

Accounting Measurement: Balancing the Reliability of Historical Cost and the Relevance of Fair Value - An Empirical Study from the Perspectives of Academics and Practitioners

القياس المحاسبي بين موثوقية التكلفة التاريخية وملاءمة قياس القيمة العادلة
دراسة ميدانية من وجهة نظر الأكاديميين والمهنيين

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Abstract:

This study compares historical cost and fair value measurement and assesses how switching between them affects financial statements. Using the accounting conceptual framework, it surveys 120 academics and practitioners; 108 valid responses were analysed on a five-point Likert scale. The instrument is reliable (Cronbach's $\alpha = 0.853$). One-sample t-tests show agreement that historical cost remains a baseline ensuring objectivity and reliability (Mean = 3.65; $t = 8.75$; $p < 0.001$), while support is stronger for fair value as more responsive to price fluctuations (Mean = 4.08; $t = 15.47$; $p < 0.001$). Respondents also believe fair value enhances qualitative information characteristics and strengthens the perceived fairness and credibility of statements (Mean = 3.94; $t = 11.44$; $p < 0.001$). Overall, findings favour dual reporting that combines historical and fair values to improve comparability and decision usefulness, especially under inflation and exchange-rate volatility.

Keywords: Accounting Measurement; Historical Cost; Fair Value; Financial Statements.

JEL Classification Cods : M41, M48, G38, D46

ملخص:

تهدف الدراسة إلى مقارنة مبدأ التكلفة التاريخية بأسلوب القيمة العادلة في القياس المحاسبي وتحليل أثر الانتقال بينهما على القوائم المالية. أُطُر الموضوع ضمن الإطار المفاهيمي لنظرية المحاسبة وعلاقته بالاعتراف والعرض، مع استعراض بدائل القياس المعتمدة دولياً. ميدانياً، استُخدم استبيان موجه إلى 120 من الأكاديميين والمهنيين، استُرجع منه 108 استمارات صالحة، اعتمداً على مقياس ليكرت الخماسي. خلّلت البيانات بمعاملات الارتباط، ومعامل ألفا كرونباخ، واختبار (t) لعينة واحدة. أظهر المقياس ثباتاً جيداً (ألفا الكلي=0.853). وبيّنت النتائج اتجاهاً إيجابياً نحو اعتبار التكلفة التاريخية قياساً مبدئياً يوفر الموضوعية والأمان (متوسط=3.65، $t=8.75$ ، $\text{Sig}=0.000$)، مقابل تأييد أقوى لاعتماد القيمة العادلة كبديل أكثر استجابة لتقلبات الأسعار (متوسط=4.08، $t=15.47$ ، $\text{Sig}=0.000$). كما أكدت النتائج أن تطبيق القيمة العادلة يحسّن الخصائص النوعية للمعلومات ويعزز عدالة ومصداقية القوائم المالية (متوسط=3.94، $t=11.44$ ، $\text{Sig}=0.000$). يبرز تفضيل عملي لخيار التقارير المزدوجة التي تجمع بين القيم التاريخية والعادلة لدعم المقارنة وتحليل الفروق واتخاذ القرار، وخاصة في البيئات التي تشهد تضخماً وتذبذباً في أسعار الصرف.

الكلمات المفتاحية: القياس المحاسبي، التكلفة التاريخية، القيمة العادلة، القوائم المالية.

تصنيفات JEL: M41, M48, G38, D46

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1. Introduction.

Accounting employs multiple and diverse measurement bases, yet the conceptual framework of accounting theory still recognizes historical cost as an accounting principle that represents the primary, most objective and reliable reference basis for measuring the items of financial statements and the outputs of the accounting system, especially within the formal structure of accounting theory, which treats it as the first measurement principle. In contrast, international accounting standards have increasingly moved toward adopting the fair value approach and expanding its scope of application, which has generated wide debate in academic and professional circles, particularly after the global financial crisis, during which fair value measurement was sharply criticized. Since historical cost measurement implicitly assumes stability in the purchasing power of the currency and in exchange rates, an assumption that is difficult to achieve in practice, this leads to accounting values that may diverge from economic reality and fail to fairly and faithfully represent the financial position and the financial standing of the entity, thereby weakening the function of accounting measurement. From this perspective, fair value measurement presents itself as an alternative more closely linked to market conditions and more capable of compensating for the shortcomings of historical cost in an economically unstable environment.

1.1.Importance of the topic

Given that accounting measurement is one of the four core functions of accounting, namely recognition, measurement, presentation, and disclosure, once an element of the financial position satisfies the recognition criteria it must be included among the items of the financial statements, which represents the function of presentation. This, however, is not possible without first measuring it. Moreover, measurability itself is a fundamental recognition criterion, as no item is recognized unless it is measurable. This represents the formal aspect of the measurement function. Substantively, the outputs of the financial accounting system depend primarily on accounting measurement and on the rights, obligations, and distributions that result from it. Accordingly, the objectivity and fairness of accounting measurement are the key determinants of wealth generation, accumulation, and distribution within the economic entity. Any error or shortcoming in the measurement function will inevitably lead to a structural imbalance that threatens the very existence and continuity of the entity.

From this standpoint arises the interest in alternative measurement bases. While historical cost is a reference measurement basis, recognized as an accounting principle that derives its importance and justification from the level of safety and objectivity it provides to accounting measurement, there is no doubt that it is the optimal basis at the moment the transaction arises. However, the continued application of historical cost presupposes stable purchasing power at the internal level (value of money), at the external level (exchange rates), and stability in technology and methods of operation, which cannot be guaranteed in the medium and long term. On this basis, other measurement alternatives have been proposed that respond more effectively to market conditions and economic volatility. International accounting standards, and behind them accounting theory (the conceptual framework), have focused in this context on fair value as an alternative measurement basis to historical cost, even though this new measurement tool, despite its effectiveness, is not free from limitations.

