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Justifying the Concept of Fair Value as a Theory through International Financial Reporting Standard (IFRS)

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Abstract
The objective of the study is to justify the concept of fair value as a theory through International financial Reporting Standard (IFRS). This paper examined what effect would this newly adopted measurement of valuing assets and liabilities have on reported profit disclosed in the financial statement. Three theories that are of interest to this study, depreciation theory, asset theory and profitability theory were reviewed. The study used ex-post factor research design using data analysis of financial information extracted from audited financial statement for the periods 2009 to 2011 (Pre-IFRS) and 2012 to 2014 (Post-IFRS) which was used to examine how independent variables affects dependent variables during N-GAAP and after adoption of IFRS. In order to arrive at conclusion data of twelve (12) companies in the consumers sector of the manufacturing industry quoted on the Nigerian Stock Exchange analyzed using multiple regression. Findings revealed that Pre-IFRS adoption strengthens the determinants of reported profits as compared to the reported profit during Post-IFRS. It is recommended that companies should be encouraged to use fair value accounting when preparing their financial report.
Keywords: Fair value, Fair Value Measurement, Financial Assets, International Financial Reporting Standard, Non- Financial Assets

1.0 Introduction

According to Prochazka (2011), measurement of accounting elements is one of the crucial factors in the process of preparing financial statement, which fairly present economic activity of an accounting entity. Element of financial statement can be measured by various attributes corresponding to the nature of an element and the purpose for which the element has been incurred by entity. The reliability and relevance of the attribute measured are the key points of measuring assets, liabilities, equity and other elements.

The main purpose of fair value measurement is to identify the actual market value of an asset or liability at the measurement date (Milburn, 2008) and to overcome the limitations of historical cost accounting in measuring the actual value of an asset or liability subsequent to acquisition date, especially in case of impairment. (Linsmeier, 2013).

The International Accounting standard Board has been slowly but steadily shifting from historical cost accounting to fair value accounting over a long span of time. Epstein and Mirza(2006) stated that the pursuit of this goal has resulted in a succession of standard that have increased the number of fair value measurement required by International financial reporting standard (IFRS) to more transparency to users, and increased the scope and complexity of the related required disclosures.

Companies in Nigeria have been using Generally Accepted Accounting Principles (GAAP) which the researcher of this paper referred to as N-GAAP (S.A.S) before the adoption of IFRS in 2012.

The paper aims to analyze what would be the effect of assets, depreciation, and debt on the reported profit of manufacturing companies listed on Nigerian Stock Exchange before and after the adoption of International Financial Reporting Standard (IFRS).

2.0 Literature Review

2.1.1 Concept of Fair Value

In the study by Lefebvre, Simonova and Scarlat (2009) as cited in Chinwuba and Osikhena (2012) the recognition and measurement of assets and liabilities at fair value is not a new concept. According to them, companies were using such terms as current values or appraisal values for assets as early as 1925 long before elaborate accounting standard at fair value measurements were developed. According to Barlev and Haddad (2003), despite future value accounting's relative recent emergence in the business vernacular, its conceptual roots may be traced to the influential theoretical works of (Edwards and Bell 1961; Chambers, 1966; Sterling, 1970) however, it has received more exposure in the last couple of years due to increased standards setters' support, market propensity, and link made by some to the recent credit crisis (Lefebvre et al, 2009).

Fair value provides information about what an entity might realize if it sells an asset or might pay to transfer a liability between market participants at the measurement date. The fair value standards define how fair value should be determined for financial reporting purposes.

Gautam, and Arjun, (2015) state that historical cost accounting is considered more conservative and reliable but in recent time fair value accounting information becomes more relevant because of the following reasons:

i. Investors are concerned with current value, but not cost.

ii. Fair value is not affected by factors related with a particular entity.
iii. Historical prices do not consider the time value of money which becomes irrelevant in assessing an entity's current financial position.
iv. Fair value accounting reports assets and liabilities in the way that an economist would look at them.
v. Fair value considers the market risk and updates the prices of financial instruments.

