CONCEPTUAL FRAMEWORK AND MEASUREMENT: A SURVEY ON THE INTERNATIONAL DEBATE

Giusy Guzzo*, Massimo Costa*

Abstract

In response to the '2011 Agenda Consultation', the IASB launched in July 2013 a call for a new Discussion Paper on the '*Conceptual Framework for Financial Reporting*'. This article aims to offer a contribution to the debate on the effectiveness of the theme of '*Measurement*', by investigating the use of the current evaluation models in the literature and practice of Financial Reporting. The article proposes at first a historical survey both of the international debate on Fair Value Accounting *vs.* Historical Cost Accounting and of the Italian theories on the valuation. Later the paper proposes some considerations about the key questions related to Measurement and the possible policy implications of the main research finding, by conceptualising a 'mixed' system combining fair value Accounting and historical cost Accounting to try giving a more rational base to the financial reports.

Keywords: Fair Value, Historical Cost, Conceptual Framework, Accounting Literature

JEL Classification: M 41

**University of Palermo [Università degli studi di Palermo], Viale delle Scienze – Parco d'Orléans, Building 13, 90100 - Palermo, Italy*
***Points 1, 2 and 3 are to be attributed to Giusy Guzzo; points 4 and 5 are to be attributed to Massimo Costa*

1 Introduction

The theme of the effectiveness of the '*Conceptual Framework for Financial Reporting*' and of the '*Measurement'* is in continuous evolution. This evolution is certainly previous to the new recent IASB's call to revisit the current Conceptual Framework. The Discussion Paper 'A Review of the Conceptual Framework for Financial Reporting', launched in July 2013, is the last step of the process of revisiting the IFRS and, especially, the most appropriate measurement base for assets and liabilities of an entity.

In this stream of thought even the logical place of this paper is to be found. Its objective, in fact, is concerned about measurement, considered as one of the central topics in the accounting system implicitly defined by the Conceptual Framework. Its aim is to argument the conceptual point of view of the authors as a contribution to the theoretical debate; a principle based point of view, rooted on some doctrinal assumptions explicitly declared by the authors with a specific reference to some questions asked by the Board on the Discussion Paper in the *Section 6 (Measurement)*.

The international debate concerning this topic is, in its turn, justified by some factual (and epochal) premises that are to be briefly recalled.

Indeed, in the last 25 years, from 1989-1990 to the present, dominated by an increasingly intense market globalization and uncertainty of the economies, it is well know that the approaches in setting accounting standards by the regulatory committees (mainly FASB, ASB and IASB) and, within their 'accounting systems', the paradigms of valuation have recorded many changes.

The growth of the process of internationalization of the firm's activities has imposed a deep transformation of the rules and practices concerning the information about the financial performance. These rules and practices needed to be harmonized: the regulatory bodies have replayed to this demand for accounting harmonization through the principles-based approach as opposed to the traditional rule-based approach that led to optional and incomparable methods in setting standards. The typical instrument used has been the theoretical framework, starting from the IASC's Framework adopted in 1989 ('Framework for the Preparation and Presentation of Financial Statements')[6].

In particular, since 1990 until 2007, the *fair value measurement* has progressively acquired a central position in the 'accounting standard system'. Recently, the accounting scandals before (2001-2002)

[6] History of Conceptual Framework is, however, quite older than globalization is. In 1989 IASB adopted, by a unique document, what American FASB had already progressively adopted from 1978 to 1985 (Zeff, 1999) and all that marked, in our opinion, a progressive shift from the traditional 'British' empiric approach to a new 'American' rationalistic one.

and financial crisis later (from 2007) have further raised the stakes in debate on whether Fair Value Accounting would be more efficient than the traditional Historical Cost Accounting. Especially in response to this crisis, between 2008 and 2010, the IASB and FASB focused on the project – beginning in 2002 with 'Norwalk Agreement' – of developing a joint conceptual framework for financial reporting standards.

But, the continuation and accentuation of the crisis led the IASB to suspend works on the conceptual framework and to launch the '2011 Agenda Consultation' oriented to define the future strategic direction of the standards setters. This Agenda has collected various calls for a reflection on the opportunity of a new review of the existing 'Conceptual Framework' and its fundamental matters.

Thus, the raisons underlying this paper are linked to the IASB's project of revisiting some issues of the measurement, namely the process of determining the amount to be included in the financial statements for an asset or a liability of the entity, the appropriateness of the single measurement base for all elements of entity's financial statements, the largeness of the number of measurement bases, the asset's contribution to future cash flow, the effectiveness of settlement modalities for liabilities, the relevance of the information included in the statement of financial position and in the statement of comprehensive income.

Under a methodological point of view the research could be defined as a 'normative' one, that is a research where one or more practical choices are suggested using either the criterion of 'internal' or logical coherence among them and with premises, and the criterion of 'external' consistency with doctrinal or factual assumptions (Costa, 1998: 430).

In this respect the major debt of doctrinal assumptions is toward the 'dualistic approach in evaluation', witnessed as well in the international literature as, peculiarly, in the Italian one, due mainly to the sharp sharing of accounts into two distinct and opposing 'series'.

The underlying conception of this literature review is a critical approach that focuses on the interaction between Accounting and its socio-economic and political environment and accord a privileged role to the concept of 'social praxis' (Hopwood, 1976). By elaborating this concept, the paper contends that the evolution of 'accounting standard system' is connected to the theory and practice on Financial Reporting.

By consequence, the discussion around the matters of measurement accounting will be preceded by some historical premises that investigate the fundamental linkages between economic context and theoretical environments and financial reporting standards. And this discussion will be followed by a comparison between the emerging perspectives for the future IASB paradigm and the traditional Italian paradigms of accounting measurement.

The historical and doctrinal survey leads to the considerations of limits due to a generalized and unquestioned use of a 'fair value' approach in evaluations. Generally speaking, literature teaches us that evaluation paradigms depend, ultimately, on the administrative *function* of the single elements of businesses (rather than on their *nature*) and, by consequence, on the business model adopted for managing these elements.

Once this assumption is stated, the answer to the main relevant question of 'Measurement topics' is developed and argumented, with some hints of the main consequences this choice could imply.

The paper, then, is organized as follows. In the point 1, entitled 'Introduction', the Authors examine the current state of 'accounting standard system', setting objective, aims and methodology of the research. In the point 2, entitled 'Some historical perspectives on the international debate', the Authors briefly analyse the debate on Fair Value Accounting from a historical point of view, with emphasis on the accounting contributions that have proposed alternative theoretical approaches to this valuation model. In the point 3, entitled 'Some comparative considerations *versus* the Italian Accounting Theory', the Authors propose a historical survey of the relationships between the different criteria of measurement and the Italian theories on the valuation. In the point 4, entitled 'Comments on Measurement items in the Discussion Paper', the Authors propose some considerations about the key questions related to Measurement in the mentioned DP. Finally, in the point 5, entitled 'Conclusions', the Authors propose the main research finding and its possible policy implications, by conceptualising a 'mixed' system properly that combines fair value Accounting and historical cost Accounting and try to give a more rational base to the financial reports. The *Conclusions*, furthermore endeavour to compare authors' answer to Board's approach to this problem *after* the discussion on the topics has been closed, underscoring similarities and differences. In it, endly, usefulness, limits and perspectives of the research are outlined.

2 Some contributions on Measurement from international literature

The fair value measurement has acquired a central position in the International Accounting Standards since 1990s, after the adoption of 1989 Framework by the IASC. In this Framework perhaps the meaning assigned to fair value is comparable with the more general concept of 'equitable' value that can be related to each measurement base (historical cost, current value, recoverable value, present value).