1.2.Motivation for choosing the topic

The motivation for choosing this topic lies in the desire to deepen both the theoretical and practical understanding of the two measurement bases, historical cost and fair value, and to identify the limits of each in providing fair and reliable accounting information. It also includes examining other measurement alternatives that represent transitional stages between the two (current market value, replacement cost, realizable value, and present value), in an attempt to contribute to resolving the ongoing debate over the extent to which fair value can replace historical cost as an accepted accounting principle for preparing financial statements.

1.3.Research problem

Through this study, we attempt to answer the following main question:

Can the fair value measurement basis replace historical cost as an accounting principle, and what is the impact of such substitution on the financial statements as outputs of the financial accounting system.

From this main problem, the following sub-questions can be derived:

- What are the different dimensions and limits of the usefulness of historical cost as a primary measurement basis that provides greater safety and objectivity
- Can fair value be adopted as a measurement basis in place of historical cost
- What is the effect of replacing historical cost with fair value on accounting measurement

1.4.Hypotheses:

To answer the research problem, the following hypotheses were formulated:

Main hypothesis:

Fair value can replace historical cost provided that the conditions and requirements for applying the fair value approach are met, in order to achieve a positive impact on the financial statements.

Based on the sub-questions, the following sub-hypotheses can be derived:

- Historical cost is a primary measurement basis because it provides objectivity and safety for the accounting measurement function.
- Fair value can be adopted as an alternative measurement basis in place of historical cost as an accounting principle.
- Replacing historical cost with fair value affects the essence of accounting measurement, namely the fairness and credibility of the financial statements.

1.5.Research objectives

The objective of this study is to compare the historical cost basis and the fair value basis in terms of the conditions, scope, and requirements for adopting each, and to analyze the impact of transitioning between them in accounting measurement.

2. Conceptual framework of accounting measurement

2.1.Concept of accounting measurement

Accounting measurement is a central element in the conceptual framework of accounting theory(Emerson et al., 2010). It refers to the process of determining monetary values for the items of the financial statements according to agreed-upon bases and rules. Within the framework of the Financial Accounting Standards Board (FASB), measurement is always

discussed in close connection with the concept of recognition(Lazli., 2024.). No item can be measured unless it satisfies the recognition criteria, and no item is recognized in the financial statements unless it is measurable with an acceptable degree of reliability. Thus, recognition and measurement are viewed as interdependent concepts: an item is recognized when it meets the definition of one of the elements of the financial statements, then it is measured according to an appropriate measurement basis, and its value becomes part of the aggregates presented in the financial statements. This structural linkage makes accounting measurement the core instrument for translating economic events into quantitative information that can be used for financial reporting and decision-making(Alamin et al., 2015).

2.2.Definition of recognition

“Recognition is the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the recognition criteria. This includes describing the item in words, measuring it in monetary terms, and including that amount in the totals of the balance sheet or income statement(Alamin et al., 2015).

Based on this definition of recognition and by reference to the framework:

- a. There must be probable future economic benefits associated with the item, in the form of an inflow or outflow of cash or other resources to or from the entity.
- b. The item must have a value or cost that can be measured reliably.

Accordingly, an item is recognized and included in the financial statements if it meets the definition and both conditions above, while also complying with the constraints specified in the formal structure of accounting theory on recognition and matching, such as the benefit exceeding the cost, materiality, the precedence of economic substance over legal form, prevailing practice, and prudence(Fargher & Zhang, 2014).

Thus, an item is considered recognized and included in the body of the financial statements (i.e. recorded in the accounts) when it appears as a resource or obligation in the statement of financial position, or as income, expense, loss, or gain in the income statement. The FASB’s Concept Statement No. 5, “Recognition and Measurement in Financial Statements of Business Enterprises” (1984), focused on recognition criteria and specified four conditions: (1) definition, (2) measurability, (3) relevance, and (4) reliability.

2.3.Concept of definition

“The item to be recognized and recorded must meet one of the definitions of the elements of the financial statements (assets, liabilities, revenues, expenses, gains, losses). If the item is a resource, it must satisfy the conceptual definition of an asset.” Relevance and reliability have been addressed previously under the qualitative characteristics of information(Emerson et al., 2010).

Note: The concept of probability is used in recognition to indicate the degree of uncertainty surrounding the future economic flows associated with a given item. The degree of uncertainty relating to inflows and outflows of benefits to and from the entity is assessed based on the evidence available at the time the financial statements are prepared. This approach is heavily relied upon in the treatment of provisions and allowances. For example, at year-end the entity may have receivables from customers recognized as assets in the statement of financial position. Upon review and audit, it may be found that some portion is doubtful. In this case, an allowance for doubtful accounts must be established and recognized as an

expense to cover the expected decline in the recoverable amount of receivables, as these represent economic benefits (Emerson et al., 2010).

2.4.Accounting measurement

Once an item satisfies the recognition criteria, which according to Concept Statement No. 5 are: (1) definition, (2) measurability, (3) relevance, and (4) reliability, it becomes subject to measurement.

2.4.1. Definition of measurement

Accounting measurement, as defined by the International Accounting Standards Board, is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement, that is, converting economic events and transactions into monetary amounts suitable for inclusion in formal reports. In the conceptual framework of the FASB, it is viewed as the assignment of numerical values to objects and events according to specified rules, in a way that makes these numbers suitable for aggregation, analysis, and comparison over time and across entities.

