
FAIR VALUE ACCOUNTING AND QUALITY OF ACCOUNTING INFORMATION

¹Solabomi Ajibolade, ²Semiu Adeyemi & ³Babajide Oyewo

^{1,2,3}Department of Accounting,

University of Lagos,

Akoka, Nigeria.

Abstract

This study evaluated the impact of the application of fair value accounting (FVA) on the quality of accounting information reported in financial statements from the viewpoint of auditors in Nigeria as one of the important financial statement stakeholder-groups. Data collected through the administration of structured questionnaire on 277 auditors from selected audit firms in Nigeria, were analyzed using descriptive statistics, exploratory factor analysis and one-sample t-test. The results revealed that the application of FVA significantly enhances the qualitative characteristics of accounting information. It further revealed that the influence on the relevance characteristic is the most-pronounced. Moreover, application of FVA is perceived to bolster the fundamental qualities of accounting information more than the enhancing qualities. The study concluded that the application of FVA has a significant impact on the quality of accounting information, and thus recommended the enhanced focus and understanding of FVA through its inculcation in the curriculums of academic and professional accounting programmes to promote its diffusion.

Keywords: *Accounting information, Fair value accounting, Historical cost, Innovation diffusion, International financial reporting standards (IFRS)*

INTRODUCTION

Financial reports, issued by companies and other organizations, are one of the most important means available to communicate performance information to stakeholders. It is crucial that they are of high quality if they are to serve the purposes for which they are rendered. Such high quality suggests that the information communicated should possess certain qualitative characteristics including relevance, verifiability, freedom from bias, comparability, consistency, and faithful representation (Riauhi-Belkaoui, 2004; Deloitte, 2012). In achieving these, several approaches have been put forward to measure the elements of financial statements, including historical cost, current cost, replacement cost, and fair value (Deloitte, 2012). Accounting based on historical cost, which requires that transactions be recorded at the original value obtainable when an asset was acquired, or liability incurred is believed to enhance reliability and has been the traditional basis of reporting. However, more recently, there has been an increasing trend towards fair value accounting based on the argument that it emphasizes the relevance of accounting

information (Mirza, Orrel & Holt, 2008) in that transactions are recorded at price agreed to by willing buyer and seller at arm's length. Fair value measurements are believed to portray the economic reality of an entity's financial position and performance (Ting & Soo, 2005; Chouinard & Youngman, 2008; Doron & Stephen, 2008; Procházka, 2011; Bessong & Charles, 2012; Enahoro & Jayeoba, 2013).

Although fair value accounting has gained substantial support over historical cost accounting, the debate for and against fair value measurement is still unsettled, as opinion is split among academics and practitioners on the value relevance of its application (see Penttinen, Latukka, Meriläinen, Salminen & Uotila, 2004; Herbohn & Herbohn, 2006; Watts, 2006; Danbolt & Rees, 2008; Maruli & Farahmita, 2011). Some scholars have argued that fair value accounting while providing a gain in terms of relevance of the information provided may be trading off other qualitative characteristics of financial reporting such as comparability, verifiability, and faithful presentation (Bessong & Charles, 2012; Mirza et al. 2008). Some even suggested that fair value contributed to the financial straits that shook the world in 2007, and for this reason, argued for its abrogation (Laux & Leuz, 2010). It may be possible that some of these criticisms are because several standards exist which require or permit the use of fair value, but prior to IFRS 13, there was no single definition or framework to be applied for fair value measurements. However, the IFRS 13 was issued to remove this inconsistency. The main issue involved is whether fair value measurement as guided by IFRS 13, contributes to the quality of information in the financial statement in terms of measurements of relevant assets and liabilities which will guarantee its continued adoption.

Auditors are a particularly important group contributing to the quality of accounting information through their opinion on the truthfulness and fairness of the views expressed in financial reports (Hermanson, Shrayer & Shrayer, 1993; Gill & Cossert, 2008) which lends credibility to such reports. It has been asserted that FVA in financial reporting framework poses a challenge for auditors and that reliable auditing of financial reporting is at risk (Johnson, 2007, cited in Okafor & Ogiedu, 2012). Auditors are required to obtain an understanding of how management arrives at its estimates and the data on which they are based in assessing risks of material misstatements with fair value estimates (Okafor & Ogiedu, 2012) since they are to provide assurance on such measurements. They are therefore in a better position to assess the financial information provided by management based on their qualitative characteristics. The objective of this study therefore is to evaluate the extent to which the application of fair value measurement impacts on the quality of accounting information provided in financial statements based on the perception of external auditors.

