Journal of Economic, Administrative and Legal Sciences (JEALS) • Vol 7, Issue 9 (2023) • P: 106 - 98
https://journals.ajsrp.com/index.php/jeals
ISSN: 2522-3372 (Online) • ISSN: 2522-3372 (Print)

Historical cost vs. Fair value and their influence on earnings' quality

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Received: 28/11/2022
Revised: 09/12/2022
Accepted: 11/02/2023
Published: 30/09/2023

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Citation: Benzerrouk, Z. S., Esawi, KH. A., & Shehab, L. S. (2023). Historical cost vs. Fair value and their influence on earnings' quality. *Journal of Economic, Administrative and Legal Sciences, 7*(9), 98 – 106. https://doi.org/10.26389/AJSRP.Z281122

Abstract: The controversy has increased recently between supporters of the historical cost model and supporters of the fair value model as a basis for measurement in accounting, by comparing the priorities of the characteristics that should be available in the accounting information. Since the accuracy and validity of this information depends on the validity, appropriateness, and reliability of the measurement alternatives on which it was based to access this information. In this research, we will address the two accounting alternatives, the historical cost, and the fair value, and compare the impact of each on the quality of profits in the Jordanian banking sector. The historical cost that represents the actual reality of the event at the time of its occurrence at the moment of exchange is undoubtedly correct or accurate at the moment of acquisition or ownership, but the recorded value may become a thing of the past as it deviates slightly or a lot from the current value. The results of the field study indicated that fair value provides information that is highly suitable for decision-making and is comparable to accounting information in the Jordanian banking sector.

Keywords: Fair Value, historical cost, an accounting measurement, earning quality, accounting

التكلفة التاريخية مقابل القيمة العادلة وتأثيرها على جودة الأرباح

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المستخلص: ازداد الجدل مؤخرًا بين مؤيدي نموذج التكلفة التاريخية وأنصار نموذج القيمة العادلة كأساس للقياس في المحاسبة، من خلال مقارنة أولويات الخصائص التي ينبغي أن تكون متاحة في المعلومات المحاسبية. نظرًا لأن دقة وصحة هذه المعلومات تعتمد على صحة وملاءمة وموثوقية بدائل القياس التي استندت إليها للوصول إلى هذه المعلومات. في هذا البحث سنتناول البديلين المحاسبيين، التكلفة التاريخية، والقيمة العادلة، ومقارنة تأثير كل منهما على جودة الأرباح في القطاع المصرفي الأردني. التكلفة التاريخية التي تمثل الواقع الفعلي للحدث في وقت حدوثه في لحظة التبادل هي بلا شك صحيحة أو دقيقة في لحظة الاستحواذ أو الملكية، لكن القيمة المسجلة قد تصبح شيئًا من الماضي لأنها تنحرف قليلاً أو الكثير من القيمة الحالية. أشارت نتائج الدراسة الميدانية إلى أن القيمة العادلة توفر معلومات مناسبة للغاية لاتخاذ القرار وقابلة للمقارنة بالمعلومات المحاسبية في القطاع المصرفي الأردني.

الكلمات المفتاحية: القيمة العادلة، التكلفة التاريخية، القياس المحاسبي، جودة الكسب، المحاسبة.

1- Introduction:

Recent changes in the international business environment, as well as the rise of capital market activity and the variety of financial instruments, have increased the demand for usable financial information that can be trusted when making economic decisions.

Accounting has evolved over time, from single entry operations to double entry operations. As a result, various international and local governmental and non-governmental organizations are now concerned with the accounting framework, and continuously working on its development, and solving all difficulties that may arise (Hersh, 2017).

The current accounting problem facing the International Accounting Standards Board (IASB) and other accounting standards issuers is to achieve a unified concept of measurement that balances the two basic qualitative characteristics of useful accounting information, reliability , and suitability (Hammouche et al., 2020). This is accomplished by establishing a uniform accounting-measuring concept and abandoning traditional accounting concepts, such as the historical cost model, and shifting toward fair value accounting (Ronen, 2008).

Fair value accounting requires active markets that accurately reflect the true value of assets when evaluated. As for the Arab countries, whose markets are unstable politically and economically, it is difficult to obtain fair value easily and impartially, far from the intervention and controlling profits by management (Cristea, 2018).

Furthermore, profit quality is one of the most recent concepts to emerge in the world, and it is now possible to evaluate profit quality using ready-made mathematical models, each of which measures a profit-enhancing quality.