For an item to be measurable, several conditions must be met, the most important of which are: that it has a value that can be expressed in monetary terms (often in the form of cost at the date of the transaction), that this value can be quantified with a reasonable degree of reliability, and that a monetary unit is used as the standard of measurement. As a result, multiple alternative measurement bases exist, as recognized by international accounting standards, including: historical cost, current cost, net realizable value, present value, fair value, and recoverable amount, in addition to specific applications such as current market value or realizable value.

Based on these definitions, accounting measurement can be framed as a core function of the accounting system, inseparable from recognition, presentation, and disclosure, and centered on expressing the items of the primary financial statements in monetary terms. It is also a central component of the conceptual framework of accounting theory, contributing to the realization of the qualitative characteristics of financial information, namely relevance, reliability, and comparability, and serving as the main tool for measuring wealth in the economic entity and its distribution among different parties (Aremu & Owolabi, 2023).

2.4.2. Importance of accounting measurement

The importance of accounting measurement stems from its role within both the internal and external environments of the entity. Internally, it is the tool for determining the entity's resources and uses, its net financial position, its rights and obligations, and its net financial standing. Externally, it is the means of interaction and exchange with the surrounding environment and the mechanism through which the financial management of the entity is carried out. This is confirmed by the researcher Most, who stated regarding the importance of measurement: "What cannot be measured cannot be known to any significant extent, and therefore cannot be managed" (Alamin et al., 2015).

2.4.3. Accounting measurement bases

The multiplicity of measurement bases and alternatives reflects the richness and diversity of the conceptual framework in expressing the specific characteristics of financial statement items. Each item responds in a particular way to one measurement alternative or another, in

line with its nature and the circumstances of its occurrence. Thus, there is more than one method or property for measuring financial statement items or expressing them quantitatively in monetary units. This issue is important for choosing among alternative measurement bases in a way that serves decision-making.

According to the conceptual framework of international accounting standards, there are six measurement bases: historical cost, current cost, net realizable value, present value, fair value, and recoverable amount. The main measurement-related principles are: (1) the historical cost principle, (2) the revenue recognition principle, (3) the matching principle, and (4) the full disclosure principle.

2.5.Accounting measurement under the historical cost principle

Accounting principles represent the core of accounting theory and the central pillar of its formal structure. Concepts and assumptions serve as the theoretical background, while constraints are imposed on the application of principles to handle exceptions. In this context, the historical cost principle remained for more than a century the mandatory reference measurement basis in accounting practice and the subject of broad consensus among international professional and academic bodies(Waleed et al., n.d.).

However, in the last quarter of the twentieth century, the concept of fair value measurement emerged initially as an exception to deal with certain transactions that were not compatible with historical cost, before its application gradually expanded at the expense of historical cost. This shift triggered intense scientific and professional debate over the legitimacy of replacing historical cost with fair value, reaching its peak during the 2008 global financial crisis, which originated from the subprime mortgage crisis in the United States and spread to global financial markets. At that point, fair value measurement and the related international accounting standards were revisited as factors requiring reassessment and critique.

2.5.1. Historical cost principle

The historical cost principle as a basis for accounting measurement has been widely debated in the literature among supporters, opponents, and those taking an intermediate position, due to its direct impact on the formal structure of accounting theory and on all stages of practical application. Generally accepted accounting principles stipulate that most assets and liabilities are recorded at acquisition price, that is, at acquisition cost, which is referred to as the historical cost principle(Fontes et al., 2025). This principle is understood to mean recording transactions at their cost at the date of occurrence, a cost that at that moment is approximately equal to fair market value, while the transaction continues thereafter to be carried in the accounts at that cost regardless of subsequent changes in market value(Benzerrouk et al., 2024).

Historical cost derives its importance from the high degree of reliability and objectivity it provides compared with other measurement bases, as it relies on actual, verifiable documents and limits managerial judgment and the potential for bias or manipulation of figures. For this reason, it is in practice the most commonly used basis in preparing financial statements, despite the presence of alternative bases that may be more suitable in certain cases for reflecting current values. However, strict adherence to historical cost in practice leads to ignoring changes in price levels after the date of acquisition and to the absence of regular revaluation of assets at current prices. As a result, assets appear in the balance sheet at their

net book values after deducting depreciation, even when their actual economic values may have changed significantly.

In contrast to its reliability advantages, historical cost is criticized for weak relevance in decision-making. Many practitioners consider that information based on current values is more meaningful, especially when depreciation is calculated on these current values to determine a fair cost of consuming assets in the process of generating revenues. Consequently, accounting thought has not moved toward abolishing historical cost, but rather toward supplementing it with additional information, such as adjusting it by general price indices, or presenting parallel data based on current values. In this context, the U.S. Securities and Exchange Commission (SEC) in 1976 recommended that financial statements include information on current replacement cost for inventories and depreciable assets in the form of notes or supplementary schedules. Similarly, in 1979 the American Accounting Association recommended presenting three sets of information: based on historical cost, adjusted for general price-level changes, and based on current replacement cost (Giordano-Spring et al., 2015).

Nonetheless, the historical cost principle remains subject to certain natural exceptions in practice, such as measuring self-constructed assets at actual production cost, measuring donated assets at fair value upon receipt, or separating the financing element in credit purchases by excluding the difference between the cash price and the deferred price and treating it as a financing cost of material significance. In this way, historical cost continues to constitute a fundamental axis of accounting measurement, with an expanding set of supplementary treatments to mitigate its limitations in environments characterized by significant price volatility (Emerson et al., 2010).

