

## Study on the Relationship between Fair Value Accounting and Different Information Users based on the Contradiction between Theoretical and Empirical Fields.

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**Abstract**—some experts who pay attention to theories hold that fair value accounting can not provide useful information, while others who carry out research on positive accounting insist that it can supply a significant value association. In this paper, a new viewpoint on fair value accounting was proposed. The stockholders were segmented into two categories: the speculative holders and the traditional holders. The speculative holders invested in financial markets in order to get short-term risk return and they could not keep a certain stock for a long time. The traditional ones, so-called enterprise owners, are long-term holders and they invest in product markets to earn long-term stable benefits and control the corporations. The author thought fair value accounting was able to provide enough information for the speculative stockholders but for the traditional ones. The reason for the contradiction between theory and positive experts is that they focus on different perspective of fair value accounting.

**Keywords**- fair value accounting; speculative stockholders; traditional stockholders; information; contradiction

### 1. Introduction

Financial crisis, like the Tsunami, has swept across the world as quickly as possible, which originates from the U.S. sub-prime mortgages. It even affected the entity economy and evolved into a global financial crisis. At the same time, fair value accounting was thrust to the forefront of accounting measurement. It became a focus that people concern and argue about in the field of accounting theory and finance. Study on fair value accounting developed around the world like bamboo shoots after a spring rain, some of which are perspective. However, a contradiction between the fields of accounting theory and empirical study existed. The former considered that fair value accounting can not provide useful information, while the latter insisted that it can supply a significant value association. Obviously, the contradiction has an important effect on the research in the future. In this paper, it was resolved by analyzing the differences between the speculative stockholders and the traditional stockholders.

### 2. Denials Towards Fair Value Accounting by Accounting Theory Circles

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Before introducing the research work on fair value accounting, which was carried out by theoretical experts, it is necessary to declare that fair value accounting is different from fair value measurement, because a measurement with a certain attribute is not equivalent to an accounting with the same one. Only the attribute which can be measured by currency is combined with the confirmation, can we call it fair value accounting or historical cost accounting. In another words, fair value accounting must be a combination of fair value measurement and corresponding confirmation. As a result, to study fair value accounting is essentially to study the availability of the information which is recognized in the financial statement by using fair value accounting.

Although some experts in accounting theory field admit that fair value measurement is the only relevant measurement attribute for derivative financial instruments, they do not accept fair value accounting. They consider fair value accounting is useless because the data are estimates. If the estimates are confirmed in assets, liabilities, rights and interests, they will distort the numbers in financial statements. James Cataldo and Morris McInnes think enterprise should be evaluated through financial models and the index of net incomes in traditional accounting systems is a key parameter, but the introduction of fair value accounting into balance sheets breaks the logical consistency of net income measurement. They draw a conclusion that fair value accounting disturbs the application of rights models for stock prices and damages the availability of financial statements for investors.

### 3. Recognition of Fair Value Accounting in Empirical Field

In the empirical study on fair value accounting, Ohlson Model is usually adopted to discuss the correlation between fair value accounting and stock price and to verify that fair value accounting can provide useful information. After a long-term study, empirical experts find that if financial aspects are measured by fair value, they will significantly increase the interpretability of earnings-per-share toward stock prices and that of earnings-per-share toward market rate of return. In some papers, a conclusion that the loss and profit of changes in fair value are correlative with stock returns was proposed and demonstrated.

## 4. Analysis of the Contradiction Between Theoretical and Empirical Study

### 4.1. The reasons for study on speculative stockholders

Firstly, the modern accounting theoretical system is set up based on availability of decision-making. Accounting should provide decision makers with relevant information. Speculative stockholders are considered as a new category of information users, so it is necessary to carry out research on them.

Secondly, changes in stock prices usually result from the changing proportion of speculative stock buyers and sellers in financial markets. In general, the traditional stockholders do not change their amount of stocks because they must occupy a certain proportion of shares in order to manipulate enterprises. Consequently, traditional stockholders have little effect on stock price volatility.

Finally, few papers have discussed the speculative stockholders in accounting theory circles.

### 4.2. Differences between speculative and traditional stockholders

Tab.1. shows the differences between speculative and traditional stockholders.

TABLE I. DIFFERENCES BETWEEN SPECULATIVE AND TRADITIONAL STOCKHOLDERS

	<b>Speculative stockholders</b>	<b>Traditional stockholders</b>
<b>Purposes of holding stock</b>	Speculation and short-term gains	Manipulating enterprises and long-term stable gains
<b>Stock holding period</b>	Short-term	Long-term
<b>Participation in management</b>	Almost not	Almost yes
<b>Concern about enterprises</b>	Pay more attention to short-term profits	Pay more attention to core competence and long-term potential
<b>Requirements for different kinds of information</b>	Pay more attention to the information that affects stock short-	Besides business short-term condition, focus more on the information that can

	term price	indicate the long-term development and management performances of enterprises.
<b>Market type</b>	Financial market	Product market
<b>Requirements for financial market information</b>	Timeliness predictability correction	Besides Timeliness, predictability and correction, ability to evaluate the performances of enterprise management.

