination of the financial result. This valuation is based on the documents through which the assets are acquired, and which establish their historical cost value. This acquisition value, which represents the historical cost, is retained until the asset in question is used, revalued, or leaves the company's assets. (Mazzanti, 2003, p. 597)

It should be noted that, in the case of assets created by the company's own efforts, the actual consumption associated with the creation of these assets, such as direct consumption of materials, direct consumption attributed to labour compensation, and indirect consumption regarding the production process, must be considered and included in the establishment of the input value. The actual amount of consumption incurred (actual cost) serves as the basis for the initial valuation of the production in progress, finished products, semi-finished (blank) products, tools, and other own-manufactured assets. (Hooper *et al*., 2005, p. 429)

Assets received free of charge as well as assets received as a contribution to share capital or as an increase in share capital are valued separately. These assets must be valued by ANEVAR-certified independent valuers to establish their value for management purposes.

Valuation at the time of the inventory represents the main valuation form, since the inventory is usually carried out at the end of the financial year, and if the situation so requires, any necessary adjustments following the inventory are made in accordance with legislative provisions and are made before the end of the financial year. (Rus, 2016, p. 190)

In accordance with National Accounting Standards, tangible and intangible long-lived assets are reflected in the financial statements using one of the following methods: at their input cost less the accumulated depreciation or at the revalued amount. Goods and materials, except for short- lived and low value items, are stated at the lower of actual cost and net realisable value. (Biondi *et al*., 2021, p. 547)

The net realisable value is the expected selling price of the goods and materials less the evaluated costs of realising them. Goods and materials are valued at net realisable value when this is lower than their cost when they become obsolete, deteriorate or are written down. Foreign currency receivables and liabilities outstanding are stated at the official exchange rate reported by the NBR at the date of the financial statements.

The work of inventorying and, therefore, valuing the balances in the balance sheet is carried out on all the balances in the balance sheet, both assets and liabilities. Even customer records must be checked at the time of the inventory, especially as differences may arise and adjustments may be made after the inventory has been completed.

A special place in accounting valuation for financial statements is reserved for the valuation of fixed assets. Periodically it is advisable to evaluate them and establish their present value (in fact, a market value) since in the face of increasing inflation there is a risk that these assets will remain at low values because of depreciation, which has the effect of reducing the capital and thus the capital of the company concerned. In case the company has contracted loans secured by these assets, then it is in the company's interest that these assets are valued as close as possible to the market value so that no additional funds are needed to cover the loans and the interest generated by these loans.

Valuation on disposal is done using three methods: the weighted average cost (WAC) method, the FIFO method, and the LIFO method. (Aversano *et al*., 2020, p. 311)

Valuation by the weighted average cost method requires goods and materials to be reflected in the accounts at an average value of stocks available at that time.

The FIFO method involves valuing stocks at the prices of the first purchases. According to this method, stocks will be written off at the purchase prices of the respective batches in chronological order as they are received, according to the "first in - first out" rule.

The LIFO method, on the other hand, stipulates those stocks, as opposed to the FIFO method, must be unloaded from management at prices starting with the last batch of goods and materials purchased, in the "last in - first out" order.

3. Research methodology

In our scientific approach, the analytical research method was used.

The main objective of the analytical method is to discover relevant information on a topic. To achieve this, available data on the subject was first collected; and once collected, they were examined to test a hypothesis or support a particular idea.

The analytical method was used primarily to find evidence to support ongoing research, to make it more reliable, or to form new ideas about the topic.

As part of this research methodology, I resorted to reviewing the existing literature on this topic. Thus, to achieve this, I reviewed the previously collected data regarding the studied subject.

One of the most important things to consider about the analytical research method is that its results are always open to change if new data is obtained or data that forms the basis of new research. This happens to a greater or lesser extent with all scientific methods, but especially with this one.

The problem is that while with other tools, such as the experimental method, it is possible to assert causality and therefore obtain solid evidence of what causes a phenomenon, the analytical method does not allow this. No matter how much data we have about the subject of study, it will always be incomplete.