Table 1: Comparison between Accounting Measurement Bases

Accounting measurement attribute	Nature of the basis	Time dimension	Prices derived from	Examples
Historical cost	Actual	Past	Input markets	Purchase of fixed assets
Current cost	Hypothetical	Present	Input markets	Ending inventory
Net realizable value	Expected	Past / Present	Output markets	Receivables – Notes receivable
Present value	Expected	Future	Output markets	Long-term loan
Fair value	Hypothetical / Expected	Present / Future	Input markets	All items of financial statements
Current market value	Hypothetical	Present	Output markets	Trading securities

Source: Prepared by the authors based on FASB Concepts Statement No. 5 (As Amended 12/2021), p. 11; FASB Concepts Statement No. 7 (As Amended 12/2021), pp. 27–29; and the Conceptual Framework (Chapter 7), pp. 41–43.

Despite the multiplicity of accounting measurement bases, accounting thought has largely settled on two main approaches: the historical cost method and the fair value method. These two approaches are considered the most suitable, stable, and comprehensive for measuring all items of the financial statements, unlike other measurement alternatives that are only appropriate for specific items. For example, the present value method is suitable for measuring loans and financial assets, the current market value method is suitable for

measuring inventory and other tangible current assets traded in markets, and the net realizable value method is appropriate for measuring tangible fixed assets such as equipment, installations, and engineering structures.

The conceptual framework of the International Accounting Standards Board (IASB) acknowledges the importance of historical cost as a benchmark measurement basis, specifically in paragraph 56.4 on the measurement of financial statement elements: “Historical cost is the most commonly used basis by entities in preparing their financial statements. It is usually used together with other measurement bases. For example, inventories are carried at the lower of cost and net realizable value; marketable securities may be carried at market value; and pension obligations are carried at their present value. In addition, some entities use current cost as a basis because the historical cost model cannot adequately deal with the effects of changing prices for non-monetary assets”(Fargher & Zhang, 2014).

This paragraph indicates that historical cost is the most widely used and accepted basis in preparing financial statements as a reference measurement method, while at the same time recognizing the possibility of using other measurement bases such as net realizable value, present value, and market value for certain items to enhance relevance and reliability and to respond to the constraints of materiality and prudence.

Thus, the historical cost method represents an accounting principle within the formal structure of accounting theory, given that accounting principles constitute the general law governing accounting practice: “Principles are general laws – not natural laws – derived through the logical linkage between objectives, concepts, and assumptions. Accordingly, principles represent the core of the theory and the apex of the intellectual structure” (Hanan, Introduction to Accounting Theory: Conceptual Framework – Practical Applications, 2005). The fair value method, in turn, is viewed as an alternative measurement basis that is a candidate to replace historical cost, as it represents a comprehensive system for the accounting measurement function. Recent years have seen a growing trend toward adopting fair value measurement, especially by international standard-setting bodies: the International Accounting Standards Board (IASB), responsible for issuing International Accounting Standards, and the Financial Accounting Standards Board (FASB), responsible for U.S. financial accounting standards. IFRS 13 Fair Value Measurement, effective from 01/01/2013, was issued as a joint project between the two boards to develop general requirements for fair value measurement.

It is worth noting that U.S. accounting standards were earlier in formulating and addressing fair value measurement. The term “fair value” first appeared in 1975 in paragraph 27 of FAS 12 on accounting for investment property, followed in November 1976 by FAS 13 on accounting for leases. Since then, the concept and applications of fair value measurement have continued to expand until the issuance of FAS 157 Fair Value Measurements in 2006, which represents an integrated measurement framework based on fair value. In international standards, the concept of fair value emerged later, first appearing in 1982 in IAS 16 Property, Plant and Equipment, and its use expanded and matured until the issuance of IFRS 13 Fair Value Measurement in 2013 as a joint project between the U.S. and international standard setters. From another angle, this supports studies that argue for the politicization of accounting knowledge and the dominance of U.S. accounting standards over international

standards, viewing IFRS as, in many respects, an internationalization of selected U.S. standards, which are considered broader and more detailed than their international counterparts(Waleed et al., 2025.).

A. Justifications for using historical cost in accounting measurement

The historical cost method derives its justification from several factors. Some are related to accounting theory and its requirements in terms of financial reporting objectives and the formal structure of accounting theory (assumptions, principles, and constraints), and others relate to professional accounting practice and its rules and procedures. These justifications can be summarized as follows:

- Historical cost represents an accounting principle, that is, a general law governing measurement. Any departure from it is treated as an exception that must be justified.
- Historical cost is the optimal measurement basis at the recognition date, because the actual value of the transaction coincides with its book value and is supported by a documentary voucher, which enhances the reliability and objectivity of measurement.
- Historical cost is easy to measure and verify because it relies on documentary evidence that records the cost of the transaction at the date it occurred.

B. Justifications for abandoning historical cost

Despite the strong arguments for using historical cost, it has been subject to significant criticism, the most important of which can be summarized as follows:

- Historical cost assumes a stable purchasing power of money, which is far removed from the realities of economic systems. As a result, the values reported in the financial statements do not faithfully and reliably reflect the true state of operations. To correct these distortions, the profession often resorts to procedures such as revaluation.
- Many errors arise from adopting historical cost, some relating to measurement and others to timing (recognition period).
- Historical cost measurement contradicts the foundations of measurement theory, which rests on the relativity of value across time and changing economic conditions.