2.1.2 IFRS 13 – Fair Value Measurement

Guatam and Arjun (2015), state that the current authoritative guidance on fair value measurement is International Financial reporting Standard 13 (IFRS 13). On 12th May, 2011, International Accounting Standard Board (IASB) released IFRS 13, "Fair value measurement" IFRS 13 applies when other IFRSs require or permit fair value measurement. The standard:

i. Defines fair value;
ii. Sets out in a single IFRS framework for measuring fair value; and
iii. Requires disclosure about fair value measurements.

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.

IFRS standard allow the use of fair value in financial statement in four main areas;

1. For the measurement of transactions at initial recognition in the financial statement;
2. For the allocation of the initial amount at which a transaction is recognized among constituents parts;
3. For the subsequent measurement of assets and liabilities;
4. In the determination of the recoverable amounts of assets.

2.1.3 Valuation of Financial Assets

According to IFRS 13 (2011) fair value of financial instruments is to be based on principal market, if it is available, otherwise it would take the price of most advantageous market. There may not be a specific market for the sale of financial instruments, in such cases; the reporting entity should identify potential market participants. The reporting entity will develop a hypothetical 'most likely' market based on the expected assumptions of those markets.

IFRS 13 amends existing fair value provisions within the IASB's standards, introduces new requirements and compiles all fair measurement and disclosure guidance in a single standard. The new standard does not change which balance sheet items must be or may be measured at fair value.

The fair value standard IFRS 13 describes three main approaches to measuring fair value of assets and liabilities.

a) Market Approach

IFRS 13 indicates the approach which contains market related information. The information is generated by market transactions that consider identical or comparable (similar) assets and liabilities, or a group of assets and liabilities, such as a business.

b) Income Approach

The income approach converts future amounts (for example cash flows or incomes and expenses) to a single current (that is, discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts. In case of fair value measurement the income approach poses greater challenge than market approach and cost approach. This valuation technique includes, for example, the following;

i. Present value techniques
ii. Capital asset pricing model
iii. Dividend discount model
iv. Option pricing model

c) Cost Approach

Cost approach of IFRS 13 assumes that fair the value would not exceed that it would cost a market participant to acquire or construct a substitute asset of comparability utility. That is, because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset?

2.1.4 Valuation Techniques of Fair Value (fair value hierarchy)

Considering the observable and unobservable inputs, IFRS 13 suggests measuring fair value of financial instruments into three broad levels, level 1, 2, 3 categories. The framework uses 3-level fair value hierarchy to reflect the level of judgment involved in estimating fair values. The hierarchy is broken down into three levels as follows;

Level 1 input

The preferred inputs to valuation efforts are quoted prices in active markets for identical assets or liabilities, that the reporting entity has the ability to access at the measurement date. Here inputs are unadjusted quoted prices in active market of identical financial instruments. An example would be a stock trade on the Nigerian Stock Exchange (NSE). Information at this level is based on direct observations of transactions involving the identical

assets or liabilities being valued, not assumptions, and thus offers superior reliability.

Level 2 input

According to Ament (2010), level two is the valuation based on market observables. In this level, fair value is estimated using a valuation technique. The inputs utilized in the valuation technique require the use of inputs that are observable in the market. Examples of these observable market inputs are quoted prices of similar assets, prepayments speeds and interest rates.

Level 3 input

Level 3 is a valuation based on non-observable assumptions. In this level fair value is estimated using valuation technique just like in level two. However, inputs used in this valuation technique are based upon inputs that are not observable in the market. As a result it is necessary to utilize internal information. If the cost and effort to obtained external information is too high.

2.1.5 Valuation premise for non-financial asset

Highest and best use is a valuation concept that represents the use of a non-financial asset by market participants that would maximize the value of the asset or group of assets and liabilities (e.g. a business) within which the asset would be used. (IFRS 13, 2011)

A fair value measurement of non- financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible, financially feasible, as follows:

a) A use that is physically possible takes into accounts the physically characteristics of the asset that market participants would take into account when pricing the asset e.g., the location or size of a property.
b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g. the zoning regulations applicable to a property.
c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

Highest and best use is determined from the perspective of market participant, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset. (IFRS 13, 2011)