The paper is presented in six sections. Following this introductory section are sections two and three which cover literature review and research methods respectively;

the analysis and results are highlighted in section four, research findings are discussed in section five, while the paper is concluded and recommendations offered in section six.

LITERATURE REVIEW

Financial Reporting Quality

Financial reporting quality refers to the conciseness with which the firm's activities, operations, and other financial information concerning an entity are communicated (Biddle, Hilary & Verdi, 2009). Financial reporting quality terminology is not definitive and several measures have been used to proxy the concept in literature. These include accrual models (Dechow & Dichev, 2002; Biddle & Hillary, 2006; Verdi, 2006; Chen, Hope, Li & Wang, 2013), value-relevance model (Umoren & Enang, 2015; Karampinis & Hevas, 2009; Bartov, Goldberg & Kim, 2005; Lin & Chen, 2005; Niskanen, Kinnunen & Kasanen, 2000), disclosure index (Shamimul, Rashidah, Sharifa, Farah & Ormah, 2015) and qualitative characteristics of financial information (Tang, Chen, & Lin, 2008; Best, 2009).

Six qualitative characteristics of useful financial information have been identified in the Conceptual Framework of the International Accounting Standards Board (cited in Melville, 2011) as two fundamental characteristics (relevance and faithful presentation); and four enhancing characteristics directed at enhancing the two fundamental characteristics (comparability, verifiability, timeliness and understandability) explained as follows:

Relevance – the first fundamental qualitative characteristic implies that financial information must be relevant to users' decision-making needs. Various users often draw on financial information for predicting future outcomes and confirming or refuting previous predictions.

Faithful Presentation - connotes that financial information must truly represent the transactions or other events that it purports to represent which suggests financial information must be neutral, complete and free from error. Concept such as the precedence of economic substance over the legal form of a transaction ("substance over form") derives from this characteristic. Comparability - means that users of financial information should be able to compare information about an entity with similar information about other entities for the same period on one hand (inter-firm comparison) and similar information about the same entity for other periods (intra-firm comparison).

Verifiability - means that financial information can be subjected to verification by different independent knowledgeable observers.

Timeliness implies the availability of financial information as at the time it is needed for it to be capable of influencing users' economic decisions.

Understandability means that financial reports should be capable of being comprehended by users, as information not understood by users will have no value.

Of all the qualitative characteristics of financial statements, relevance is accorded the highest priority (Dye & Sridhar, 2004; Ting & Soo, 2005; Enahoro & Jayeoba, 2013) because quality of decision-making by a user of information is dependent on how relevant the information is.

Fair Value Accounting

Prior to IFRS 13, there were various accounting standards which require or permit the use of fair value (for example IFRS 3, 5, 9, IAS 19, 40) but there was no single definition or framework to be applied to fair value measurements. Many definitions depending on the context have therefore been adduced to fair value. IFRS 13 was issued to remove this inconsistency by providing a single definition and framework for all fair value measurements and disclosures (Deloitte, 2013). IFRS 13 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. This definition assumes the existence of an exit price, which is the price that would be received to sell an asset, or the amount paid to transfer a liability to a third party in an orderly transaction between market participants at the measurement date. It is expected that the asset will be put out for sale in a market most advantageous to sell the asset or transfer the liability such that the seller maximizes the amount to be received for the asset or minimizes the cost to be incurred to transfer the liability. The most advantageous exit price can be achieved by exposing the asset or liability to the market for a period before the date of measurement to allow for normal marketing activities to take place and to ensure that it is not a forced transaction.

Fair value measurement initially gained entry on the account of issues surrounding the valuation of financial instruments such as shares traded on an exchange, debt securities, and derivatives, as historical cost accounting could no longer accommodate the complexities inherent in such items to ensure their faithful representation (Bessong & Charles, 2012; Elfaki & Hammand, 2015; Landsman, 2005). The appropriateness of the monetary value conferred on the elements of financial statements of such items as assets, liabilities, equity, income and expenses, and their subsequent recognition affects the quality of financial reports. It is therefore crucial that the monetary values are as correct as possible which is what fair value measurement.

Fair Value Accounting and Quality of Accounting Report

The *relevance* characteristic of accounting reports requires that accounting information should be useful for decision making which includes predicting future outcomes, information upon which predictions are made should expectedly not be based on past transactions but should be current. The strongest reason often adduced for the introduction and supremacy of fair value accounting over historical cost accounting (which is based on past transactions) is the emphasis of fair value accounting on the currency of transactions suggesting that fair value may enhance relevance of financial reports (Ting & Soo, 2005).