2.6.Fair value

Before the issuance of IFRS 13 Fair Value Measurement, effective from 01/01/2013, the requirements for fair value measurement were scattered across various International Accounting Standards, in an uncoordinated and non-harmonized way. These standards included different references to the concept of fair value and the bases for its measurement for various purposes, which led to diverse and inconsistent practices among entities in terms of measurement methods and the level of disclosure. IFRS 13 came to provide a unified and integrated framework for defining fair value, determining measurement techniques, and specifying disclosure requirements, with the aim of reducing such inconsistencies and improving comparability between financial statements(Lazli, 2024).

2.6.1. Definition of 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 under current market conditions”(Argilés, 2011.).

IFRS 13 defines fair value similarly 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, 2013).

2.6.2. Characteristics of fair value measurement

Fair value measurement is built on a set of characteristics that distinguish it from other measurement bases, the most important of which are:

- Fair value measurement represents the pricing of an asset, a liability, or an equity instrument at the measurement date, i.e., the price prevailing on that date.
- Fair value is a market-based measurement, not an entity-specific measurement. Pricing is driven by market conditions, whether observable or unobservable. Accordingly, market assumptions, including those related to risk, are taken into account, whereas entity-specific assumptions (such as management’s intention to hold an asset or settle a liability) are not considered.
- Fair value measurement assumes that measurement is performed in the principal market or, if none, in the most advantageous market. This market may be actual or hypothetical, by reference to market conditions.

2.6.3. Fair value valuation techniques

Paragraph 61 of IFRS 13 Fair Value Measurement requires entities to use appropriate valuation techniques for which sufficient data are available, emphasizing the use of observable inputs and minimizing the use of unobservable inputs. Paragraph 62 of the same standard states that the objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions. The paragraph also specifies three main approaches used in fair value measurement: the market approach, the cost approach, and the income approach.

- Market approach: “The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets or liabilities, or a group of assets and liabilities, such as a business” (Al-Qanuniyyin). The market approach may draw on multiple markets that are deemed comparable and often uses matrix pricing as a mathematical technique to value certain types of financial instruments.
- Cost approach: “The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)” (Al-Qanuniyyin, 2013). From the seller’s perspective, the price is determined with reference to the cost incurred by a market participant buyer. In many cases, current replacement cost is used to measure the fair value of tangible assets.
- Income approach: “The income approach converts future amounts (for example, cash flows or income and expenses) to a single present amount (i.e., discounted). When the income approach is used, fair value measurement reflects current market expectations about those future amounts” (Al-Qanuniyyin, International Financial Reporting Standards). Valuation techniques under the income approach include present value techniques, option-pricing models, and the residual income model. In some situations, a single valuation approach may be sufficient; in others, it may be preferable to use multiple approaches (Riyono et al., 2025).

2.6.4. Fair value hierarchy

The fair value hierarchy classifies the inputs used in valuation techniques into three levels (Level 1, Level 2, and Level 3), ranked according to the degree of reliability, with a focus on

maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. In all cases, the following considerations must be observed:

- Fair value at initial recognition: Under normal circumstances, the fair value at initial recognition equals the transaction price when an asset is acquired or a liability is incurred (the price paid to acquire the asset or received to assume the liability), since fair value is the price that would be received to sell the asset or paid to transfer the liability. Paragraph B4 specifies exceptions where the transaction price does not represent fair value.
- Valuation techniques: This refers to the chosen approach (market, cost, or income). Sometimes a single technique is sufficient, as in the case of valuing an asset or liability using quoted prices in an active and orderly market.
- Selection of inputs: The entity must select inputs consistent with the characteristics of the asset or liability.
- Bid–ask adjustments: According to paragraph 80 of IFRS 13, the bid price is usually the most representative for measuring long positions in assets, and the ask price for short positions or liabilities. However, use of mid-market pricing or other practical expedients is not precluded if they are commonly used by market participants.
- **Level 1 inputs:** These are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. “An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis”. Such markets provide the most reliable evidence of fair value, and the quoted price is used without adjustment.
- **Level 2 inputs:** These are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - Quoted prices for similar assets or liabilities in active markets.
 - Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - Other observable inputs, such as interest rates, yield curves, credit spreads, and implied volatilities.
- **Level 3 inputs:** These are unobservable inputs for the asset or liability. In this case, fair value represents an estimate of the price at which a sale would occur at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Level 3 inputs, therefore, reflect the assumptions that market participants would use when pricing the asset or liability.

3. Field Study

1. Study Population and Instrument

1.1. Study population

Given the importance and specialization of the topic (measurement bases and alternatives in accounting), which requires strong familiarity with International Accounting Standards and their conceptual framework as well as sufficient professional accounting experience, the sample was purposefully drawn from two core groups: academic researchers (university professors and researchers), and specialized practitioners, in particular CFOs, certified accountants, and auditors. It was not possible to reach the category of accounting experts. The questionnaire was distributed to a sample of 120.

Table (02): Distribution of the Study Sample and Questionnaire Response Rate

Item	Number	Percentage
Number of questionnaires distributed	120	100%
Number of questionnaires returned	108	90%
Number of questionnaires not returned	12	10%
Number of invalid questionnaires	00	00%

Source: Output of SPSS data analysis, French version, release 21.

1.2. Study instrument

Using SPSS, a five-point Likert scale was adopted to define class intervals. The highest score is five (5) and the lowest is one (1). This served to examine the phenomenon of accounting measurement between historical cost as a primary or reference basis, and fair value as an objective and realistic basis imposed.