Based on the preceding, the use of historical cost or fair value in analyzing the aspects of financial statements, and their relationship to disclosure, transparency, and decision-making, is one of the most important issues of disagreement in this discipline. Thus, this study focuses on comparing historical cost with fair value as well as discussing their impact on earnings quality from the experts' point of view in Jordan.

2- Research problem & questions:

Jordan is one of the developing countries that have adopted worldwide accounting standards in all economic areas, including the Jordanian banking sector, which is one of the country's most dynamic sectors. Mainly because it involves items valued at fair value, such as determining the quality of receivables and assets, thus, financial statements published by the banking sector are among the most influenced by the adoption of international accounting standards (Shaban et al., 2020). Accordingly, the study's problem is restricted to the impact of applying fair value in Jordanian commercial banks and the amount to which this impacts the quality of earnings for Jordanian commercial banks.

Based on the research problem, the following questions can be posed:

1. What are the main differences between historical cost and fair value?
2. What are the advantages of shifting towards fair value measurement?
3. Does the fair value measurement affect earnings quality?

3- Research Methodology:

To address the problem of our research paper, we used a descriptive-analytical approach to introduce the most important points of view for each of the approaches that support one of the two principles related to accounting measurement and evaluation, the historical cost and the fair value. Interview tools were used in this study since it is the most appropriate method for collecting comprehensive information on this subject, especially by avoiding the difficulty of obtaining a large number of questionnaires (Alameen, 2018). Moreover, through an interview with a group of account managers, accountants, and professional financial analysts in the Jordanian banking sector, we aimed to determine the standpoint of the targeted sample on this topic.

4- Background review:

- Historical cost approach

Historical cost is one of the first accounting principles used in measurement, this principle bases its measurement and evaluation of the financial statements on cost in valuing assets. The replacement cost entry, the net realizable value entrance, and the value entrance are all included in this approach (Shaban et al., 2020).

The historical cost is defined as the asset's true cost at the time of purchase, which remains constant until the asset's function or purpose is fulfilled, except in the case of modifications or additions to the asset.

An advantage of the historical cost principle is that it provides a high degree of objectivity in measurement, as well as data comparability and ease of measurement, which leads to a high level of confidence in accounting data. On the contrary, the historical cost principle has received a great deal of criticism, such as the inadequacy of accounting information for decision-making, as well as the limited benefits of employing the results in financial reports. Furthermore, inflation causes historical values to become unrealistic, leaving financial statements of economic entities unrepresentative, in addition to the difficulties of comparing financial statements across different financial periods (Giordano-Spring, et al., 2015).

To sum up, the historical cost principle failed to keep pace with the fast changes in global markets and the emergence of multinational corporations. As a result, there has been an urgent need to find a replacement to this approach that is more in line with these changes, so the fair value approach was formed.

- Fair value approach

The objective of financial statements is to provide useful and appropriate information for the concerned entities in order for them to make the correct and appropriate economic decisions. Since financial statements are supposed to express the financial condition, business results, and cash flows in a way that management can be held accountable for funds entrusted to it, it is necessary to present the assets and liabilities at fair value rather than a historical cost because it is more beneficial to the financial statement users (Amaefule, 2018).

Fair value has been defined as the value of the cash expected to be acquired in the case of an asset being sold on the date of producing the financial statement. It can also be defined as the price at which an asset can be transferred from a seller to a buyer who is willing and able to complete the transaction freely and independently (Tutino & Pompili, 2018). This approach provides users of financial statements with appropriate information to make the right decisions and covers the shortcomings resulting from the use of the historical cost approach.

In conclusion, fair value is determined by the occurrence of an asset exchange procedure between two parties in exchange for payment on a specific date, which helps investors make investment decisions. Other definitions have been developed to reflect the environment around the exchange process, as long as the circumstances are natural and not extraordinary, such as the existence of a liquidation case or the existence of shared interests between the two parties (Markou & Tsitsoni, 2013).

- Advantages of applying a fair value approach

The fair value approach is a superior alternative for avoiding flaws of the historical cost principle and achieving advantages for data outputs. Some of the advantages are:

1. The fair value approach helps to achieve proper disclosure, which means that investors are aware enough of the different types of assets and how to evaluate those using financial statements (Al-Sa'bary & Mardan, 2012).
2. The concept of capital preservation is supported by the approach of fair value (Saib & Bensahel, 2019).
3. The fair value has a better forecasting capacity because it represents current economic consequences.
4. Most fair values can be determined accurately using procedures that integrate capital market pricing principles with information on current market conditions, according to financial reporting standards (Al-Sa'bary & Mardan, 2012).
5. Fair value data helps in comparing similar companies that utilize the same fair value system.
6. Variations in the purchasing power of the cash unit are incorporated into fair value approach (Tutino & Pompili, 2018).