Arguments in support of fair value also note that even though historical cost measures are verifiable by comparing to source documentation, such verifiability does not make them reliable as they are not representationally faithful of current asset and liability values. In this regard fair values are suggested to be more reliable in that they represent economic reality and the values at which transactions actually take place and are subject to a more consistent definition and elements of market discipline to observable inputs (CFA Institute 2010) unlike amortized cost measures which generally have no relation to current values and result in a lack of comparability between firms.

However, critics of fair value accounting suggest that: 1) Fair value does not ease the comparability problem, but may exacerbate it (Bessong & Charles, 2012). The regular review of the market value of assets and liabilities as advocated by fair value accounting may distort comparison stemming from arbitrariness in valuation where no market price exists (level 2 and level 3 inputs), and the non-availability of market price in countries. 2) Fair value may result in the violation of the prudence concept which involves exercising a degree of caution when making estimates to avoid overstating assets and income; and understating liabilities and expenses when public information is unavailable for an item. The shift from historical cost to fair value in financial reporting may imply that an organisation is trading-off reliability (faithful presentation) for relevance. Mirza, Orrel & Holt (2008) asserted that reliability is characterized by faithful report. 3) Verifiability may also be problematic when public information is unavailable, for measuring an item at fair value, especially for category 2 and 3 items. 4) Whereas disclosing complex information may be confusing or difficult to understand, financial information presented by the application of fair value accounting measurement in financial reports may not be understood at all or fully understandable (especially in jurisdictions where it is newly applied) because of lack of awareness or paucity of knowledge, even on the part of those that ought to know (for example preparers of financial reports, auditors).

Theoretical Framework

Prior to 2012, the preparation of financial reports was guided by the Nigerian Statement of Accounting Standards (SASs) issued by the Nigerian Accounting Standards Board (NASB) since 1982 till July 20th, 2011 when the Financial Reporting Council Bill was signed into law (Jafaru & Shodipo, 2013; Umoren & Enang, 2015). IFRS adoption was made mandatory by Nigerian entities in 2012. Fair value measurement has been dispersed in various IFRSs before IFRS 13 was issued as a standard unifying or encapsulating fair value measurement issues. The requirement for the application of IFRS 13 (Fair value Measurement) on an annual basis was to commence from 1 January 2013 (Deloitte, 2012). Thus, application of fair value measurement being a new method of accounting measurement only recently introduced into Nigeria could be conceived as an innovation. To this end, Rogers' (2003) diffusion of innovation theory first introduced in 1962 is adopted as the theoretical framework for this study.

Though contextually developed to explain technology diffusion and adoption, the diffusion of innovation theory has made inroads to other disciplines including accounting (see Lapsley & Wright 2004, Sisaye & Bimberg, 2010). According to Rogers (2003, p. 12), innovation is “an idea, practice, or project that is perceived as new by an individual or other unit of adoption”. Rogers further contend that even if an innovation has been invented a long time ago, but individuals in a location, place or organization, perceives it as new, then it may be construed as an innovation for them. The model suggests that diffusion of innovation passes through stages of awareness of the need for an innovation, decision to adopt (or reject) the innovation, initial use of the innovation to test it, and continued use of the innovation and identified five main factors that influence adoption of an innovation as follows:

1. Relative Advantage - The degree to which an innovation is seen as better than the idea, program, or product it replaces.
2. Compatibility - How consistent the innovation is with the values, experiences, and needs of the potential adopters.
3. Complexity - How difficult the innovation is to understand and/or use.
4. Triability - The extent to which the innovation can be tested or experimented with before a commitment to adopt is made.
5. Observability - The extent to which the innovation provides tangible results.

On the basis of these arguments for and against fair value and the expectation in the Roger’s Innovation Diffusion Model that fair value accounting would be preferred over historical cost accounting because of the perception among users that it is a better idea than the one it replaces, and the extent to which it provides tangible results in enhancing the qualitative characteristics of financial information, this study examines the perception of auditors on the impact of fair value measurements on the six qualitative characteristics of useful financial information. The study therefore hypothesized that:

H₀₁: Application of Fair Value Accounting has no significant impact on the relevance of accounting information reported in financial statements

H₀₂: Application of Fair Value Accounting has no significant impact on the true representation of accounting information reported in financial statements

H₀₃: Application of Fair Value Accounting no significant impact on the comparability of accounting information reported in financial statements

H₀₄: Application of Fair Value Accounting no significant impact on the verifiability of accounting information reported in financial statements

H₀₅: Application of Fair Value Accounting no significant impact on the timeliness of accounting information reported in financial statements

