

FAIR VALUE

Fair Value is the method of valuing business assets (and liabilities) for financial reporting in line with accounting practices as established by the Financial Accounting Standards Board (FASB)

Definition:

Fair Value: Fair value is 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.

(FASB Statement No. 157, 2007)

When do appraisers *estimate* Fair Value?

(Note use of word estimate. Used by FASB)

- Mergers and acquisitions
- Sales of Businesses
- Purchases of Businesses
- Financial reporting: annual and other financial statements
(profit and loss statements, balance sheets)

The appraisal for Fair Value takes into account:

- Most *advantageous* market (highest and best use; not most common market)
- Exchange price in market
- What would be considered by market participants (buyers and sellers)
- Exposure time of possible sale
(not forced liquidation)

Note: This type of value is used both in the United States and internationally.

Fair Value is defined as “the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s-length transaction” in the International Valuation Standards, 2007, p. 88 by the International Valuation Standards Council.

The International Financial Reporting Standards (IFRS) uses this same definition.