This problem is also identified by Del Pozzo (2007: 216), while discusses that the fair value has not an explicit definition in 1989 Framework and, in the

same time, the meaning assigned to it in the further single Accounting Standards is not exactly equivalent to a specific measurement base.

Prior to illustrating the comments on measurement items in the current IASB Discussion Paper, to understand the changes and contradictions in the Accounting valuation, it seems fruitful to refer to the Anglophone literature[7]. Indeed the use of fair value measurement is certainly previous to its adoption within the same Framework.

With regard to that literature, Peter Walton (2007) quotes some historical references to fair value reproduced by Raymond Chambers in his work *An Accounting Thesaurus: 500 Years of Accounting* (1995). For example, Lisle in 1903 suggests to state at fair value all the assets included in a balance sheet; Montgomery in 1922 defines market value as “the price at which a seller willing to sell at a fair price and a buyer willing to buy at a fair price, both having reasonable knowledge of facts, will trade” (Walton, 2007: 4).

In the same work[8], David Alexander in his essay on the “Recent history of fair value” examines the prior literature on fair value and shows that there are different valuation methods of the firm assets moving from *The Theory and Measurement of Business Income* (1961) of Edgar O. Edwards and Philip W. Bell. He writes that these Authors raise the question about semi-finished assets measurement by referring to the link between values and three dimensions of asset description (Alexander, 2007: 71).

In particular, the first dimension is the ‘form’ of asset, namely how an asset can be described and valued: sum of initial inputs, present form, ultimate form or expected output less the additional inputs necessary to obtain it. The second dimension is the ‘date of the price used in valuation’: past, present and future of each form. Finally, the third dimension is ‘the market from which the price is obtained’ (Alexander, 2007: *ibidem*).

Alexander presents a broad reconstruction of the value concepts array from the work of Edwards and Bell combining the asset form and the value date, but he adds also the market dimension, distinguishing between: on one side, the valuation at *entry* prices (in the market where the firm purchases) and at *exit* price (in the market where the firm sells); on the other side, the valuation of ultimate form through *usage* and through *disposal* (Alexander, 2007: 72).

In that matrix of value concepts, the *historical cost* method can be applied to the ‘initial inputs’ form, the ‘entry prices’ market and the ‘past’ date. Instead there are three fair value concepts that can be derived from this matrix: first, the *present cost* that is based on the assets ‘present form’ and on the ‘entry prices’ market formed in the ‘current’ date (*cost based* fair value); second, the *current market value* that it based on the ‘disposal ultimate form’ and on the ‘exit prices’ formed in the ‘current’ date (*market based* fair value); third, the *current economic value* that is based on the ‘use ultimate form’ and on the ‘exit prices’ formed in the ‘current’ date (*income based* fair value) (Alexander, 2007: 87).

Each fair value variant leads to different capital maintenance concepts that permit respectively to maintain the financial value of present cost, current value or current economic value of the firm initial capital. Although all these values provide a constant purchasing power of the firm initial capital, the first two value variants ignore transaction costs (Alexander, 2007: 88). Therefore Alexander argues that current economic value, focused on ‘use value’ and used in Hicks’ Income, is the target to be calculate whereas the other two are potential proxies of the first one.

The Author comes to the conclusion that “fair value is an attempt at current economic values, and current value in an active market is a proxy for it”; and he notes how the question about the fair value practicable proxies able to increase the informational relevance of financial statement needs to be connected to the traditional debate on the theories of income measurement and asset valuation (Alexander, 2007: *ibidem*).

Alexander’s theory is interesting and useful for our goals under several points of view. First of all, the general matrix of evaluation allows a flexible approach to evaluations: no ‘one best way’ exists for valuation purposes, but we can define a general ‘framework’ as a sort of ‘switchboard’ with three switches (form, date and market). Fair value and historical cost are, without ideological prejudices, only particular combinations of switch disposals. Second, and most relevant, point of view is that Alexander finds what unifies the current three ways of determining fair value much before the same IFRS 13 defined them: the *financial* maintenance of capital. Financial maintenance of capital needs current economic values; fair value is the best proxy for them; then fair value is the best method for financial maintenance of capital ends.

What we do not agree about Alexander’s view, however, is the implicit favour for ‘financial’ maintenance. ‘Physical’ maintenance of capital, in different business models, or in different functions assigned to resources, could be preferable to ‘financial’ maintenance and, then, could supply more relevant information to the effective and potential investors of the entity. If the alternative maintenance of capital addresses to historical cost, this last one could be chosen not only for ‘tradition’ or

[7] Similarly, the fair value measurement is found in the continental European literature. For example, Richard discusses also that the market value is not a new measurement approach in a French context and he refers to the inventory example contained in the 1807 Commercial Code. In that example, the assets “must be carried at their value (*cours*) on the day of inventory. Value in this case is considered to be market value.” (Walton, 2007: 5).

[8] *The Routledge Companion to Fair Value and Financial Reporting* (2007), edited by Peter Walton.

'conservativism', but for its intrinsic greater ability to offer relevant information.

Raisons for criticising fair value have been raised during the most recent decades due to the accounting scandals in 2001-2002s and especially after the financial crisis since 2007. The last years witness the appearance of a broad debate about the impact of fair value measurement on the recent global financial and economic crisis.

This debate is part of a broader one on the risks and opportunities that the financial and economic crisis has for accounting. Between 2008 and 2012, much current research has attempted to study how the recent crisis has affected theory and practice of accounting. For example, *Accounting, Organizations and Society* published in 2009 a special issue consisting of a group of articles on the implications of the economic crisis for accounting, both for the theory and the practice. The aim of this issue is well described by Anthony Hopwood in his introduction to the articles: it is to provide "a range of interesting and challenging observations on the contemporary worlds of accounting practice and research" (Hopwood, 2009: 799); it is to constitute "the base for a similar plea in the area of accounting research" (Hopwood, 2009: 802).

In this context, most of the controversy of accounting research focuses on the comparison between two alternative approaches to accounting: the approach based on the principle of fair value and the approach based on the prudence and especially historical cost principles.

In front of the international business competition, the accounting jurisdiction change adopted by European Union led to a standardization based on a different 'philosophy' than traditional harmonization. Indeed, the standardization implies the adoption of a universal measurement method and the elimination of alternative methods in accounting, while the harmonization, practiced previously, permitted to use different accounting measures. More specifically, the introduction of the IFRS of the IASB led to the change of accounting measurements, namely the fair value Accounting, while the European legislation had focused mainly on the historical cost Accounting before IFRS adoption.

The analysis of current accounting literature shows that the debate about fair value Accounting *versus* the historical cost Accounting mainly revolves around the traditional divergence between *relevance*, namely the utility of information accounting for the different users, and *reliability*, namely the accuracy of information. Indeed, altogether the literature on fair value indicates that it provides more relevant information to investors and creditors than historical cost, the latter is considered more objective and reliable than fair value (Rodríguez-Pérez *et al*., 2011: 61-62).

This approach, anyway, lays on the consideration of a general preference for FVA than for HCA, which could be considered only a proxy (for its greater reliability) respect to a "true" value. In our opinion, instead, the base for the preference is in such a way only assumed, without being properly and theoretically argued. Notwithstanding with this critics, the approach is relevant because it opens to a binomial way of valuation when a context factor can invalidate the same general preference toward FVA.