H₀₆: Application of Fair Value Accounting no significant impact on the understandability of accounting information reported in financial statements

Prior Empirical Studies on the Impact of Fair Value Measurements

The consistency of earnings and predictability of cash flow have been used extensively to gauge financial reporting quality (Dechow & Dichev, 2002; Verdi, 2006). Empirical studies linking fluctuation and volatility in earnings to the application of fair value accounting persist in extant literature (Biddle & Hilary, 2006; Biddle et al., 2009; Chen et al., 2013). Watts (2006) contended that measurement using fair value is subject to manipulation of financial information. Going by these results, fair value measurement may not achieve the enhancement of financial reporting quality but may reduce it and as a result may be counter-productive. In support of the claim of financial information manipulation under fair value measurement, Danbolt and Rees (2008) used evidence from the analysis of British Real Estate and Investment Fund Industries to argue that though the use of fair value consistently will be more relevant compared to historical cost, the application of fair value would encourage earnings manipulation in the form of income smoothing. Further, Penttinen et al. (2004) argued that application of fair value measurement would cause distortions in the earnings of firms (thus negatively and simultaneously affecting earnings quality and financial reporting quality). Plantin and Sapra (2008) posited that during a period of uncertainty and market imperfection, the use of fair value measurement will exacerbate the problem of volatility of earnings. Herbohn and Herbohn (2006) concluded that fair value would increase the volatility of earnings.

Maruli and Farahmita's (2011) investigation of fair value application in the valuation of biological assets by agricultural companies in Indonesia concluded that there is no significant influence of the application of fair value approach on the volatility of company's earnings. They also found no sufficient evidence to support the supposition that valuation using fair value approach has a larger impact on the volatility of the company's earnings than the valuation using the historical cost approach. Furthermore, Okafor and Ogiedu's (2012) evaluation of the perception of Nigerian auditors on fair value accounting concluded that statements prepared applying the fair value were more reliable than those prepared using historical cost.

However, most of these studies were before 2013, when not many entities in their annual reporting would have given effect to the guidance provided in IFRS 13 on fair value measurements and disclosures. IFRS 13 came into effect on 1st January 2013.

RESEARCH METHODS

Population and Sample of the Study

The population of the study comprised external auditors engaged in audit firms in Nigeria. However, there is no current official list of audit firms registered in Nigeria to practice. Only the Institute of Chartered Accountants of Nigeria (ICAN) guideline for mergers of firms published in 2014, provided a record of 916 audit firms registered with ICAN as at

2011 (www.icanig.org, 2018). The Association of National Accountants (ANAN) on the other hand published a list of 314 licensed audit firms as at 2016 (<http://www.anan.org.ng>, 2016). A business list source however states the number of audit firms in Nigeria as at 2017 as 1278 with a larger number of firms (712 firms or 55.7%) located in Lagos State (www.vconnect.com, 2018). Relying on this relatively more recent information, audit firms located in Lagos state, were therefore selected for sampling for the survey. The firms were categorized into big-four (PwC, KPMG, Ernst & Young, and Deloitte) and non-big four firms. The big four firms are noted as major employers of accounting professionals with Ernst & Young employing almost five hundred professionals (EY Nigeria, 2018) and others each employing over five hundred professionals (see Deloitte 2018, KPMG, 2018, PWC, 2018). The study therefore estimated that between the big-four firms over two thousand audit professionals are engaged. Using the rule of thumb, a 10% of this estimated population is considered adequate for the research. This is supported in Alreck and Settle (1995) who suggested that most research seldom find it necessary to use a sample size of more than ten per cent (10%) of the population to obtain adequate confidence providing the resulting sample is larger than the minimum of thirty. Therefore, a judgemental sample of 200 is drawn from the big-four firms and an equal number selected from the non-big four firms. Four hundred (400) copies of the questionnaire are administered to the audit professionals in these firms.

Data Collection Technique and Measurement of Variables

Data collection was through a structured questionnaire which had two parts (sections A and B). Section A was designed to collect demographic data while Section B was devoted to gathering data on the impact of fair value accounting (FVA) on the quality of accounting information reported in financial statements. While some studies (e.g. Shamimul et al. 2015) used overall disclosure index as well as users' perception about financial reporting to measure financial reporting quality, Best (2009) measured financial reporting quality using the qualitative characteristics. Adapting Best's (2009) and Shamimul et al's (2015) approach, this study examined the impact of fair value accounting on quality of accounting information using the perception of auditors regarding the six qualitative characteristics of financial reporting put forward by the IASB framework to measure financial reporting quality on a five-point scale with 1, 2, 3, 4 and 5 representing Very Low, Low, Moderate, High and Very High respectively. Respondents were requested to rate the extent to which six qualities of financial report (relevance, faithful representation, comparability, verifiability, timeliness, and understandability) had improved as a result of the application of Fair Value Accounting (FVA) in comparison to Historical Cost Accounting.