4. Findings

Therefore, valuation in accounting results in establishing a fair value of a company's assets. The higher the capital, the more valuable the company is. A decapitalisation of the company can only have negative effects on employees, owners, and some investors. (Ashrafi *et al*, 2022, p. 9)

At the same time, more and more international accounting standards consider fair value as the basis for valuation. Specifically, the international accounting standards that refer to fair value for the assessment of financial statements and the requirements in this regard are structured in Table 1:

Table no. 1 Summary of fair value requirements in IAS/IFRS

IAS/IFRS	Fair value requirements
IAS 16 „Property, Plant and Equipment"	The fixed asset revaluation model assumes that fixed assets are measured at their then fair value less accumulated subsequent depreciation and any accumulated impairment losses.
IAS 18 „Revenue"	Revenue arising from the ordinary operating activities of an entity is measured at the fair value of the consideration received or receivable.
IAS 19 „ Employee Benefits"	Pension Plans must be valued in the financial statements on the basis of the estimated discounted present value of pension liabilities less the fair value of any assets held at the balance sheet date.
IAS 36 „Impairment of Assets"	Assets should be stated at recoverable amount, which is determined whenever an asset is deemed to be impaired, and impairment should be determined at each reporting date. Recoverable amount is the higher of fair value (less costs to sell) and value in use.
IAS 38 „Intangible Assets"	An intangible asset may be measured at cost less impairment or at fair value where there is an active market.
IAS 39 „Financial Instruments: Recognition and Measurement"	Financial assets and liabilities are initially recognised at fair value and, if held for trading or classified as available-for-sale, subsequent measurements are also made at fair value.

IAS 40 ,, Investment Property"	Investment property may be measured at carrying amount less impairment or at fair value with changes in fair value recognised immediately in the income statement.
IAS 41 ,, Agriculture"	Biological assets are initially recognised at a carrying amount equal to fair value less costs to sell and changes in fair value are included in the income statement.
IFRS 2 ,,Share-based Payment"	Equity-settled share-based payments and cash-settled transactions shall be measured at fair value. Any changes in fair value shall be recognised in the income statement.
IFRS 3 ,,Business Combinations"	The acquirer will value the cost of business combinations as an aggregate amount of: - the exchange-date fair values of assets, liabilities and equity instruments issued by the acquirer to obtain control of the acquiree; - - any costs directly attributable to the business combination.

Source: (Berheci, 2010)

5. Conclusions

In this scientific paper I have aimed to present the best valuation method for accounting and in the literature, there are proponents of using historical cost, as well as proponents of using fair value. Each has advantages and disadvantages. Thus, historical cost looks at the past of a company and investors are interested in the prospects of that company. It should not be forgotten that in the case of valuation at historical cost, several corrections have been made such as depreciation and adjustments for impairment, as well as adjustment for inflation, all of which are introduced to reduce the cost in accordance with the principle of prudence. (Jianu, 2007, p. 39)

It is to be considered that the financial statements should represent a potential carrying value and a sale of the company, then fair value "wins" this dispute because it reflects the reality of the company being more capitalized than the company valued at historical cost, and this is also beneficial to shareholders and potential investors. (Rus, 2013, p. 945)

But we must be realistic that at the moment there is a mix of historical cost and fair value because there are companies that, due to their object of activity, prefer to do the annual valuation at historical cost, while others do it at fair value, as long as the legislation allows it.

Table no. 2 Proponents and opponents of fair value

Proponents fair value	**Opponents of fair value**
-allows for more reliable financial statements; -provides an economic view of the entity's assets and liabilities; -allows an easy valuation of the business; -reduces the difference between book value and market value; -the result would be measured by the change in assets and liabilities, distinguishing between the accounting result and the economic result (if this basis of valuation was generalised).	- it is difficult to be calculate by the entity's staff without the input of a valuation expert, especially in the case of unlisted companies; - creates difficulties in determining the distributable result, as the new values of assets and liabilities are potential, latent values; in addition, market values (fair value materialisation) are volatile; - does not allow the value of intangible assets to be reflected, which have not been recorded in the accounts, but which make a significant contribution to the overall value of the business.

Source: (Berheci, 2010)

In conclusion, fair value can form the basis of a new model of accounting representation, a model that can embody the foundation of the economic and financial decisions that can be taken in a company.

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