A convergence with this perspective could be observed in the literature on the tension between 'valuation decision usefulness' and 'stewardship' (Gjesdal, 1981) (Beyer *et al*., 2010). In the former (briefly 'valuation') the stress is set on the 'real' value of firm, 'best' represented by fair value accounting, while in the latter ('stewardship') hard measures (Ijiri, 1975) are to be preferred, like historical cost is, for avoiding or reducing opportunistic behaviours by managers.

This perspective is certainly of great momentum, because it supplies a practical criterion for choosing one of the two methods (if we have prevalence of 'valuation' or 'stewardship') but it is debatable under another point of view. Simplifying we could consider the difference between FVA and HCA in measurement as the effect of not realized revaluations. But nowadays this difference is well dealt with the presence of 'two' income statements: FVA could be dealt inside capital reserves and OCI and not inside 'separate income statements', this last one devoted to what the aforesaid authors call management performance and not 'luck'. Information useful for investors decisions (reflected better in balance sheet) could stay aside information useful for discharging managers responsibilities (reflected better in separate income statements). Furthermore the authors implicitly assume the presence of an economy and stakeholders (the US ones) not always the same throughout the world: prevailing of public companies, short term investments in stocks, value of firms reflected essentially by returns into cash, and so on. Other investors, more stable than traditional American ones, could be interested on a different conception of capital maintenance than the financial one.In particular, the emergence and the persistence of recent financial crisis seems to further invalidate the typical 'capability' of market value and provides the occasion for criticism of fair value Accounting. Many researchers suggest therefore that fair value Accounting standards in the financial reporting may have rather played a role in exacerbating the effects of the crisis. Otherwise, the debate on fair value *versus* historical cost has also resurfaced within the context of the IASB.

In other words, the crisis even more shows the criticality of trade-off between relevance and reliability of accounting information in markets that are above all imperfect and incomplete. Indeed, one of the key lessons of the crisis is therefore the gap between market value and real value of assets and liabilities appearing on the financial statements of

firms. From this point of view, Bignon (Bignon *et al.*, 2009) argues that the usage of fair value Accounting is limited by asymmetries of information, complementarities and specificities. Indeed, in presence of these conditions, the valuations based on fair value can compromise the reliability of accounts and introduce the risk of incorporating financial volatility into the accounts. Moreover, emphasizing financial criteria on the management valuations, fair value Accounting may not guarantee a correct information to all the stakeholders. These Authors conclude that in presence of asymmetries of information, complementarities and specificities is preferable to opt for the historical cost (Bignon *et al.*, 2009).

Another contribution in support of revisiting the fair value Accounting as a general principle for a 'true' valuation of asset combinations is provided by Ronen. By considering the fair value as a methodology that encompasses different approaches for the estimation of exit values, for example, the Author suggests to compare the fair value or the exit value of assets and liabilities with the use value of asset combinations. Ronen proposes a new accounting framework able to valuate benefits and costs of operating the firm based respectively on use value and exit value of asset combinations. The first measure represents the expectations of cash flows when the firm's resources are used within the firm to produce goods and services. The second represents measures of opportunity costs and abandonment value if the assets would be sold (Ronen, 2008: 205-26).

Ronen's approach reveals another and deeper reason for adopting a binomial or dualistic valuation criterion: this time what is relevant is not only the reliability of accounting in time of crisis, but also the different role of the single resources (and claims) inside the business combination and the kind of business combination in itself (the business model).

The study of the key differences between fair value Accounting and historical cost Accounting can provide a solid foundation for alternative models and frameworks based on the assumption of imperfect and incomplete markets.

Whittington's article, titled "Fair Value and the IAS/FASB Conceptual Framework Project: an Alternative View" (Whittington, 2008), provides an interesting analysis of the differences between the two competing world views on measurement issues: a "Fair Value View", implicit in the pronouncements of the IASB, and an "Alternative View", offered by the critics of these pronouncements.

In particular, according to the Author, the Fair Value View seems to underpin on logic and coherent theoretical foundations while the Alternative View arising from a pragmatic approach to specific issues seems to lack theoretical base. Actually the Fair Value View cannot be a so attractive and good theory as not related to the real world. On the other hand the Alternative View, even if characterized by a high specificity, finds theoretical support in the works of Hicks, Edwards and Bell, Beaver and Demski. Hicks, writing of income, defined it as not a logical category, but as rough approximation used by the business man. Edwards and Bell, emphasizing income, suggested to use ex post accounting income to evaluate performance on the base of current cost measures instead of fair values. Beaver and Demski, starting from the statement that income is an ill-defined concept in an imperfect and incomplete economic environment, highlighted the importance for accounting of providing useful information rather than definitive measures. Starting from these theoretical foundations for the Alternative View, Whittington comes to the conclusion that it is more fruitful not to search for a theoretical and universally valid measurement method, but to define a clear objective and select the measurement method that best meets that objective with reference to specific problems.

After having provided a theoretical support for the Alternative View, coherently with this approach the Author proposes to use the deprival value concept – unfortunately missing in the current list IASB of valuation criteria –, whose origin is generally attributed to Bonbright (1937). It is based on the assumption that the value of an asset is equivalent to the loss that the firm would sustain if deprived of it.

In summary, the different contributions analysed highlight that fundamental argument against the fair value measurement in financial reporting is that it leads to make accounting information that does not indicate the real and useful 'value' of the items of the balance sheet for the firms.

Then, we have some basic debts toward international literature and a starting point for our suggestions to the Board's Discussion Paper.

First debt toward international literature is, of course, the same definition and evolution of the basic concept of fair value. Deeply rooted in Anglophone literature, even before it became the "international" one, and not only there, the concept has only little by little assumed the shape of *exit value* it has today. The authors here examined suggest us, furthermore, some basic assumptions to which we explicitly agree and use for our normative aims:

- Use of fair value shows itself in many technical methods, but the principle of the 'economic current value' unifies all these manifestations;
- Fair value, even when eligible for its consistence with informative goals of financial reports, is not always reliable, mainly in time of crisis;
- Fair value is generally unfit for stewardship goals, because it always depends on 'luck' and not on management performance;
- Evaluation is strongly linked to the conception of capital maintenance;
- Among the many possible models of evaluations emerge only *two basic* conceptions: HCA and FVA to which others are, more or less, only proxies;

- Choice between them depends, ultimately, on the function the single item (asset or liability) play inside the business where it is combined with other items.

If these points are fully agreeable, we find some feeblenesses in the examined literature under another respect. The main weakness is the lack of focusing on the theoretical criterion for this fundamental choice. When a judgment is based on the alternative relevance *vs.* reliability, the correlation between fair value (or other current value method) and relevance is hard to assume outside of the traditional US context and seems quite a dogmatic assumption: financing mainly through financial markets, public company, short-term horizon of investments in stocks, and so on. The reference to mere empiricism, on the other hand, leaves the user of financial reports without a rational ground. Perhaps, in this issue, a cross-fertilization with another tradition could be helpful.

Continental traditions have been generally labelled as 'conservative' (Nobes - Parker, 1998), because of their traditional preference for historical cost. A brief insight in one of them could help for acquiring other reasons (other than only reliability or prudence) for choosing historical cost than fair value. In that it looks of particular interest the Italian literature where a long lasting tradition of sharing accounts into two 'series' is to be found; both having a different method of evaluation. On this subject we develop the next point.

3 Some contributions on Measurement from Italian literature

The scientific evolution of Italian research and the beginning of a significant category of theoretical works in the field of Measurement have been witnessed by the appearance of two schools of thought in Accounting starting from the second half of the 19th century and during the 20th one. These schools elaborated two different Accounting theories according to the chronological order of their appearance: the former based on the central determination of the firm stocks or funds of wealth (from now on, simply 'stocks'), in particular the *net worth*, the latter based on the central determination of the firm flows of wealth, in particular the *economic income*.