Validity and Reliability of Research Instrument

The reliability of the research instrument was established by using the Cronbach's alpha test as reported in Table 1.

Table 1: Reliability Test Results

Variable	Number of item	Cronbach's Alpha coeff.
FVA and Quality of Accounting Income	6	.841

Source: Authors' computation (2018)

Method of Data Analysis

Descriptive and inferential statistical tools were applied in data analysis. Descriptive statistical techniques used were frequency count, percentage analysis, range (minimum and maximum values), Mean (M) and standard deviation (SD). Mean scores above 3.0 and up to 4.0 were regarded as high while mean scores above 4.0 as very high. Inferential statistical technique applied to gauge the significance of the impact of fair value accounting on quality of accounting information was the one-sample t-test using a test value of 3.0.

ANALYSIS AND RESULTS

The trend depicted in Figure 1 above shows that Nigeria operated a balance budget from 1970 to 1987 and ever since, the primary balance has nose-dived and remained negative. This shows that Structural Adjustment Programme (SAP) had a side effect on the fiscal operations in Nigeria wherein the expenditure of the government has continually surpassed its revenue. This trend is highly instructive in that latter policy changes and structural breaks such as the democratic dispensation of 1999; the debt forgiveness of 2005 and Fiscal Responsibility Bill (FSB) of 2007; in which government at all levels are expected to follow fiscal rules for fiscal probity and transparency; could not save the situation but further worsen it.

Figure 2: Fiscal Balance Ratio to GDP

Of the 400 copies of the questionnaire administered, 277 copies were retrieved. The descriptive statistics on the respondents' personal and audit firm characteristics as presented in Table 2 reveal that a larger percentage of respondents were from the big-four firms (51.6%) with work experience greater than 3 years (76.2%) and having varied sector experience.

Respondents' Demographic Data

Table 2: Respondents' personal/firm Characteristics

Variable	Category	Freq.	%	Total
Size of firm	Big-4	143	51.6	277
	Non-Big 4	134	48.4	
Work Experience as External Auditor	Less than 3 years	66	23.8	277
	3-6 years	109	39.4	
	7-10 years	56	20.2	
	11-15 years	34	12.3	
	Over 15 years	12	4.3	

Auditor Sector experience	Manufacturing	50	18.1	
	Financial Service (Bank & Non-bank)	54	19.5	
	Technology, Media & Telecom.	52	18.8	
	Oil & Gas	45	16.2	
	Small & Medium Scale (SMEs)	35	12.6	
	Energy	24	8.7	
	Agriculture./Agro-allied	17	6.1	277

Source: Field Survey (2018)

Descriptive statistics of respondents' perception on Fair Value Accounting and Quality of Accounting Information

The descriptive statistics on the impact of fair value accounting on the quality of accounting information reported in financial statements as contained in Table 3 show a high mean score (\bar{x}) of above 3.0 for all qualitative characteristic.

Table 3: FVA and Quality of Accounting Income Reported in Financial Statements

	Min.	Max	Mean (M)	SD
1 Relevance -FVA has enhanced the provision of financial information relevant to the decision-making of users	1	5	3.91	.870
2 Faithful FVA has ensured that information presented in financial statements are true representation of events in the entity	1	5	3.90	.864
Cluster Mean for Fundamental Qualities (items 1&2)			3.905	
3 Verifiability - With FVA, financial information can easily be verified by independent observers/third parties	1	5	3.90	.911
4 Comparability - FVA has enabled comparison of financial information of an entity with other entities over a period of time	1	5	3.81	.909
5 Understandability - With FVA, financial reports are now more understandable to users of financial reports	1	5	3.27	1.02 5
6 Timeliness - Application of FVA has improved the timing of availability of financial information to users	1	5	3.19	1.06 2
Cluster Mean for Enhancing Qualities (items 3-6)			3.542	
Cluster Mean for Qualitative Characteristics (items 1-6)			3.66	

As revealed in the table, the relevance characteristic showed the highest mean score ($\bar{x} = 3.91$), while timely availability of financial information to users records the lowest mean score ($\bar{x} = 3.19$). The fundamental qualities (relevance and faithful presentation) showed two of the three highest mean scores. Meanwhile, the cluster Mean of the fundamental characteristics ($\bar{x} = 3.905$) was found higher than that of the enhancing characteristics ($\bar{x} = 3.542$), suggesting that fair value measurement enhances the fundamental qualities of accounting information to a higher extent than the enhancing qualities.