2.1.6 Significant accounting standards

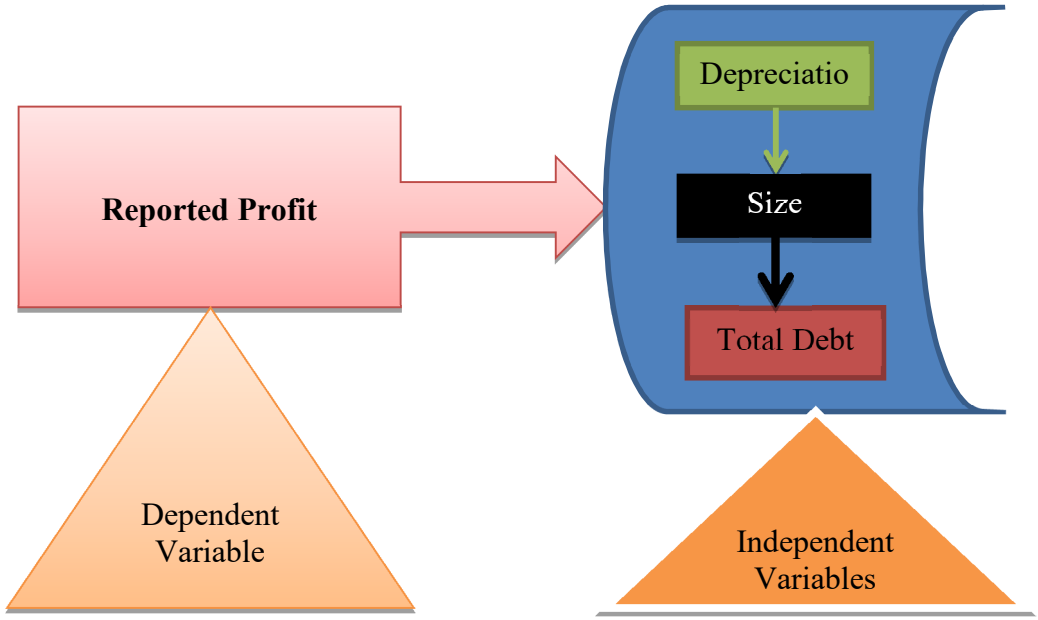
Significant accounting standards affected by the fair value standards include the following

Business combination – assets acquired and liabilities assumed (IFRS 3)	Employee benefits – post employment benefit obligations (IAS 19)	Intangible assets – revaluation mode (IAS 38)
Financial instruments: recognition and measurement (IAS 39)	Investments in associates and joint ventures – held by mutual funds and similar entities (IAS 28)	Property, plant and equipment – revaluationmodel and exchange assets (IAS 16)
Non- current assets held for sale and discontinued operations (IFRS 5)	Business combinations– contingent consideration (IFRS 3)	Financial instruments – recognition and measurement – derivatives (IAS 39)
Business combinations – non-controlling interests in an acquire (IFRS 3)	Business combinations – previously held interest (IFRS 3)	Financial instruments: presentation–hybrid financial instruments (IAS 32)
Revenue (IAS 18)	Financial instruments: recognition and measurement – financial guarantee contracts (IAS 39)	Consolidated financial statements – investments in subsidiaries by investment entities (IFRS 10)
Financial instruments: recognition and measurement and measurements (IFRS 9 and IAS 39)		

Source: Olivera, Riste and Blagica (2016)

As illustrated in the table above, there are numerous accounting and financial reporting topics impacted by the fair value standards.

2.7 Conceptual Framework of Fair Value as a Theory through International Financial Reporting Standard (IFRS) Model



Source: Researchers' Fair Value as a Theory through International Financial Reporting Standard (IFRS) Model

2.2 Theoretical Review

2.2.1 The depreciation Theory

Bauma (1991), defines depreciation as a loss in the existing value of property and attributes the causes to physical deterioration, functional obsolescence and aesthetic obsolescence. Mansfield (2000), also notes that property based depreciation is the result of two negatives processes, physical and obsolescence. Vergauwe and Gaeremynck (2014), state that depreciation is a loss incurred on an asset from physical or functional decay without compensation for current repairs. It is noted that the calculation of depreciation expense must incorporate the historical cost of the asset with exception to cases of revaluation; hence succeeding capital allowance should use the revalued amounts of the asset. However, depreciation in the form of a decrease in asset value according to the IAS 16, (Property, Plant and Equipment) affects the financial position of the business firm through the net income that the firm reports at the end of the accounting period.