The centrality of net worth measurement is consistent with a static view of the business wealth. According to this view, the net worth as difference between firm assets and liabilities is the result of the 'sum' of their single values. The economic income depends on the net worth, because it is the difference between its previous and current values.

The founder of net worth based Italian Accounting Theory is Fabio Besta (1845-1922), but many other Italian authors have also given a large and great contribution to the establishment of this view of wealth.

Besta's Accounting theory is linked to the economic context of 19th century, characterized by the presence of commercial and industrial firms in which the 'care' and 'use' of wealth were fundamental. In particular Besta, in his work 'La Ragioneria' (1922), considering the questions about the wealth valuation in Accounting, defines the notion of 'exchange value' ('valore di cambio') on the relation between the 'use value' ('valore d'uso') and the 'cost of production' ('costo di produzione') or 'replacement cost' ('costo di riproduzione'). The first is related to the judgment on the utility that a product could give in order to satisfy a specific need ('expected gain'). The second is related to the judgment on the effort done or to be done to get that product.

The 'exchange value' or the 'value par excellence' is related to the judgment on the comparison between these two previous values (Besta, 1922: 215-216). Indeed in the market exchange there are a willing buyer and a willing seller who compare the utility of a product and his incorporated value (Besta, 1922: 218). Moreover Besta distinguishes between real determination of values, if the exchange has happened, and unilateral determination of values, if the exchange has not yet happened (Besta, 1922: *ibidem*).

However Besta addresses the questions comparing the 'historic values' and the 'current values' in developing a conceptual framework focused on different contents and objectives of the valuation.

Indeed, with specific attention to the contents of the valuation, he suggests to apply the *current price* in the determination of the value of inventories, consumer goods, legal tender (cash), fungible goods, credits of many participating shares, bonds, etc. and also fixed assets used in business (Besta, 1922: 232 *et ss.*). This price is the value for which equal quantities of goods are sold or bought in numerous or frequent exchanges. Besta points out that value between the minimum and maximum price can be defined as the 'normal' or 'common' price (Besta, 1922: *ibidem*), that roughly corresponds to the 'entry price' as current variant of fair value.

But, the Author suggests to apply the *historical cost* in the determination of the value of economic goods that are not currently exchanged (Besta, 1922: 238). This advice introduces the other aspect of the valuation question related to its objectives. In particular, Besta distinguishes between the valuations able to regulate the transactions and the valuations able to determinate various 'measures' of the business wealth in different consecutives times. Each of these objectives focuses on providing information that is useful to make different judgments on the economy of the firms.

Indeed Besta underlines that the historical cost allows to evaluate the assets according to 'real elements', especially the 'working capital' required to stay in the business for a short time. Even if the determination of the costs is not often simple, it is certainly opportune when the valuation is oriented to measure gains and losses of future operating cycles as long as the sum of the costs does not exceed the relative exchange values (Besta, 1922: *ibidem*).

This classical author, indeed, enforces the idea that valuations depend on the function of the single items as it would be in the following international literature we have just reviewed before. Furthermore, his 'reproduction cost' seems very close to Whittington's 'deprival value', if not exactly the same thing. Aniway, the belonging of all assets and liabilities to his 'first series' of accounts do not allow a sharp correspondence between series and accounting methods. The choice, as in the most traditional Anglophone literature, remains fragmentary and varies from case to case, according the specific features of the single item.

In this sense, it is instructive to compare the two kinds of valuation with the Ubaldo De Dominicis (1913-1998) thought about the variability of the methods of wealth valuation depending on the knowledge objectives. This Author argues that it is wrong to suppose that the wealth valuation is always oriented to determinate the estimated exchange value in case of transfer (De Dominicis, 1966: 43), but frequently the purpose of the wealth valuations is the measurement of economic income. In this case, De Dominicis affirms that raisons of prudence suggest to maintain both the value of net worth and the values of single assets *under* their estimated exchange values (De Dominicis, 1966: 44). Thus, prudence, and the following historical cost accounting, for certain assets (and liabilities) would represent the *best way* to grant what we nowadays could call the 'physical maintenance of capital' from too generous politics of earnings distribution.

A discussion about the variability of wealth valuation methods comes into play more deeply in Accounting with the other school of thought, that is income centred and puts the questions related to the firm wealth measurements inside a different economic context.

The centrality of economic income measurement is consistent with a *dynamic* view of the business wealth as result of a 'system' of the values of firm assets and liabilities. The economic context of 20th century is characterized by the emergence of 'financial' capitalism, which assigns a conceptual pre-eminence to the economic income rather than to the net worth. The founder of economic income based Italian Accounting theory is Gino Zappa (1879-1960).

This Author, moving from changes occurring in the economic context of 20th century, revisits the stock based Accounting theory and introduces an appropriate model for the measurement of the economic income, that is now determined in a more reliable amount only through the market exchanges. The emphasis on the financial market and monetary exchanges has a relevant effect on the wealth valuation questions. On the surface, this emphasis seems to suggest valuation methods based on current or market values, but actually it is needed to measure the economic income in the most reliable way.

Indeed, with reference to concluded processes, the income is the result of the difference between revenue measured by 'positive *numeraire* values' (increase of cash and short-term credits and decrease of short-term debts) and expense measured by 'negative *numeraire* values' (decrease of cash and short-term credits and increase of short-term debts). Consequently, these values are related to the past monetary exchanges and the valuation that permits to obtain the reliability of the income measurement is the one founded upon historical cost and 'revenue'[9].

In Zappa's thought, it is not appropriate to use the current exchange values, namely fair values, to measure the net worth elements of a firm perceived as a going concern (Zappa, 1937: 154). This is because these values are not of univocal determination: in his view there are too many problems in the determination of the current exchange values. Therefore he suggests to adopt the historical values generated by the past goods exchanges or the prices at which the similar or identical goods have been actually negotiated in that day (Zappa, 1937: 156). But Zappa acknowledges also that, for example, the inventories value in the balance sheet can be determined by using current exchange values in times of increasing prices and presumed achievement of higher revenue (Zappa, 1937: 638).

After the diffusion of Zappa's theory, many Accounting writers adopted this view of wealth valuation considering the net worth as a 'mean' determined to find another 'quantity': the economic income. In this sense Pietro Onida (1902-1982), one of the orthodox disciples of Zappa, asserts that the meaning of net worth value depends on the income quantification: as well as the measure of income is not absolute but can be variously interpreted, also the measure of net worth changes according to the income concept guiding the preparation of statements (Onida, 1971: 630). The Author discusses the different variants of economic matching and accrual Accounting principles that have been used in the Accounting theory and he argues that the profits and losses values and correlated assets and liabilities values vary according to these different variants (Onida, 1971: 631).

In the matter of wealth valuation and distributable income quantification, Onida adds that the net worth is determined basing neither only nor

[9] International literature refers only to the concept of 'historical cost' even when it is referred to the passive side of the balance sheet (the 'historical cost' of a liability, e.g.). In this sense we choose to use, willing in an innovative way, the phrase 'historical revenue' for referring to the algebraic opposite of the historical cost.

prevalently on past values, but it is very important to consider the presumed trends of business productions and the result of in-progress operations in future periods (Onida, 1971: 631). For example, with regard to inventories values, the income determination may not be less uncertain if it rejects any consideration of presumed future realization values of inventories. On the other hand, the presumed certainty of historical costs not lowers the uncertainty of the income measure depending also on presumed future feasibility of income and net worth components (Onida, 1971: 633).