Test of Hypotheses

Table 4 contains the result of the one sample t-test, assessing the statistical significance of the impact of fair value accounting on the quality of accounting information.

Table 4: One-Sample Test on FVA and Qualitative Characteristics of Financial Reports

Qualitative Characteristics of Financial Reports	Test Value = 3					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference (d)	Lower	Upper	
Relevance - FVA has enhanced provision of financial information relevant to users' decision-making	17.410	276	.000	.910	.81	1.01	
Faithful presentation - FVA has ensured that information presented in financial statements are true representation of events in the entity	17.249	276	.000	.895	.79	1.00	
Comparability - FVA has enabled comparison of financial information of an entity with other entities over a period of time	14.866	276	.000	.812	.70	.92	
Verifiability - With FVA, financial information can be verified by independent observers/third parties	16.419	276	.000	.899	.79	1.01	
Timeliness - Application of FVA has improved the timing of availability of financial information to users	3.054	276	.002	.195	.07	.32	
Understandability - With FVA, financial reports are now more understood by users of financial reports	4.336	276	.000	.267	.15	.39	

The results showed that for each of the six qualitative characteristics mean score found higher than the test value of 3.0 and the difference between the Mean and the test value showed statistical significance at 1% (Table 2) at $p \leq .01$ for all the characteristics.

Based on these results, the six sub-hypotheses (H01-1 to H01-6) in their null forms are rejected and it is inferred that the application of fair value measurement significantly impacts on each of the qualitative characteristics of accounting information.

To assess the omnibus impact of the application of fair value measurement on quality of accounting information, the result of further analysis carried out is reported in Table 5.

Table 5: One-Sample t-test assessing the Impact of FVA on Quality of Accounting Information

Descriptive		Test Value = 3				
Mean = 3.6631					95% Confidence Interval of the Difference	
SD = .70396	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
	15.676	276	.000	.66306	.5798	.7463

The result showed that the cluster Mean of 3.66 is higher than the test value of 3.00. One-sample t-test (using 3.0 as the test value) showed statistical significance at 1% ($d = .267$, $p = .000 \leq .01$) Overall, the result in Table 5 corroborates that of Table 4, leading to the conclusion that the application of fair value accounting has significant impact on the quality of accounting information reported in financial statements. Thus, the overarching null hypothesis (H01) is rejected.

DISCUSSION

The results in Tables 3, 4 and 5 suggest the perception that Nigerian firms may have benefitted from the application of FVA in terms of enhanced financial report quality, especially in the area of relevance of financial information. Results from analysis of data showed that application of fair value accounting significantly enhances the qualitative characteristics of accounting information and its influence on relevance is the most-pronounced. This is in line with findings in extant literature (for example, see Ting & Soo, 2005; Volha, 2010; Okafor & Ogiedu, 2012; Enahoro & Jayeoba, 2013). The observation that financial reporting quality has improved on the account of the application of FVA (Table 7) aligns with the dominant paradigm in literature that the shift from historical cost accounting to fair value accounting is triggered by the need to provide information relevant to the decision of users. The result also supports the suggestion in the diffusion of innovation theory that the application of fair value measurement would thrive because of the relative advantage in terms of the marked improvement in the qualitative characteristics of financial reports (even in the face of the challenges associated with rendering financial reports using FV estimates).

CONCLUSION AND RECOMMENDATIONS

This study evaluated external auditors' perception on the impact of the application of fair value accounting on the quality of accounting information five years since the standard is expected to have taken effect (from 2013 to 2018). Although the adoption of

fair value accounting in Nigeria made inroads to the Nigerian environment consequent on the adoption of IFRSs by reporting entities in Nigeria, the diffusion of innovation theory provided a basis for the expectation that the successful diffusion of fair value accounting would be influenced by the perception among users that it is a better idea that the one it replaces, and the extent to which it provides tangible results in enhancing the quality of financial information, The study found evidence to suggest that fair value accounting significantly impacts on the quality of accounting information reported in the financial statements of Nigerian firms, especially in terms of enhancing the relevance of financial information. Its application was perceived to have a greater impact on the fundamental qualities of accounting information in comparison to the enhancing qualities, thus justifying its adoption in the Nigerian context.

The study recommends that issues on fair value measurement and accounting estimates should be emphasized in the curriculums of academic- and professional-accounting programmes in financial reporting, auditing and management accounting to promote its diffusion. Continuous Professional Development (CPD) programmes, trainings, seminars and workshops of Professional Accounting Bodies should give more coverage to FVA.