Generally, the depreciation expense is allocated in the period in which the asset is expected to be consumed. The estimation of depreciation may vary for various asset types in terms of its reporting and taxing. However, these may be specified by law or accounting standards, which may vary across geographical space. Although, several methods including the fixed percentage and the declining balance methods have been put into use in the production process. (Kieso,Weygandt & Warfield 2007)

However, IAS 36suggests that cases of impairment expenses should be recognized in the financial statement if the value of a specific operating asset decline unexpectedly. Such capital allowances are usually non-recurring and may relate to any type of asset hence business firms tend to write-off long-lived assets because such asset may have suffered partial obsolescence or has outlived their useful purpose (Johnson 2005)

2.2.2 Asset Theory

Bessong and Charles (2012), state that asset is any object of value either tangible or intangible that can be consumed or appreciated over time. Several studies such as Callen and Morel 2005; Hall and Oriani 2006, suggest that assets are recorded in their historical cost basis as a results of consistency and free of misspecification in comparison to valuations using fair value. However, in estimating the historical cost of an asset, all incidental costs incurred in improving the asset should be added back to the historical cost whereas simple maintenance costs should be treated as ordinary expense. In the study by Wier, Laing and Wright (2005), the original acquisition cost which is employed as the historical cost should be adjusted to account for changes in price level between the acquisition and valuation period. Bessong and Charles (2012) argue that although historical costs of assets are duly recorded, there exist some level of difficulty in defining the historical cost components of certain properties and whether those assets should be treated using first-in-first-out approach or last-in-first-out approach. They further notice that such a problem becomes more severe with unfinished goods.

2.2.3 Profitability Theory

Profitability is the ability of a company or an individual to earn profit from its business activities and make adequate returns to the investors, the higher the profit ratio per Naira sales made the better (Nwude, 2004).

Notwithstanding there are many reasons for investing ones fund, the principal reason why investors invest their hard earned funds to work is so that they can earn a satisfactory return and also the security of their investment (Chadwick & Kirkby,1995).

The term 'profitability' and 'return' are taken to mean the same thing, and is seen as referring to the relationship between the profit and the value of the net assets/capital used to generate that profit. The measurement of profit is probably the most important function of financial accounting. Profit represents the difference between revenues and expenses. The profit or loss account reports for a specific period of time, the items that comprise the total revenue and expenses and the resulting net profit or profit for the accounting period (Glautier & Underdown 2001).

ICAN (2009), explains that profitability maximization (which takes into account both profits and the assets utilized in generating such profits) is a better financial objective than profit maximization (this objective refers to accounting profits and it means that financial managers should attempt to make profits as possible) as it takes into account both profits and the assets utilized in generating such profits. Measures of profitability include Return on Investment (ROI), Return on Capital Employed (ROCE), or Return on Equity (ROE) and Earnings per Share (EPS). Although better than profit maximization, profitability maximization has the following short-coming:

i) Problem of definitions; that is, which profits and capital are to be used;
ii) The uncertainty that goes with the earning of the profits (risk) is ignored
iii) Time value of money is also ignored; and
iv) It fails to provide an operational feasible measure for ranking alternative courses of action in term of their economic efficiency.

Pandey (2004) and ICAN (2009) emphasize that as an alternative to profit maximization and profitability maximization, the shareholders wealth maximization (SWM) should be pursued. That the shareholders wealth maximization takes care of the timing (i.e. time value of money) and uncertainty of benefit problem (i.e. streams of benefits may possess different degree of certainty). And that the objective of SWM is appropriate and operationally feasible criterion to choose among the alternative financial actions.

2.3 Empirical Reviews

Akwu, Ofoegbu and Okafor (2017) carried out study on fair value measurement, depreciation and profitability of manufacturing companies listed on the Nigeria Stock Exchange for the conversion period 2011 and 2012. Explanatory variables adopted for the study was depreciation, reported profit and inflation. Based on their results, the authors concluded that IFRS has a positive but significant effect on depreciation and that there is no significant difference in reported profit using fair value and historical cost convection

The study by Akwu, Ofoegbu and Okafor (2017), used conversion period 2011 and 2012. But this study used three years before IFRS (2009 – 2011) and three years after adoption of IFRS (2012 – 2014).Explanatory variables adopted for the study is depreciation, total asset and, total debts, and dependent variables are reported profits. Applicable data of twelve (12) companies in the consumer sector of the manufacturing industry quoted on the Nigerian Stock Exchange were accessed.