The question of choosing between historical costs and current values is also explained by Teodoro D'Ippolito (1894-1977), another of the Zappa's disciples. That Author mentions the valuation question in the Besta's thought and he argues that the assets measurement at presumed normal current exchange values is based on the assumption assets are destined to be sold. This is possible for some not *numeraire* assets: for example, for the goods that have completed the production process, but not for fixed assets used combined in business, intangible assets, financial investments (D'Ippolito, 1958: 187).

D'Ippolito defines the boundaries within the current exchange values and historical costs should profitably operate. With reference to the first ones, the presumed current exchange values can be much different from the presumed future realization values, namely the revenue obtained when the products are sold. Furthermore, the current prices of not *numeraire* and fixed assets often represent quotes much lower than buying prices of the same new assets (D'Ippolito, 1958: 188). With reference to the second ones, the costs of single products or operations determined in practice are values without economic autonomy and can have variable measures (D'Ippolito, 1958: 194). Furthermore, the valuation at cost ignores in-progress sale operations at the date of statements preparation: if the revenue correlated to that in-progress operations will be obtained with a high confidence level, the Accounting practice suggests to take into account in the income determination (D'Ippolito, 1958: 195)[10]. Consequently the traditional principle of lower of cost and current price (or market value) is more simple than meaningful (D'Ippolito, 1958: 193-194).

Finally, D'Ippolito proposes to adopt also the general principle of the *presumed future realization values* suggested by Maffeo Pantaleoni in place of the traditional principle of lower of cost and current price, because it could be more consistent to the statements preparation oriented to redistributable income (D'Ippolito, 1958: 196). The mentioned principle requires to use the presumed future realization values anticipated to the statements preparation date: direct realization for the assets destined to be sold, the short-term credits and debts and other similar assets; indirect realization for the fixed assets and other similar assets (D'Ippolito, 1958: 197-198).

To generalize, the two Italian classical schools of thought in Accounting resolve the questions about the wealth valuation oriented to the determination of economic income in favour of historical cost use for the firm fixed assets. The Italian Accounting theory arguments in support of the wealth valuation at historical values are generally based on the research of income reliability. The advocacy of the 'superiority' of these values compared with fair values is the conclusion of a conceptual analysis about the income that is redistributable without compromising the going concern *status* of the firm.

Nevertheless, Italian Accounting theory includes also measurement principles of the firm assets and liabilities similar to fair values, typically current prices. For example, the Besta's replacement costs are rather similar to entry prices, whereas the D'Ippolito's presumed future direct realization values are rather similar to exit prices. To understand the reasons why the two Italian Authors give different importance at different fair values, is necessary to set them in their historical economic and cultural context.

It is of particular interest, moreover, the peculiar distinction of assets and liabilities of 'income system' (at least in the three authors considered) into two series and the link of this partition to valuations. With the noteworthy exception of inventories destined to be sold, all the 'second series' items are always 'deferred' expenses or revenues (so for plants and machinery, e.g. and for prepayments) and *then* invariably determined with the historical cost accounting, while the 'first series' items (like cash and *numeraire* credits and debts) have an exchange value for their own.

The power of this approach, then, is the finding of a rationale for distinguishing the two main fields of evaluation, what we did not find in International literature.

The weakness, on the other side, is the quite mechanical distinction of items belonging to the first or to the second series, where the Conceptual Framework needs, on the contrary, a flexible guide to measurement, more pledged to the general objectives of financial reporting, and more oriented to the business model in which single items are located and/or to the function they assume.

Time is ready, then, for trying a synthesis of this literature review and for trying some proposals.

---

[10] The theoretical position proposed by D'Ippolito is rather similar to the position of Edwards and Bell about the business income concept.

4 A proposal on Measurement issues in the Discussion Paper[11]

Measurement issues in the "Discussion Paper" of the Board were contained in "Section 6". At the end of this Section were placed some questions for the respondents from number 11 to 15.

For what concerns the aims of this paper the most relevant question was the one of number 11, under in *italics*.

Question 11

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6-6.35. The IASB's preliminary view are that:

(a) the objective of measurement is to contribute to the faithful representation of relevant information about:

(i) the resources of the entity, claims against the entity and changes in resources and claims; and

(ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) a single measurement for all assets and liabilities may not provide the most relevant information for users of financial statements;

(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) or profit or loss and OCI;

(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:

(i) for a particular asset should depende on how that asset contributes to future cash flows; and

(ii) for a particular liability should depend on how the entity will settle or fulfil that liability.

(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and

(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

The preliminary view of the Board reflects, or is strongly affected by, the mainstream thought on the useful financial information for users of financial reports, on its turn derived from the 'positive accounting theory' (Lionzo, 2012). Inside this broad perspective, the assumption a.i), particularly, seems to concern the 'macro'-area of *valuation*, while the assumption a.ii), particularly, seems to concern the 'macro'-area of *stewardship*.

As we saw in the end of Section 2, the outcome of the international debate consists in a basic bipartition of measurement methods. This bipartition is only partially accepted by Board's view. In our opinion – as argued in Section 2 – all 'current value' methods are, more or less, proxies of fair value method, or its variants. In our opinion, the basic contribution that emerges from international debate is the basic contraposition between FVA and HCA. This view is reflected, or at least compatible, with assumption b).

The distinction, however, is generally relied upon the alternative *relevance vs. reliability* that we have argued to be, at least, debatable.

As we have previous argued the alternative seems to be better lead on the function the single item assumes in the business combination. We need, then, an economic theory to justify this different function or destination. Generally international accounting doctrine is derived from financial economics, but, in authors' opinion, this seems unfit for describing the running of single resources *inside* organizations. For that reason a useful contribution could come from a stream of economics applied to intermediate systems like Italian 'Economia aziendale' is, and – as argued in previous Section 3 – we borrow from it the sharing of values into two main 'series', even with substantial adaptions from classical authors who wrote for a not-financially driven economy of firms.

The main adaptation to nowadays economy is that the belonging to one or to another series is no longer driven by the *nature* of the single item (as was the case in classical Italian doctrine) but by its *function* (as it is suggested by international doctrine). For the previous reasons now we can assume a strong correlation between a 'main evaluation method' and a conception of 'capital maintenance'. Roughly, the correspondence is representable by a sort of logical proportion:

HCA: Physical Maintenance of Capital = FVA: Financial Maintenance of Capital

The preliminary view of the Board is, furthermore, logically consistent with the qualitative characteristics of financial reporting as defined in the same conceptual framework (chapter 1): mainly the relevance of information itself for primary users (investors and similar lenders of capital). But, according to the business model, information could be oriented toward the ability of firm to produce stably income (for a kind of primary users), or toward the fact firm has only enhanced its value (for another kind

[11] This section is drawn from and summarizes the contents of the Comment Letter send by Prof. M. Costa to the Board and published on the IFRS Foundation website. Of course, that letter, in that site, was only sent and rapidly argued, while here the author are attempting to root that answer on a theoretical base and to leave a trace of it in the international debate.

of primary users). The assumption of prevailing of speculative investors, only interested in financial maintenance of capital is ideological, and it is to be supported, at least, by empirical research.

Having reached this conclusion now we are able to pass, by analytical passages, to the normative side of our work, the strict proposal, set in a deductive way.

For all the foregoing discourse, for what concerns the above letter (a,) the authors agree with Board's view. *Measurement* concerns the quantitative side of the representation of resources and claims (perhaps, better, 'positive resources' and 'negative resources') belonging to the entity's wealth. Logically speaking, it is clear that a quantitative variable can be measured, over time, either in *stocks* (in instants or 'points') or in *flows* (along periods or 'interval of time'). Stocks jointly define the entity's 'position' (in the statement of financial position) while flows variously define (in the different primary financial reports as income statement(s) or in the cash flow statement or in the statement of changes in equity) the entity's 'variations'.