From Tab.1, it can be seen that the motivation of speculative stockholders is essentially different from that of traditional ones. The different motivations result in other differences. Speculative stockholders and traditional ones pay attention to different aspects of financial market information. Speculative stockholders need the accounting information to be of timeliness predictability correction, because they are located in dynamic financial markets. Traditional stockholders demand much more information than the former. They want to obtain not only that information which is focused on by speculative stockholders, but also other messages that are helpful to evaluate accurately the performance of business. The separation of ownership and management rights leads to information asymmetry between owners and managers. Traditional owners have to evaluate the performance of business in order to protect their property rights. They analyze the core competence and judge the development potential of enterprises through the performance. In addition, traditional owners give rewards or punishments according to performance, so that they can encourage managers to improve operating profit further.

### 4.3. The relationship between the information provided by fair value accounting and the different stockholders

Speculative stockholders in dynamic financial markets need the accounting information to be of timeliness, predictability and correlation. The information reflected by fair value accounting can meet their requirements (Fig.1).

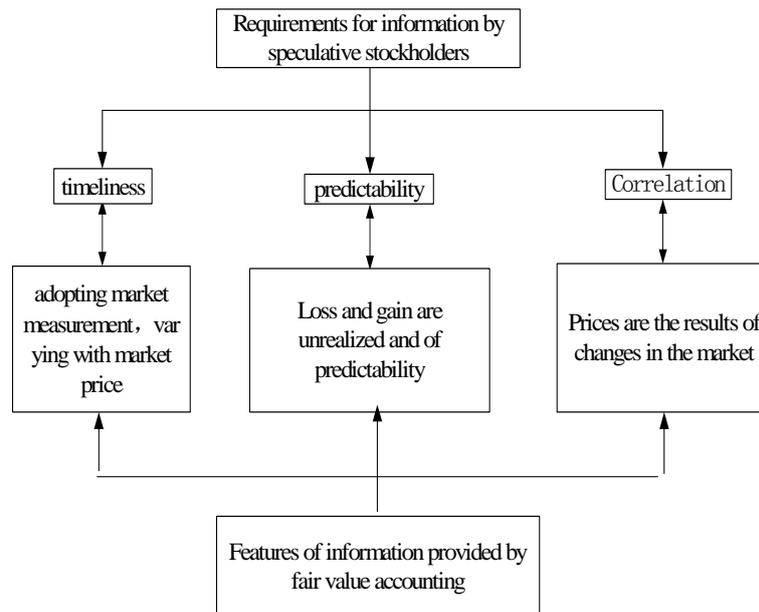


Fig.1. The corresponding relationship between the information required by speculative stockholders and that provided by fair value accounting

It can be concluded that the information reflected by fair value accounting coincides with what the speculative stockholders require. In other words, fair value accounting meets their demand for information, which is demonstrated by empirical study.

However, fair value accounting can not provide the information through which we are able to evaluate exactly the performances of enterprises management, because risks are not identified. Profits statement only shows the total amount of gain and loss, but it does not involve the risk of financial assets in measuring date. People can not recognize whether the profits are of high quality or not, because the risks do not match the benefits. They are unable to determine if enterprise value is increased or decreased, which results in the fact

that they can not protect the property rights. Furthermore, the mismatch between risks and gains makes traditional owners not assess the performances of management. They may wrongly take measure to reward or punish operators, which can mislead the conduct and damage the long-term potential of enterprises.

For example, during the period of macro-economic prosperity, financial asset prices rise generally. Fair value accounting shows that there are a great deal of profits and increase in net assets. Accordingly, rewards will change in the same way. That may cause blind investment without regard to risks. On the contrary, in the period of macro-economic depression, financial asset prices drop and fair value accounting indicates the opposite information. Operators can be punished due to the loss of profits and make a wrong decision to undersell assets dramatically. In a word, fair value accounting can not reflect complete information for the traditional stockholders.

From the above discussion, we can see that fair value accounting provide speculative stockholders with sufficient information, but it can not help traditional stockholders to evaluate the performance of enterprise management. Changes in stock prices can usually be derived from speculative stockholders. So, in empirical field, the study on correlation between fair value accounting and stock price is essentially carried out from the perspective of financial markets. However, in accounting theory circles, experts adopt accounting theory about product markets to study fair value according. The reason for the contradiction between empirical and theoretical fields is that they keep their eyes on differences aspects of fair value accounting.

## 5. Conclusion

Because empirical experts and theoretical experts have respectively paid attention to different aspects of fair value accounting, they take opposite attitude toward it. There seems to be a contradiction between them that fair value accounting can indicate a significant value association for the former, but it can not provide the latter with useful information to evaluate the performances of enterprise management. In fact, the contradiction can be clearly and essentially explained. In empirical field, experts study the correlation between fair value accounting and stock price from the perspective of financial markets and in accounting theory circles, experts adopt accounting theory about product markets to study fair value according. The correlation demonstrated in empirical field is exactly what experts affirm about the fair-value measurement attribute in theoretical field.

Fair value should focus on the reflection of finance capital venture. To assess operating performances, It must take into account the matching principle of return and risk rather than net changes in financial asset pieces. In addition, there are still many problems during studying fair value such as measurement of financial products in non-active market and quantitative calculation of risks, all of which are challenging tasks in current accounting field. Considering the complexity of financial markets and the limitation of measurement methods, fair value accounting has a long way to go in the future.

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