3.0 Methodology

Expos-facto research design is adopted in this study which is characterized with quantitative or numeric description of historical data. The population of the study comprises all the companies in the consumer sector of the Manufacturing Industry listed on the Nigerian stock market as of June, 2018 and sample were drawn through census sampling technique. Thus, the sample size of the study comprises of all 12 companies listed at the Nigerian Stock Exchange as at 30th June, 2018. The source of data for the study is secondary only extracted from the audited financial statements of the sampled firms for six years spanning from 2009 to 2014. The data were separated into two periods, which is 2009-2011 for the pre-IFRS period and 2012-2014 for the period of post-IFRS. The study used longitudinal balanced panel data using multiple regressions to examine the model of the study. The model specification for this study incorporates reported profit as dependent variable and depreciation, debt and size as independent variables. The model is specified under two block, that is pre-IFRS and post-IFRS. Thus, the model is discussed under the static panel which consists of pooled, fixed, random effect model:

$$rp_{it} = \alpha_0 + \alpha_1 dp_{it} + \alpha_2 db_{it} + \alpha_3 size_{it} + \varepsilon_{it0} \quad \text{...1}$$

$$rp_{it} = \alpha_0 + \alpha_1 dp_{it} + \alpha_2 db_{it} + \alpha_3 size_{it} + u_i + e_{it1} \quad \text{...2}$$

$$rp_{it} = \alpha_0 + \alpha_1 dp_{it} + \alpha_2 db_{it} + \alpha_3 size_{it} + w_i + e_{it2} \quad \text{...3}$$

This model is moderately consistent with the panel data regression. Where rp is the reported profit, dp is the depreciation, db represents financial debt, size represents firm size, ε represents error term, α_0 - α_3 represents

coefficient of independent variables, t represents time covered and i represents listed firms selected, u_i which is the specific fixed effect, w_i is the specific random effect and e_{it} is the idiosyncratic shock or individual observation error term. The study conducted a robustness tests such as correlation matrix, and multicollinearity test under each blocks in order to improve the validity of all statistical inferences of the study.

4.0 Result and Discussion

The descriptive statistics explains the behaviors of the data and their fitness for empirical analysis; while the inferential give information about the empirical investigation of the relationships between/among the specified variables.

Table 4.1 Descriptive Statistics

Variables	Pre-IFRS(HISTORICAL COST				Post-IFRS (FAIR VALUE)			
	Mean	Std.	Min	Max	Mean	Std.	Min	Max
Lpr	5.985477	2.275897	0	8.10006	5.929795	2.351129	0	8.303624
Ldp	5.575453	1.554089	0	7.179696	6.015552	1.292011	2.534026	7.559498
Ldb	7.377666	.6728637	6.012812	8.385502	7.439383	.7539544	6.008366	8.482047
Size	7.490541	.9784946	4.838433	8.733775	7.567124	1.11177	4.409646	8.95573

Note: The ellipses lpr, ldp, ldb represent reported profit, depreciation and financial debt respectively.

Source: Researchers' Computation from STATA output, 2018.

Tables 4.1 displayed the outcomes of the descriptive statistics of the two sets of data, when the companies used historical cost accounting (pre-IFRS), and fair value measurement (post-IFRS), as a basis of valuing its assets. Comparing the mean of reported profit under fair value (5.929795) with the mean reported profit under historical cost accounting (5.985477), it was observed that the mean RP_{HCA} is higher in value than the RP_{FV}; meanwhile, the mean of depreciation of the long term of non-current assets that generated the profit is higher under the fair value measurement (6.015552) compare to the depreciation of the long term of non-current assets under historical cost accounting (5.575453). This implies that more provision for replacement of existing assets is made under fair value measurement than historical cost convention and this may result in the difference in the reported profits of the companies. On the other hand, the dependency of the companies on external finance is lower (7.377666) under historical cost accounting compare to the dependency of the companies on external finance under fair value measurement (7.439383). The firm size of the companies increase as a result of fair value measurement (7.567124) compare to increase experienced by the companies during the historical cost accounting. Another displayed characteristic of the variable is their volatility which is shown by the standard deviation. From the pre and post adoption of IFR the reported profit is highly volatile while the financial debt is having lowest volatility.