Of course, it can be stated that an 'absolute measurement' does not exist, considered out of external subjects to whom this information is directed, out of their goal and their future economic decisions. Thus, the terms 'faithful representation' and the polarity toward the 'discharge of responsibility' summarize this relativity enough as reported in previous Section 2[12].

For what concerns the above letter (b) it should be added that the most relevant information could be achieved, out of exceptions (as, for example, the 'equity method' or others) by mainly *two bases* measurement: namely the *Historical Cost* on the one hand and the *Fair Value* on the other hand. This 'dualistic' view is to be fully argued.

These two bases are justified by the fact that resources and claims are attracted to the area of entity control essentially for two kinds of *functions*.

The *first* one is that of belonging to a combination of factors ordered to the production of income. This former one, that we could define 'economic function', is strictly linked to the *physical capital maintenance*. Typically, properties, plants, machinery, inventory, but also prepayments (active or passive), goodwill, and similar items, *have not an intrinsic value for their own*. They get a value only in the combination or 'business' in which they are involved. A 'business', or economic combination of resources and claims, should not, strictly speaking, be divided in a simple sum of single values. Its economic value should be given only by the actualization of the future net flow of income (or, worse, of cash flows). The full economic value, of course, should not necessarily correspond to its carrying amount, for several reasons, but this last carrying amount, where the value of the same in a sum of values, whose ultimate goal is only to determine a 'maximum' for the assets and a 'minimum' for the liabilities, that jointly define the lower bond of the economic value of the entity (or of businesses inside it).

Perhaps, then, at least for this zone of wealth, the abandoning of "Prudence" as a qualitative characteristic has been a true loss for the Conceptual Framework.

Then, briefly, a rational solution for this part of entity's wealth could be the following:

The assets, if not differently specified by a standard, belonging to the *economic zone* of wealth, i.e. the assets *belonging to a combination of factors or a business ordered to the production of income*, are to be evaluated choosing the minimum between:

(a) the historical cost of acquisition or production, and

(b) the maximum between the net selling value and the value in use.

The amortization process is an acceptable device for determining the first approximation of value in use of multi-year assets, eventually to be further depreciated if this process is not sufficient to determine the correct value in use.

The liabilities, likewise, if not differently specified by a standard, belonging to the *economic zone* of wealth, i.e. the liabilities *belonging to a combination of factors or a business ordered to the production of income*, are to be evaluated choosing the maximum between:

(a) the 'historical revenue', and

(b) the cost for fulfilling or transferring the obligation.

The *second* function is that of being a portfolio investment (or funding in the 'negative' side of the statement of financial position), not strictly linked to other factors of production. This latter one, that we could define 'financial function', is strictly linked to the *financial capital maintenance*. Here, it can be typically found cash, receivables and payables, many financial assets and liabilities, included accruals (positive and negative), derivative instruments, investment properties and similar items, which *have an intrinsic value for their own*. They get a value in a potential exchange where they could be sold. The 'exit price' seems to be the best approximation of this value, as the IFRS states. The selling of the asset or the transferring (or fulfilling) of the liability does not affect the value of other assets or liabilities. When no observable price or analogous price is available, the replacement cost (an entry price) for the assets and another alternative cash-flow-based measurement for the liabilities, could be used as the best approximation for the not available exit price.

[12] Furthermore 'wealth' (conceived as the ideal sum of all resources and claims) does not deplete the whole of properties and relations managed by the entity and its management or governing board. But the 'not measurable resources and claims' should be synthesized by *other* reports *than* 'financial' reports, particularly relevant for the not-for-profit entities, but also for the for-profit entities: social or environmental reports, namely.

In words they are simply *cash*, or *cash equivalents*, or *cash substitutes*. Their valuation is measured by 'fair value', i.e. an exit price, i.e. their cash return. The favour accorded to 'fair value accounting' finds its deepest reason in the transformation *from* a 'real economy' *to* a 'financial economy' of the recent years (or decades, if we refer to US economy, e.g.). In the financial economy, assets and liabilities jointly form only a portfolio of investments and funding whose ultimate goal is the increase in value of the net investments themselves and/or the net financial returns from the investments, as interests or dividends to receive minus interests to pay and similar costs as well. In the real economy, instead, assets and liabilities jointly form a business, a sort of 'machine' ordered to the stable production of income over years by means of selling goods and services into the market. Thus, one speaks about radically *different economic phenomena,* which need *different measurement methods*,

Then, briefly, a solution for this part of entity's wealth could be the following:

The assets, if not differently specified by a standard, belonging to the *financial zone* of wealth, i.e. the assets held as *investments that could stand alone*, separate from the general combination of factors of the overall business, are to be evaluated at the fair value as defined in IFRS 13.

The assets that can be freely substituted by other assets of the same species (as cash or cash equivalents) have a 'fair value' identified by definition with their legal value.

The liabilities, if not differently specified by a standard, belonging to the *financial zone* of wealth, i.e. the liabilities held as *funding that could stand alone*, separate from the general combination of factors of the overall business, are to be evaluated at the maximum between:

(a) the contractual value of the obligation, i.e. the cost to be sustained according stated terms, if this exists;

(b) the fair value as defined in IFRS 13 or, if not applicable, according another cash-flow-based measurement.

For the liabilities – as it is known – a literature exists on the counter-intuitive effects of the general application of fair value accounting: the worst rated entities should depreciate their liabilities so improving their financial position, and this is simply a non-sense. Perhaps, then, it is better to keep the contractual value for debts and payables, if greater, for avoiding this bias.

Summarizing all, one could say that the wealth is shared quite sharply into two 'zones'. The 'financial' zone generally supports the 'fair value accounting'. The 'economic' or 'real' zone generally supports the 'historical cost accounting'. The basic problem is to find a criterion for choosing *when* an asset or a liability belongs to the first or to the second zone, respectively. Is this a choice according the *nature* of the single item, or according the *function* of the same? This problem is argued below.

For what concerns the above letter (c) the authors agree with this preliminary view, because the other two primary financial statements (statement of cash flow, and statement of changes in equity) are less affected by measurement: perhaps, however, measurement affects much also the notes, where detail information regarding measurement problems is included.

For what concerns the above letter (d) the agreement can be only partial. The identification of the particular contribution of the single assets and liabilities to the future flows is straightforward. But the strict identification of this future flows as *cash* flows is, at least, debatable.

If the previous 'dualistic view' is accepted there will be not only two kinds of resources (positive or negative, so including claims in a broad meaning of 'resources'), but also two kinds of business units.

In the 'financial' businesses (corresponding, ultimately, to the single investments and funding, in terms of financial assets and liabilities) the reference to future *cash flows* seems to be correct. Here only a sort of 'machine' producing cash seems to be observed. Investors, creditors and lenders are interested to transfer cash to the entity if and only if this 'machine' produces and returns more cash than the amount they have given to it.

Then the measurement supplies relevant information for their decision of investment if and only if it sheds light on the future ability of entity to produce cash flows. Entity is then only a 'tool' of proprietorship for producing cash (*propriety view, entity as a fiction under which only a 'nexus of contracts' exists*).

This does not seem the case for the 'economic' or 'real' businesses. There, on the contrary, the 'investors' are not necessarily rhapsodic ones; they could be stable, as well as, in a wide sense, the other lenders. These investors are then interested to the ability of the *entire combination of factors* to produce new wealth, i.e. 'net profit', not 'cash', and on a medium/large range of time. This net profit, for being reliable, has to be produced for the entity itself, before than for the investors who give money to it (*entity view, entity as an institution in itself bringing its own interests and ends*).