Future studies may extend the coverage of this study to include the views of other stakeholders such as; Management who are responsible for putting in place mechanisms that would facilitate the application of fair value accounting; and financial accountants who are preparers of financial reports and management of reporting entities. It may also interest future researchers to examine issues involved in the practical application and interpretation of the IFRS 13 and the tax implications of fair value measurements in Nigeria, since fair value measurements and accounting estimates affect income, expenses, assets and liabilities balances which provide basis for tax computations.

REFERENCES

- Association of National Accountants of Nigeria (2016). Audit guidelines for small and medium scale enterprises. Retrieved from <http://www.anan.org.ng/wp-content/uploads/2016/02/AUDIT-GUIDELINES-FOR-SMALL-AND-MEDIUM-SCALE-ENTERPRISES.pdf>
- Bartov, E., Goldberg, S. R., & Kim, M. (2005). Comparative value relevance among German, US and International Accounting Standards: A German stock market perspective. *Journal of Accounting Auditing & Finance*, 20(2), 95-119.
- Bessong, P.K., & Charles, E. (2012). Comparative analysis of fair value and historical cost accounting on reported profit: A study of selected manufacturing companies in Nigeria. *Research Journal of Finance and Accounting*, 3 (8), 132-149.
- Best, R. J. (2009). *Market-based management: Strategies for growing customer value and profitability*. (5th Ed.). Upper Saddle River, New Jersey: Pearson/Prentice Hall

- Biddle, G. C., & Hilary, G. (2006). Accounting quality and firm-level capital investment. *The Accounting Review*, 81(5), 963-982.
- Biddle, G. C., Hilary, G., & Verdi, R. S. (2009). How does financial reporting quality relate to investment efficiency? *Journal of Accounting and Economics*, 48(2), 112-131.
- Chen, F., Hope, O. K., Li, Q., & Wang, X. (2013). Financial reporting quality and investment efficiency of private firms in emerging markets. *The Accounting Review*, 86(4), 1255-1288
- Chouinard, E., & Youngman, P. (2008). Fair value accounting and financial stability. Bank of Canada Report. Retrieved from <http://www.bankofcanada.ca/wp-content/uploads/2012/01/fsr-1208-chouinard.pdf>
- Danbolt, J., & Rees, W. (2008). An experiment in fair value accounting: UK Investment Vehicles. *European Accounting Review*, 17(2), 271-303.
- Dechow, P. M., & Dichev, I. D. (2002). The quality of accruals and earnings: The role of accrual estimation errors. *The accounting review*, 77(s-1), 35-59.
- Deloitte (2012). *iGAAP 2012: A guide to IFRS reporting, Volume A, Part 1*. (5th ed.). London, Edinburg: LexisNexis.
- Deloitte (2013). Summary guidance and practical tips for IFRS 13 – Fair Value Measurement. Retrieved from <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/audit/ca-en-audit-clearly-ifrs-fair-value-measurement-ifrs-13.pdf>.
- Doron, N., & Stephen, P. (2008). Principles for the application of fair value accounting. The Center for Excellence in Accounting and Security Analysis, White Paper Number Two. Retrieved from <https://www.gsb.columbia.edu/mygsb/faculty/research/pubfiles/3029/FairValue.pdf>
- Dye, R.A., & Sridhar, S.S. (2004). Reliability-relevance trade-offs and the efficiency of aggregation. *Journal of Accounting Research*, 42, 51-88.
- Elfaki, A. & Hammad, S. (2015). The impact of the application of fair value accounting on the quality of accounting information: An empirical study on a group of companies listed on the Khartoum Stock Exchange. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 5(1), 148-160.
- Enahoro, J.A., & Jayeoba, J. (2013). Value measurement and disclosures in fair value accounting. *Asian Economic and Financial Review*, 3 (9), 1170-1179.
- Gill, G. & Cossert, G. (2008). *Modern Auditing in Australia (4th ed.)* Australia: John Wiley and Sons.