Correlation Matrix

This presents the correlation matrix of both model under Pre-IFR and Post-IFRS in the table 4.2 and 4.3 respectively.

Table 4.2: Pre- IFRS Correlation Matrix

Variable	lpr	ldp	ldb	size
lpr	1.0000			
ldp	0.5465	1.0000		
ldb	0.6198	0.7891	1.0000	
size	0.7052	0.7100	0.7260	1.0000

Source: Researchers' Computation from STATA output, 2018.

Table 4.3: Post- IFRS Correlation Matrix

Variable	lpr	ldp	ldb	size
lpr	1.0000			
ldp	0.5194	1.0000		
ldb	0.5464	079300	1.0000	
size	0.6489	0.7976	0.7230	1.0000

Source: Researchers' Computation from STATA output, 2018.

According to Gujarati and Porter (2009), a correlation coefficient between two independent variables above (+8 or -8) is considered excessive and may indicate existence of multicollinearity. The result showed that under pre and post adoption of IFRS all correlation coefficients between the pairs of independent variables are less than (+8 or -8). Thus, suggesting that the independent variables can be fitted into one regression model

Multicollinearity Test

This section presents the result of the multicollinearity test of both models under Pre-IFR and Post-IFRS in the table 4.4.

Table 4.4 Multicollinearity Test

Variables	Pre-IFRS		Post-IFRS	
	VIF	1/VIF	VIF	1/VIF
Ldp	9.30	0.107546	9.52	0.095062
Ldb	7.07	0.141344	8.01	0.124792
Size	2.67	0.374295	7.32	0.136648
Mean VIF	6.35		8.62	

Source: Computation from STATA output, 2018.

The result reveals that two explanatory variable are not perfectly correlated. This means there is absence of multicollinearity problem in our model. This was confirmed by Variance Inflation Factors (VIF) which is less 10 and Tolerance Values (TV) which is less than 1.

Table 4.5: Test of Random Effects Model against the Pooled

Specification	Statistical-Value	P-Value
Model One: Pre-IFRS	1.05	0.1531
Model Two: Post-IFRS	6.52	0.0053

Source: Researchers' Computation from STATA output, 2018.

The test of the random effects model against the pooled regression model for each of the model specifications in chapter three is conducted using Breusch and Pagan Lagrangian multiplier test. The test results are reported in table 4.5. It is clear that the test statistics in model one is asymptotically large with percentage of probability value greater than 5 percent. Therefore, at alpha value of 5 percent the null hypothesis that there is no panel effect cannot be rejected. This suggests that pooled regression model appears to be more adequate or robust than random effects model in the model but the reverse is the case in the model two which implies that random effect model is adequate in the model two. To have a firm robust test, the researcher also tests the random effects against the fixed effects and the results are reported in table 4.6.

Table 4.6: Test of Random Effects Model against the Fixed Effects

Specification	Statistical-Value	P-Value
Model One: Pre-IFRS	7.89	0.0484
Model Two: Post-IFRS	2.03	0.5656

Source: Researchers' Computation from STATA output, 2018.

The researcher conducts the test of random effects against the fixed effects under the assumption that the random effects model is more adequate than the fixed effects model using Hausman's test. The summary of the results is presented in table 4.6. As indicated in this table the entire test statistics are abysmally small and associated with small probability values 0.0484 in the model one. Thus, given the alpha value at 0.05, the null hypothesis that the individual effects do not correlate with the included variables can be rejected. This implies that the fixed effects model appears to be more adequate in the model but the reverse is the case for the model two. The researcher therefore proceeds to estimate fixed effect for the model one and the random effects model for the model two.