- Earnings' quality

Various users of financial statements view profit quality differently, as some believe that the presence of unusual items in disclosed profits diminishes profit quality, while others believe that profits are of high quality if measured in accordance with generally accepted accounting principles. Creditors also consider profits as of high quality if they can be transformed into cash units quickly (Dudycz & Pra´zników, 2020).

Earnings quality is defined as an investor's capacity to estimate normal and abnormal future earnings based on present data. It is also known as the amount to which the earnings reported by the firm accurately and fairly reflect the company's genuine earnings, or in other words, the published earnings of the company are free of overstatements or uncertain statistics (Alameen, 2018).

Earnings are the determinants of all consumers' decision-making, they are viewed as a future vision by users of financial statements and investors. Financial analysts consider financial statements to be the primary source on which they rely for analyzing information and making rational decisions. In addition, they consider it to be the primary source on which they rely for predicting the continuity of corporate earnings in future periods. Because dividends are key factors to consider when making investment decisions, and earnings quality can be employed as an indicator of dividends (Markou & Tsitsoni, 2013).

Earnings are also used as a benchmark for assessing the quality of accounting standards, as there is a clear link between the quality of earnings and the quality of accounting data (Ndubuisi, 2014).

Profitability is influenced by the time series of earnings and the variation of business activities, as well as the economic environment and the accounting system employed by organizations. Fair value information may predict future cash flows. Instead of examining the relationship between fair value estimates and market prices or returns, the utility of fair value information can be assessed directly by examining its predictive power with respect to future cash flows and earnings (Markou & Tsitsoni, 2013).

To be specific, fair value estimates represent the present value of expected future cash flows, therefore if fair values are accurate measurements of asset values, changes in fair values should be represented in future performance changes. On the other hand, if fair value assessments were unreliable, the link with future performance indicators will be weak. Thus, gains and losses on changes in fair values might be reported as net income or other comprehensive income (Ndubuisi, 2014).

- Experts' point of view in applying historical cost or fair value in the Jordanian commercial banks (Interview results)

Interviewees' Demographic and Background Information

Four employees working in the Jordanian banking sector were interviewed. Interviews were conducted individually for about an hour during this study (for interviewees' demographic information: see Table 1). The following is an analysis of interview questions collected from managers working in the Jordanian banking sector. The study sample individuals will be coded as follows:

- Account managers (M1).
- Accountant 1 (M2).
- Accountant 2 (M3).
- Professional financial (M4).

The first part of the interviews aimed to collect demographic data for the study sample, where individuals were asked about their age, educational qualifications, and a number of years of experience in the Jordanian banking sector. The results indicated that the ages of the respondents ranged between 36 and 55 years. Regarding academic qualification, M1 indicated that they had a master's degree in accounting, while other respondents indicated that they had a bachelor's degree in accounting. With regard to the number of years of experience, all respondents indicated that the number of years of experience they have in the institution exceeded 10 years, which confirms the level of experience and extensive knowledge they possess in the institution.

Table 1: Accountants' Demographic and Background Information

Respondents	Age	Academic qualification	Years of experience in the Foundation
Interviewee No.1 (M1)	**36**	**Account managers**	**More than 10 years**
Interviewee No.2 (M2)	**47**	**Accountant 1**	**More than 10 years**
Interviewee No.3 (M3)	**50**	**Accountant 2**	**More than 10 years**
Interviewee No.4 (M4)	**55**	**Professional financial**	**More than 10 years**

The results of the analysis of interviews

Interviewees' responses collected from interviews were continuously and objectively analyzed. The content analysis of qualitative data aims to provide a deeper understanding of the study problem with the theoretical information obtained from the opinions of the experts interviewed. Therefore, both explanations and quotes from those interviewed were provided to illustrate the study results.

The results of the analysis of interviews are presented below, which covered the research topic, which is the Historical cost, fair value - and its impact on the quality of profits in the Jordanian banking sector.

The main differences between historical cost and fair value in the Jordanian banking sector

To achieve the study objective related to the main differences between historical cost and fair value, the researcher asked 3 questions related to this topic, where the first question was to ask the respondents for the main differences between historical cost and fair value from long experience in accounting.