2. Testing Internal Consistency Validity of the Study Axes

2.1. Internal validity

2.1.1. Internal validity of Axis 1

Table (03): Importance of Historical Cost in Accounting Measurement

No.	Statement	Correlation Coefficient	p-value
1	Historical cost is a simple and direct measurement method because it relies on supporting documents.	0.393	0.003
2	Historical cost is the optimal measurement method at the moment the transaction arises.	0.706	0.000
3	Historical cost is considered an accounting principle because it provides reliability and objectivity in measurement.	0.803	0.000
4	Historical cost leads to financial statements that more truthfully reflect the accounting position.	0.727	0.000
5	Other accounting measurement methods are merely an updating of historical cost in line with economic changes.	-0.040	0.776
6	Historical cost is the most reliable method because it is based on actual rather than hypothetical transactions.	0.673	0.000
7	Historical cost remains a reference in accounting measurement regardless of the development of other methods.	0.371	0.006

Source: Output of SPSS data analysis, French version, release 21.

The table shows that most items in Axis 1 correlate positively and significantly with the total, with correlations from 0.371 to 0.803 and $p < 0.01$, indicating good internal validity. The strongest links are items (3), (4), (2), and (6), reflecting coherence around the reliability and objectivity of historical cost. Item (5) shows a weak, non-significant negative correlation ($r = -0.040$, $p = 0.776$), suggesting misfit with the axis construct. Overall validity is acceptable; revise or drop item (5) in later applications to improve internal consistency.

2.1.2. Internal validity of Axis 2

Table (04): Fair Value as an Alternative Measurement Basis

No.	Statements	Correlation Coefficient	p-value
1	Fair value reflects changes in the purchasing power of money and price levels.	0.713	0.000
2	Fair value is the most important alternative measurement basis to replace historical cost.	0.751	0.000
3	Fair value overlaps with other measurement methods (current market value, replacement cost, realizable value, present value).	0.573	0.000
4	Fair value is the measurement method most responsive to market	0.708	0.000

	changes and economic transformations.		
5	Fair value has less impact on operating cycle outputs due to the short time horizon.	0.280	0.041
6	Fair value has greater impact on investment and financing cycle outputs due to the longer time horizon of these cycles.	0.595	0.000
7	Applying the fair value method depends on the existence of an active and efficient national market.	0.676	0.000
8	Fair value is a key requirement of financial markets due to the quality of the outputs it provides.	0.745	0.000

Source: Output of SPSS data analysis, French version, release 21.

All items load positively and significantly on the total ($r = 0.280\text{--}0.751$; $p < 0.05$), indicating acceptable internal validity. Strongest items are (1), (2), (4), (8). Item (5) has the weakest but still significant loading ($r = 0.280$, $p = 0.041$). Construct validity is supported; low-loading items could be refined in future work.

2.1.3. Internal validity of Axis 3

Table (05): Impact of Fair Value on Financial Statements and Financial System Outputs

No.	Statements	Correlation Coefficient	p-value
1	Fair value provides information that is consistent with the dates of issuance of the financial statements.	0.843	0.000
2	Fair value contributes to improving the qualitative characteristics of financial information through its application criteria.	0.750	0.000
3	Financial statements prepared on a fair value basis are more important to users of financial information.	0.611	0.000
4	Financial statements prepared according to fair value provide decision-makers with information of high predictive value.	0.672	0.000
5	Financial statements prepared on a fair value basis are fairer and more reliable in presenting financial data.	0.780	0.000
6	Under economic volatility, the fair value method is more realistic and credible than its counterpart based on historical cost.	0.737	0.000
7	Financial information based on fair value helps rationalize investors' decisions in their various forms.	0.727	0.000
8	There is a trend in accounting thought towards replacing historical cost with fair value.	0.547	0.000
9	It is possible to prepare dual-value financial statements in which items are measured using both historical cost and fair value together	0.583	0.000

Source: Output of SPSS data analysis, French version, release 21.

All items show strong, significant positive correlations with the total ($0.547\text{--}0.843$; $p = 0.000$), indicating high internal validity. Items (1), (5), (2), (6), and (7) are strongest. Items (8) and (9) are lower but acceptable, capturing methodological orientation (replacement or dual measurement). The axis exhibits robust construct validity.

2.2. Questionnaire item consistency

Table (06): Reliability Statistics (Cronbach's Alpha) for the Study Dimensions

Dimension	Axis Title	Cronbach's Alpha
First	Importance of historical cost in measurement as an accounting principle	0.782
Second	Fair value as a measurement approach substituting the historical cost principle	0.622
Third	Impact of applying the fair value approach on financial statements and the outputs of the financial system	0.783
	Total scale	0.853

Source: Output of SPSS data analysis, French version, release 21.

The results show acceptable to good reliability. Axes 1 and 3 exceed 0.78. Axis 2 is acceptable at 0.622. The overall alpha of 0.853 indicates strong scale reliability.

3. Statistical Analysis of Questionnaire Items

3.1. Axis 1: Importance of historical cost as a principle

Table (07): Importance of Historical Cost as an Accounting Principle

No.	Statement	Mean	Std. Deviation	Agreement level	Rank
1	Historical cost is a simple and straightforward measurement basis because it relies on source documents.	4.0370	0.7761	Agree	1
2	Historical cost is the optimal measurement basis at the moment the transaction occurs.	3.3519	1.0308	Neutral	6
3	Historical cost is considered an accounting principle because it provides reliability and objectivity in accounting measurement.	3.6481	1.1518	Agree	3
4	Historical cost leads to financial statements that more truthfully reflect the accounting position.	3.3148	1.2258	Neutral	7
5	Other accounting measurement bases are merely updates of historical cost in line with economic changes.	3.6296	0.7344	Agree	4
6	Historical cost is the most reliable measurement basis because it is based on real, not hypothetical, transactions.	3.5741	1.0019	Agree	5
7	Historical cost remains a reference in accounting measurement regardless of the development of other alternatives and methods.	4.0000	0.8902	Agree	2
Total items		3.6508	0.5464	Agree	

Source: Output of SPSS data analysis, French version, release 21.