Table 4.7:Dependent Variable (Reported Profit)

Variables	Pre-IFRS		Variables	Post-IFRS	
	Coefficients	Probability		Coefficients	Probability
ldp	.0822885	0.679	ldp	-.2893261	-0.53
ldb	-7.648467	0.001	ldb	-.2154455	0.893
size	7.320441	0.001	size	1.726964	0.108
Cons	7.120455	0.047	cons	-3.795117	0.513
R-Square	0.7152		R-Square	0.4412	
F-stat.	4.95		Wald chi2	9.71	
Prob(F-stat.)	0.0094		Prob	0.0212	

Source: Computation from STATA output, 2018.

The table reveals that under the historical cost accounting (Pre-IFRS) the depreciation has positive but insignificant effect on the reported profitability of the companies while under the fair value measurement (Post-IFRS) the depreciation has negative and insignificant effect on reported profitability of the companies. The result shows that financial debt has negative but significant effect on profitability of the companies under historical cost accounting while under the fair value measurement, the financial debt reveal negative and insignificant effect on profitability of the companies. Also, the result shows that the size of the firms shows positive and significant effect on the profitability of the firms while under the fair value measurement, the size of the firms reveal positive but insignificant effect on the profitability of the firms. The coefficient of determination of reveal under historical cost accounting is 0.7152 which implies that 71.52 percent of the explanatory variables (depreciation, financial debt and firm size) account for changes in the dependent variable (reported profit) while under fair value measurement,

coefficient of determination o shows 0.4412 which implies 44.12 percent of the explanatory variables (depreciation, financial debt and firm size) account for changes in the dependent variable (reported profit). The probability of F-statistics under both models reveal that the models are statistical fit and this implies that generalization can be drawn from the results.

Discussion of Findings

The Pre-IFRS adoption strengthens the determinants of reported profit as shown by the coefficients of determination of 71.52 percent as compare to the result of Post-IFRS of 44.12 percent. The depreciation as one of the determinant has a positive impact on the reported profit under the historical cost accounting and this is consistent with the work of (Bessong & Charles, 2012). The explanation for this is that the depreciation charged to the revenue using historical cost was low as compared to fair value measurement thereby making reported profit to be overstated. Also, the result shows that there is negative relationship between financial debt and the reported profit. This conforms to the apriori expectation because an increase in the reported profit decreases external financial dependency of the firms. More so, the size of the firm has positive and significant relationship with reported profit. The size of the firms is measured by logarithm of the firms' assets and increase in the firm assets denote increase in the firms' size. This positive relationship simply implies that assets under historical cost accounting are duly recorded on the basis of consistency and free of misspecification and this can increase the reported profit of the firms. This view is line with the finding of (Hall & Oriani, 2006).

5.0 Summary and Conclusion

The descriptive statistic revealed that under historical cost accounting (Pre- ifrs) the mean of reported profit is higher (5.985477) in value than profit (5.92979) reported under fair value. Depreciation that generated the profit is higher under fair value (6.015552) compare to the value of depreciation (5.575453) under historical cost accounting. It implies that more provision was made after the adoption of IFRS because of the new method of valuing assets and liabilities. The size of the companies increase as a result of fair value measurement (0.7567124) compare to increase experienced by the companies under historical cost accounting (0.7490541). On the other hand dependency of the companies on external finance is lower (7.377666) under historical cost accounting compare to dependency on external finance under fair value measurement (7.439383).

The coefficient of determination revealed under historical cost accounting is 0.7152 which implies that 71.5 percent of the explanatory variables (depreciation, financial debt and firm size) account for changes in the dependent variable (reported profit) while under fair value measurement, coefficient of determination shows 0.4412 which implies 44.12 percent of the explanatory variables (depreciation, financial debt and firm size) account for changes in the dependent variable (reported profit). The probability of F-statistic under both models reveal that the models are statistically fit and this implies that generalization can be drawn from the results.

The general objective of this study is to justify the concept of fair value as a theory through international financial reporting standard. The effort was spurred by the study of Akwu et al (2017) alongside IFRS as a base for reporting financial activities. The empirical findings provide that there is a less opportunity to manipulate accounting data using fair value approach, the changes in reported profit happen with the changes in the asset value. A business can survive during difficult economy, unlike historical method where the same value goes of an asset goes on the budget line every year.

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