- Herbohn, K. and Herbohn, J. (2006). International Accounting Standard (IAS) 41: What are the implications for reporting forest assets? *Small-scale Forest Economics, Management and Policy*, 5 (2), 175-189.
- Hermanson, R., Shrawer, R. & Shrawer, J. (1993) *Auditing Theory and Practice* (3rd ed.). Boston, US: Homewood Publishers.
- Ijeoma, N. B. (2014). The contribution of fair value accounting on corporate financial reporting in Nigeria. *American Journal of Business, Economics and Management*, 2(1), 1-8.
- Institute of Chartered Accountants of Nigeria (2014) guideline for mergers of firms. Retrieved from www.icanig.org.
- Jafaru, J., & Shodipo, M. (2013). Accounting academics perception of the use of fair value accounting in Nigeria. *Accounting Frontier*, 4(2), 103-119
- Karampinis, N., & Hevas, D. (2009). The effect of the mandatory application of IFRS on the value relevance of accounting data: Some evidence from Greece. *European Research Studies*, 12 (1), 73-100.
- Landsman, W. (2005). Fair value accounting for financial instruments: Some implications for bank regulation. Retrieved from <https://www.bis.org/events/armpr05/landsman.pdf>
- Laux, C. & Leuz, C. (2010). Did fair-value accounting contribute to the financial crisis? *Journal of Economic Perspectives*, 24(1), 93-118.
- Lin, Z. J., & Chen, F. (2005). Value relevance of international accounting standards harmonization: Evidence from A-share and B-share markets in China. *Journal of International Accounting, Auditing and Taxation*, 14(2), 79-103.
- Maruli, S., & Farahmita, A. (2011). The analysis of application of fair value and historical cost approaches in the valuation of biological assets in the agricultural companies. *Asia Pacific Journal of Accounting and Finance*, 1 (2), 133-149.
- Melville, A. (2011). *International financial reporting: A practical guide*. (4th ed.). Essex, England: Pearson Education Limited.
- Mirza, A., Orrel, M., & Holt, G. (2008). *Willey IFRS: Practical Implementation guide and workbook*. (2nd ed.). New York: Willey.
- Niskanen, J., Kinnunen, J., & Kasanen, E. (2000). The value relevance of IAS reconciliation: Empirical evidence from Finland. *Journal of Accounting and Public Policy*, 19(2), 119–137.
- Okafor, C., & Ogiedu, K. O. (2012). Perceptions of fair value accounting: Evidence from Nigeria. *JORIND*, 10 (3), 417-432
- Penttinen, M., Latukka, A., Meriläinen, H., Salminen, O., & Uotila, E. (2004). IAS fair value and forest evaluation on farm forestry. *Proceedings of Human dimension of family, farm and community forestry international symposium*, March 29-April 1

- Plantin, G., & Sapa, H. (2008). Marking-to-market: Panacea or Pandora's Box? *Journal of Accounting Research*, 46, 435-436.
- Procházka, D. (2011). The role of fair value measurement in the recent financial crunch. *Prague Economic Papers*, 1, 71-88. DOI: 10.18267/j.pep.388
- Riauhi-Belkaoui, A. (2004). *Accounting theory* (5th ed.). Singapore: Seng Lee Press.
- Rogers, E.M. (2003). *Diffusion of innovations* (5th ed.). New York: The Free Press
- Shamimul, H., Rashidah A.R., Sharifa F., & Ormah B.O. (2015). Perception and awareness of young internet users towards cybercrime: Evidence from Malaysia. *Journal of Social Sciences*, 11 (4), 395.404
- Sisaye, S. & Bimberg, J. (2010). Extent and scope of diffusion and adoption of process innovations in management accounting systems. *International Journal of Accounting & Information Management*, 18(2), 118 – 139, <https://doi.org/10.1108/18347641011048110>
- Tang, Q., Chen, H., & Lin, Z. (2008). Financial reporting quality and investor protection: A global investigation. Retrieved from [http://ssrn.com/abstract, 1290910](http://ssrn.com/abstract,1290910), 3-50.
- Ting, Y.S., & Soo, C.M. (2005). Fair value accounting: Relevance, reliability and progress in Malaysia. Retrieved from <http://alanyoonassociates.com/news/fairValueAccounting.pdf>
- Umoren, A., & Enang, E. (2015). IFRS adoption and value relevance of financial statements of Nigerian listed Banks. *International Journal of Finance and Accounting*, 4(1), 1-7
- Vconnect (2018) Audit firms of professionals in Nigeria. Retrieved from https://www.vconnect.com/lagos/list-of-audits-firms_c248
- Verdi, R. (2006). Financial reporting quality and investment efficiency. Working paper, Massachusetts Institute of Technology. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.417.2394&rep=rep1&type=pdf>
- Volha, S. (2010). Fair value accounting. (BS-Thesis) submitted to Faculty of Business Administration, University of Iceland. Retrieved from https://skemman.is/bitstream/1946/4234/1/Thesis_fixed.pdf
- Watts, R.L. (2006). What has The Invisible Hand Achieved?" *Accounting and Business Research* 36, (special issue), 51-61.