Here the stress on cash, rather than on net profit, is an open contradiction towards the above assumption that the measurement is relevant for income statement(s) (see letter (b), above). Here the entity is a 'machine' able to produce income, new wealth, i.e. flows or economic benefits but not necessarily, and not suddenly, flows of mere cash. Furthermore, for a stable investor, cash flows is side information, not core information for his/her decisions.

Furthermore, the stress on cash *where cash is not so relevant*, has a sure pro-cyclical effect: over-evaluating 'bad' firms that seems to produce cash

while they are squandering their heritage, and under-evaluating 'good' firms while they are working for the future. The privilege accorded, at least for 'economic' or 'real' businesses, to the 'economic' flows, than to the 'cash' flows, is on the contrary the full exploitation of the general principle of *competence against the archaic principle of manifestation*. A more consistent approach with the 'dualistic view' above argued and at the same time a nearer approach to the preliminary vie of IASB, could lead to the following solution.

A more general concept of *financial* flow has to be introduced. A financial flow is to be meant as a *cash flow* if the asset or liability belongs to investments or funding of *financial zone of wealth*. A financial flow is to be meant as a *net profit flow* if the asset or liability belongs to businesses or combination of factors of *economic zone of wealth*.

For what concerns the above letter (e) the authors agree with this view, because it is very consistent with the above assumptions. The choice for *two* main bases of measurement with motivated exceptions is, of course, the *smallest*.

For what concerns, finally, the above letter (f) a similar agreement may be allowed. The general choice of historical cost for the 'economic zone' instead of the value in use has been already argued. The same may be needed for the restoring (at least for this 'zone') of the general principle of prudence, that moves from the hardness of and for the risks of biases in measurements not directly observable. The same 'other' measurement methods ('other', respect to historical cost and fair value) are to be justified for the particularly relevant information supplied by means of them (according the previous letter (e)) and for the not excessive cost to produce them. Out of these cases, ultimately, historical costs and market prices are generally the easiest numbers to observe and record.

5 Conclusions

The debate on measurement issues, as well in an international context as in a national one, leads to the proposal of concrete answers.

The true 'rationale' behind the answer given in the previous section is to be found in the adoption of a *systematic* accounting language.

Systematic accounting language is typical of the Italian doctrine, but unusual in an international context. In it – as it is generally known – accounts are generally shared into two series: the 'original' one, and the 'derivative' one.

Sharing entity's wealth in *financial* and *real* zones (Lipari, 2013) implies that financial zone is the original one, where each account has an its own value, while the economic zone, is the derivative one, where values are derived from the original cash transaction.

In this view the above argued 'dualistic attitude' finds its own deepest logical justification. Fair value accounting is nearly equivalent to the attribution of a 'cash value' to all elements of 1st series, while historical cost accounting accounts for not-financial items as they were properly costs, not still translated in 'expenses' of the income statement and, for that, 'parked' or 'discounted' in the statement of financial position as 'deferred expenses', in application of the general principle of 'economic competence'.

This perspective is not only a merely theoretical one, but it enjoys of a heuristic potentiality in deciding the kind of capital maintenance and, as a consequence, the measurement technique to select.

If this perspective is agreed, as a matter of fact, we will not have only a conventional guidance but a rational sequence to follow in the aforesaid selection of technique.

Faced to the traditional Italian stream, anyway, there is a noteworthy difference. In traditional 'Income System' the distinction between the two accounting series was determined essentially by the *nature* of the single items. In this perspective, instead, the nature may be substituted by the *function* to which the single item is destined. For example, property regularly belongs to the second series of accounts; it is a multi-years cost, accounted for, then, by means of its historical cost. But, according to a different function, it can be considered an 'investment' property, and then belonging to the first series of accounts, considered as a cash substitute, accounted for, then, by means of an exit price, i.e. the fair value.

Combining 'nature' and 'function' a concise attempt for a distinction between the two zones (or series of accounts) could be the following.

The assets belonging to the 'financial' zone could be:

(i) Cash and cash equivalents;

(ii) Trade credits and other receivable, included accruals for them;

(iii) Other financial assets held for sale;

(iv) Other financial assets held for keeping contractual cash flows;

(v) Investment properties;

(vi) Other assets held as investments.

The assets belonging to the 'economic' or 'real' zone could be:

(i) Inventories;

(ii) Goodwill and other intangible assets not held as investments;

(iii) Fixed assets used combined in business (not-investment properties, plants, machinery, equipment, and others);

(iv) Not consolidated and stable participations held for reasons different from the ones included in the financial zone (available for sale);

(v) Prepayments and other assets used combined in business.

The liabilities belonging to the 'financial' zone could be the following:

(i) Sight deposits and other sight obligations ('negative' money);

(ii) Trade debts and other payables included accruals for them;

(iii) Other obligations with stated terms included accruals for them;

(iv) Obligations without stated terms;

(v) Obligations to be transferred;

(vi) Other obligations held as funding and whose future cash flows are not correlated to the factors of production combined in business.

The liabilities belonging to the 'economic' or 'real' zone could be the following:

(i) Contractual obligations for services;

(ii) Prepayments and other obligations used combined in business.

The 'net worth' values, finally, included revenue and expenses, are by definition 'derivative' values, and then belong all to the second series of accounts.

Of course this attempt is only approximative, and modifiable if different business model use the same items combined for other goals. Ultimately it seems to be the business model of the entity (or of some its segment) useful for deciding which method is to be preferred.

In any case, such a dualistic attitude, seems to be fitter for a period of crisis like the one we are now experiencing (Costa – Guzzo, 2013). It provides some strong arguments against a too generalized adoption of fair value Accounting.

In fact, since the 2008 global economic and financial crisis, the fair value measurement has acquired a controversial position within the accounting regulatory committees and the accounting theory. The literature (see above, mainly in second point) generally examines two opposite central paradigms of valuation, namely the fair value Accounting on the one side and the historical cost Accounting on the other side. In this context, the position designed in the paper suggests a 'mixed system', combining fair value Accounting and historical cost Accounting in different ways according to the different contexts and entities reported by the financial statements.

An important conclusion, and at the same time a question about which to open a public debate, is the fact that 'fair value' remains central for the 'financial economy' and for 'financial entities', perhaps the most important conquest of the late XX century accounting, but the indiscriminate application of it also to the 'real economy' and to 'real economic entities' could be only pro-cyclical, speculative, dangerous as well for the investors as for the economy in general. Perhaps, there, a more prudential and cost-based accounting should find its right place.

Lastly, it needs to be clarified that this paper does not aim to give conclusive results on the theme of 'Measurement', but it aims only to offer a normative contribution to the debate about the various evaluation models whit some utilities and limits deserving to be declared.

With reference to the usefulness of the research, this paper can contribute on the one hand to spread the knowledge and to encourage a more significant presence of the Italian Accounting in the international debate, on the other hand to promote a more systematic approach to the Financial Reporting able to combine the normative perspective with the consequent need for the greatest neutrality.

For what concerns the limits of the research, first, the evaluation questions are dealt in the more general terms of the CF; thus, the paper does not analyse the Measurement approach of the single Accounting standards, but it quotes them only when needed.

Second, another limit of the research is related to some inconsistencies between objectives of CF and the approach followed by the consulted literature. Accounting literature is not always perfectly consistent with our research; therefore, constructivism seems to be the fittest approach to fill the gap between Accounting regulation and doctrinal (mainly Italian in this case) theory.