Interpretation: The global mean is 3.6508 ("Agree"), indicating a positive stance toward historical cost. Highest agreement appears for items (1) and (7), highlighting procedural simplicity and reference status. Items (3), (5), (6) also exceed 3.5. Items (2) and (4) are closer to neutral with higher dispersion, reflecting awareness of limits under price volatility.

3.2. Axis 2: Fair value as an alternative to historical cost

Table (08): Fair Value as an Alternative to Historical Cost

No.	Statement	Mean	Std. Deviation	Agreement level	Rank
1	Fair value reflects changes in the purchasing power of money and in price levels.	4.2593	0.8508	Strongly agree	2

2	Fair value is the most important measurement alternative to replace historical cost.	4.1667	0.7466	Agree	4
3	Fair value overlaps with other measurement bases (current market value, replacement cost, realizable value, present value).	4.0556	0.9197	Agree	6
4	Fair value is the measurement basis most responsive to market changes and economic transformations.	4.2407	0.7754	Strongly agree	3
5	Fair value has less impact on operating cycle outputs due to the short time horizon.	3.7593	0.7251	Agree	7
6	Fair value has a greater impact on investment and financing cycle outputs due to their longer time horizon.	3.7037	0.7430	Agree	8
7	The application of fair value measurement depends on the existence of an active and efficient national market.	4.2778	0.9400	Strongly agree	1
8	Fair value is a key requirement of financial markets due to the nature and quality of the information it provides.	4.1481	0.7625	Agree	5
Total items		4.0764	0.5113	Agree	

Source: Output of SPSS data analysis, French version, release 21.

Interpretation: Strong positive orientation toward fair value (mean 4.0764). Items (7), (1), (4) lead, stressing market preconditions and responsiveness. Items (5) and (6) are lower but still “Agree,” noting limited operating-cycle impact versus longer-horizon cycles.

3.3. Axis 3: Impact of fair value on financial statements and system outputs

Table (09): Impact of Fair Value on Financial Statements and Financial System Outputs

No.	Statement	Mean	Std. Deviation	Agreement level	Rank
1	Fair value provides information aligned with the reporting dates of the financial statements.	4.2037	0.6834	Strongly agree	2
2	Fair value enhances the qualitative characteristics of financial information through its application criteria.	4.2222	0.6913	Strongly agree	1
3	Financial statements prepared on a fair value basis are more relevant to users of financial data.	3.8333	1.0233	Agree	7
4	Financial statements prepared under fair value provide decision-makers with information of high predictive value.	3.9444	0.8336	Agree	6
5	Financial statements prepared on a fair value basis are fairer and more reliable in presenting financial information.	4.1481	0.8334	Agree	3
6	Under economic volatility, fair value is more realistic and credible than statements prepared under historical cost.	4.0925	0.8745	Agree	5
7	Fair value-based financial information helps inform investors' decisions in their various forms.	4.0926	1.0687	Agree	4
8	There is a trend in accounting thought toward replacing historical cost with fair value.	3.3889	1.0355	Neutral	9
9	It is possible to prepare dual-value financial	3.5370	0.8840	Agree	8

	statements reporting items at both historical cost and fair value.				
	Total items	3.9403	0.6038	Agree	

Source: Output of SPSS data analysis, French version, release 21.

Interpretation: Clear positive view of fair value's impact (mean 3.9403). Items (2) and (1) lead, followed by (5), (6), (7). Item (8) trends toward neutrality with higher dispersion, indicating hesitation about full replacement; item (9) supports a dual-basis compromise.

4. Hypothesis Testing

4.1. First hypothesis

- H0: Historical cost is not a primary measurement basis because it does not provide objectivity and safety.
- H1: Historical cost is a primary measurement basis because it provides objectivity and safety.

Table (10): Results of the first hypothesis test

Item	Mean	Std. Deviation	Computed t	df	Significance (Sig.)
Total of items	3.6508	0.5464	8.752	108	0.000

Source: Output of SPSS data analysis, French version, release 21.

The results indicate that the mean value of the historical cost axis is 3.6508, exceeding the neutral benchmark (3), with a standard deviation of 0.5464, reflecting a consistently positive perception among respondents. The computed t-statistic (8.752) with 108 degrees of freedom is substantially higher than the critical values at conventional significance levels. In addition, the associated probability value (Sig = 0.000) is well below the 0.05 threshold, confirming that the observed mean differs significantly from the hypothesized value.

Accordingly, the null hypothesis is rejected in favor of the alternative hypothesis, supporting the conclusion that historical cost represents a primary accounting measurement basis that ensures a considerable degree of objectivity and reliability in the accounting measurement function

4.2. Second hypothesis

- H0: Fair value cannot replace historical cost as an alternative measurement basis.
- H1: Fair value can replace historical cost as an alternative measurement basis.

Table (11): Results of the second hypothesis test

Item	Mean	Std. Deviation	Computed t	df	Significance (Sig.)
Total of items	4.0764	0.5113	15.469	108	0.000

Source: Output of SPSS data analysis, French version, release 21.