Third, the proposed dualism between fair value and historical cost little strains against correlations with the other topics of the Discussion Paper and dispels the integral development of Measurement concept, but the narrow boundaries of our research do not allow other solutions. Perhaps, then, a further investigation is needed. These developments should complete, in a positive and empirical way, what was set by this analytic and normative preliminary view.

Potential directions of future development for the current work are, therefore:

- to match it with the Board conclusions, partially consistent not only with ours, but also with other contributions;
- to look for empirical investigation concerning the evaluation model proposed in this paper.

References

1. AIDEA, Gruppo di studio e di attenzione (2007), *L'Analisi degli Effetti sul Bilancio dell'Introduzione dei Principi Contabili Internazionali IAS/IFRS*, Vol. 1°, Roma: RIREA.
2. Alexander, D. (2007), Recent history of fair value. *The Routledge Companion to Fair Value and Financial Reporting*. London: Routledge, 71-90.
3. Alexander, D., Servalli, S. (2011), Economia aziendale and financial valuations in Italy: Some contradictions and insights. Accounting History, 16, 291-312.
4. Amaduzzi Andrea (2009), *Dal costo al Fair Value: il nuovo approccio IASB*. Milano: Franco Angeli.
5. Arnold, P. J. (2009), Global financial crisis: The challenge to accounting research. *Accounting, Organizations and Society*, 34, 803-809.
6. Besta, F. (1922), *La ragioneria*, *Parte Prima – Ragioneria generale*, Vol. I. Milano: Casa Editrice Dottor Francesco Vallardi.
7. Beyer A., Cohen D.A., Lys T.Z., Walther B.R. (2010), The financial reporting environment: review of

recent literature, *Journal of Accounting and Economics*, 50 (2-3), pp. 296-343.
8. Bignon, V., Biondi, Y., Ragot, X. (2009), *An Economic Analysis of Fair Value: Accounting as a Vector of Crisis*, Prisme No. 15, Electronic copy available at: http://ssrn.com/abstract=1474228, 1-38.
9. Biondi, Y., Zambon, G. (2013), *Accounting and Business Economics. Insigh from National Traditions*. New York: Routledge.
10. Bonbright, J.C. (1937), *Valuation of Property*, New York: McGraw-Hill.
11. Capron, M., Chiapello, E., Colasse, B., Mangenot, M., Richard, J. (2005), *Les normes comptables internationales, instruments du capitalisme financier*. Paris: La Découverte.
12. Costa M. (1999), Il caso in Economia aziendale: tra logica della scoperta scientifica e logica della conferma scientifica, in (Dagnino G.B., Di Betta P. & Quattrone P.) *Le metodologie della ricerca nelle discipline economico-aziendali fra tradizione e nuove tendenze* Napoli: ESI.
13. Costa M., Guzzo G. (2013), Fair Value Accounting versus Historical Cost Accounting: a Theoretical Framework for Judgement in Financial Crisis. *International conference "Financial Distress: Corporate Governance and Financial Reporting Issues"*. Sumy: Journal Corporate Ownership & Control.
14. De Dominicis, U. (1966), *Lezioni di ragioneria* generale. Bologna: Azzoguidi.
15. Del Pozzo A. (2007), I punti controversi delle valutazioni al *fair value* emergenti dal *Framework* dello IASB, AA.VV., *L'Analisi degli Effetti sul Bilancio dell'Introduzione dei Principi Contabili Internazionali IAS/IFRS*, 1° Volume, Rirea, Roma: 213-228.
16. Di Pietra, R. (2006), Dai "principi" agli "standards" contabili internazionali. Riflessioni sul cambiamento metodologico in atto. Contabilità e Cultura Aziendale, Vol. 6, Fascicolo 1, 70-94.
17. D'Ippolito, T. (1958), *La contabilità in partita doppia a sistema unico e duplice ed il bilancio d'esercizio.* Palermo-Roma: Abbaco s.r.l. Editore.
18. Edwards, E. O., Bell P. W. (1961), *The Theory and Measurement of Business Income*. Berkeley-Los Angeles: University of California Press.
19. Gjesdal F. (1981), Accounting for stewardship, *Journal of Accounting Research*, 19 (1), pp. 208-231.
20. Hopwood, A.G. (1976), Editorial: the path ahead, *Accounting, Organizations and Society*, 1 (1), pp. 1-4.
21. Hopwood, A.G. (1994), Some reflections on "The harmonization of accounting within the EU". *The European Accounting Review*, 3 (2), 241-253.
22. Hopwood, A.G. (2009), The economic crisis and accounting: Implications for the research community. *Accounting, Organizations and Society*, 34, 797-802.
23. Ijiri Y. (1975), *Studies in accounting research n° 10: theory of accounting measurement*, American Accounting Association, Sarasota, Florida.
24. Laghlin, R. (1999), Critical accounting: nature, progress and prognosis. *Accounting, Auditing and Accountability Journal*, 12 (1), 73-78.
25. Laux, C., Leux, C. (2009a), The crisis of fair-value accounting: Making sense of the recent debate. *Accounting, Organizations and Society*, 34, 826-834.
26. Laux, C., Leux C. (2009b), Did Fair-value Accounting Contribute to the Financial Crisis?. National Bureau of Economic Research, Cambridge, Working Paper 15515, http://www.nber.org/papers/w15515, 1-41.
27. Lipari, C. (2013), *Fondamenti e complementi di Ragioneria*, Palermo: Università degli Studi.
28. Magnan, M. (2009), *Fair Value Accounting and Financial Crisis: Messenger or Contributor?*. Montreal: CIRANO (Centre Interuniversitaire de Recherche en Analyse des Organisations), 1-16.
29. Nobes C., Parker R. (1998), Comparative International Accounting, London: Prentice Hall Europe, 1998, 5th edition.
30. Onida, P. (1971), *Economia d'azienda*. Torino: Unione Tipografico-Editrice Torinese.
31. Paton, W. A. (1922), *Accounting Theory*. New York: Ronald Press.
32. Pizzo, M. (2000), *Il fair value nel bilancio di esercizio*. Padova: Cedam.
33. Power, M. (2010), Fair value accounting, financial economics and the transformation of reliability. *Accounting and Business Research*, Vol. 40, No. 3, 197-210.
34. Quagli, A. (2009), Dal fair value al fairy value: coerenza concettuale e condizioni di impiego del fair value negli IFRS. *Financial Reporting*, 11Fascicolo 1, 98-118.
35. Quagli, A. (2011), IFRS 13: Fair Value Measurement. *Amministrazione e Finanza*, Vol. 26, 6-.
36. Ronen, J. (2008), To Fair Value or Not to Fair Value: A Broader Perspective. *Abacus*, Vol. 44, No. 2, 181-208.
37. Walton, P.J. (2007), The nature of fair value. *The Routledge Companion to Fair Value and Financial Reporting*. London: Routledge, 2-8.
38. Whittington, G. (2008), Fair Value and IASB/FASB Conceptual Framework Project: An Alternative View. Abacus, Vol. 44, No. 2, 139-168.
39. Sprague, C. E. (1908), *The Phylosophy of Accounts*, reprinted by Kessinger Publishing in September 2010.
40. Zeff S.E. (1999), The evolution of the conceptual framework for business enterprises in the United States, *Accounting Historians Journal*, 26,2, December, pp. 89 – 131.
41. Zappa, G. (1937), *Il Reddito di impresa. Scritture doppie, conti e bilanci di aziende commerciali*. Milano: Dott. A. Giuffrè Editore.