The table indicates that the mean score for the fair value axis reached 4.0764, clearly exceeding the neutral benchmark (3), with a relatively low standard deviation (0.5113), reflecting a strong and stable positive orientation toward the axis items. The calculated t-value (15.469) with 108 degrees of freedom is substantially higher than the critical values at conventional significance levels. Moreover, the associated significance level (Sig = 0.000) is far below 0.05, indicating a high degree of statistical significance for the difference from the hypothesized value.

Accordingly, the null hypothesis is rejected and the alternative hypothesis is accepted, supporting the conclusion that fair value can be adopted as a meaningful alternative measurement approach capable of compensating for the historical cost principle in accounting measurement.

4.3. Third hypothesis

- H0: Replacing historical cost with fair value does not affect the core of measurement, namely the fairness and credibility of financial statements.
- H1: Replacing historical cost with fair value affects the core of measurement, namely the fairness and credibility of financial statements.

Table (12): Results of the third hypothesis test

Item	Mean	Std. Deviation	Computed t	df	Significance (Sig.)
Total of items	3.9403	0.6038	11.443	108	0.000

Source: Output of SPSS data analysis, French version, release 21.

The table shows that the mean score for the fair value impact axis reached 3.9403, exceeding the neutral benchmark (3), with a relatively moderate standard deviation (0.6038), which reflects a clear positive orientation among the respondents. The calculated t-statistic (11.443) with 108 degrees of freedom is significantly higher than the critical values at conventional significance levels. In addition, the associated significance level (Sig = 0.000) is well below 0.05, indicating the presence of a statistically significant difference from the hypothesized value.

Accordingly, the null hypothesis is rejected and the alternative hypothesis is accepted, confirming that the substitution of fair value for historical cost has a substantive effect on the core of accounting measurement, particularly with respect to the fairness and credibility of financial statements.

5. Analysis and Discussion of Results

The field results indicate that the measurement instrument exhibits good validity and reliability. Most item–total correlations are statistically significant, and Cronbach’s alpha values for the three axes and the overall scale are acceptable to strong, evidencing satisfactory internal consistency.

Content-wise, Axis 1 shows a positive tendency among academics and practitioners to consider historical cost a referential accounting principle that provides objectivity and safety, with implicit recognition of its limits in reflecting economic reality under price volatility. This is visible in items tending toward neutrality.

By contrast, Axis 2 reflects strong support for adopting fair value as a more market-responsive measurement basis suited to unstable environments, with a clear emphasis on the prerequisite of an active and efficient national market for effective implementation.

Axis 3 indicates that respondents view fair value as improving the qualitative characteristics of financial information and enhancing the fairness and reliability of statements, particularly under economic volatility, while some reserve remains about fully replacing historical cost. There is notable acceptance of a dual-basis approach (historical cost-plus fair value) as a conciliatory option.

The hypothesis tests align with this nuanced view. They affirm historical cost as a reliable primary basis, while also supporting the feasibility of adopting fair value as an alternative that materially affects the core of accounting measurement and the fairness of financial statements, provided appropriate conditions for application are in place. This supports a comparative approach between the two bases rather than a categorical, exclusionary choice.

6. Conclusion

This study seeks to compare the historical cost principle and the fair value approach in accounting measurement and to show the impact of transitioning between them on the financial statements. The field results indicate acceptable validity and reliability for the measurement instrument, as well as a positive inclination to regard historical cost as a reliable reference at the moment of recognition, alongside clear support for adopting fair value as a basis that is more responsive to market conditions and more capable of improving the qualitative characteristics of financial information. Nevertheless, some reservations remain regarding full substitution, with a practical preference for a dual-basis option (historical cost + fair value) in transitional contexts.

6.1. Key findings

- Despite the multiplicity of accounting measurement alternatives, historical cost remains the most objective and reliable reference, as it is grounded in actual transactions rather than hypothetical valuations.
- Historical cost is considered the most appropriate measurement basis under conditions of economic stability and growth—particularly price stability and exchange rate stability—yet it loses its relevance during periods of crisis, severe volatility, and declining purchasing power.
- Fair value represents a more comprehensive measurement system compared to other alternatives—such as current market value, replacement cost, net realizable value, and present value—which are generally applicable to specific items only, making fair value the most prominent alternative to historical cost.
- Fair value measurement constitutes a key requirement of financial markets due to the qualitative characteristics of the information it provides, and it has been embraced by contemporary accounting trends and international accounting standards as part of efforts to modernize accounting measurement.
- Financial statements prepared on a fair value basis may offer greater predictive usefulness and enhanced responsiveness to market changes and economic transformations, thereby increasing their relevance for users of financial statements.
- The application of fair value requires an efficient and well-functioning national market, which currently limits its adoption due to the weakness of fundamental market infrastructure.
- Despite the advantages of fair value, the need for historical cost remains justified by the stability, neutrality, and objectivity it ensures; consequently, an integrated approach that combines both measurement bases—potentially through the preparation of dual financial statements for comparative analysis—may represent an appropriate solution.
- Finally, beyond material and institutional requirements, the application of fair value necessitates investment in human capital through the development of accounting and financial expertise capable of collecting and measuring market data—an area that remains underdeveloped at the local level.

6.2. Practical implications and recommendations

- For regulators: adopt a gradual pathway to expand the scope of fair value measurement, develop localized implementation guidance, strengthen valuation infrastructure and active markets, and intensify disclosures in line with the fair value input hierarchy.

- For entities: align the measurement basis with the nature of each item, reinforce internal controls and valuation expertise, and disclose methodologies, assumptions, and measurement sensitivity analyses.
- For researchers and practitioners: further develop valuation capabilities and techniques, and update training curricula to align with IFRS 13 and market requirements.

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