Regarding the comparative preference of interviewees regarding the key differences between historical cost and fair value, Individuals' responses indicated that they had extensive knowledge of the main differences between historical cost and fair value; M1, M2, M3, and M4 agreed that HC and FV are both useful and defended, but in different ways depending on the interviewee's position. M2 said: "historical cost provides information about the expected earnings from assets and the actual burdens of liabilities at the moment of obtaining them..." M2 and M4 also agreed that there is a difference between historical cost and fair value in terms of expected earnings and losses, as M4 said: "...historical cost only recognizes earnings or losses from price changes on sale or settlement, but fair value recognizes earnings or losses from price changes as soon as they occur".

M1 and M3 agreed that there is a difference between historical cost and fair value in terms of comparability and decisions to acquire assets. M1 said: "To me, the historical cost reduces comparability by making similar things look different and vice versa. Whereas, the fair value increases the comparability of information by making similar things look the same and vice versa. I think if you look at historical cost, it reflects the impact of decisions to acquire assets, take on liabilities or settle liabilities on the bank's performance." The following table shows the answers of the study sample members regarding the main differences between historical cost and fair value.

Table 2: Interviewees' responses to a question about the main differences between historical cost and fair value from long experience in accounting in the Jordanian banking sector.

Interviewee No.	Response
Interviewee No.1	**To me, the historical cost reduces comparability by making similar things look different and vice versa. Whereas, the fair value increases the comparability of information by making similar things look the same**

Interviewee No.	Response
	and vice versa. In addition, the fair value offers much data about the quality of the expected earnings. I think if you look at historical cost, it reflects the impact of decisions to acquire assets, take on liabilities or settle liabilities on the bank's performance.
Interviewee No.2	**I believe that historical cost provides information about the expected earnings from assets and the actual burdens of liabilities at the moment of obtaining them. Whereas, fair value provides information about the expected earnings of assets and the actual burden of liabilities under the prevailing conditions. I believe also that historical cost only recognizes earnings or losses from price changes on sale or settlement, but fair value recognizes earnings or losses from price changes as soon as they occur**
Interviewee No.3	**In my view, the historical cost reflects the impact of decisions to acquire assets, sell assets, incur liabilities or settle liabilities on the Bank's performance, while ignoring decisions to continue to hold the asset or assume the liability. On the other hand, the fair value reflects the impact of management's decisions to continue to hold the assets or liabilities in addition to the decisions to acquire or sell assets and incur or settle the liabilities. As well as, the fair value offer several information about the quality of the expected earnings.**
Interviewee No.4	**I think that the historical cost recognizes the earnings or losses resulting from price changes upon sale or settlement only, and the amounts are established based on the internally available information on historical prices without reference to external market data. But, the fair value from my point of view recognizes the earnings or losses resulting from price changes as soon as they occur, and the amounts are proven based on current market prices and this may require ignoring the previous values, which may cause reliability problems. In addition, the fair value provides much information about the quality of the expected earnings of assets and the actual burden of liabilities.**

Regarding the second question, which aimed to find out which is better to use theoretically, historical cost or fair value in accounting measurement methods; the respondents referred to a set of principles. The respondents M1, M2, M3, and M4 indicated the fair value is considered better theoretically than the historical cost in the accounting measurement methods. M3 said: "In my opinion, the fair value is better because the fair value measurement provides better information and comparison about the current and future performance of the bank as it includes current information provided by the market, which facilitates the possibility of comparing the information...."

Both M1 and M3 agreed on the importance of fair value in the accounting measurement methods, M1 said: "...I think that what was recently introduced in the bank, the fair value is considered better theoretically than the historical cost in the accounting measurement methods because the fair value basis makes the financial statements more suitable for investors for the purposes of evaluating equity compared to the historical cost." Respondents also added a set of other principles, including; M3 said: "Fair value measurement also reduces the difference between the accounting value and the inventory value of listed entities, and it involves valuing all or most of the financial statement components in amounts based on capital market information."

The following table shows the answers of the study sample members regarding the principles of the better to use in practice and theory, historical cost or fair value in the Jordanian banking sector.

Table 3: Interviewees' responses to a question about the best use in theory, historical cost or fair value in accounting measurement methods.

Interviewee No.	Response
Interviewee No.1	**I think that what was recently introduced in the bank, the fair value is considered better theoretically than the historical cost in the accounting measurement methods because the fair value basis makes the financial statements more suitable for investors for the purposes of evaluating equity compared to the historical cost.**
Interviewee No.2	**For me, I believe that fair value is better than historical cost, as it turns out through my work in this field the principle of historical cost is one of the principles on which accounting is based, and no one has been able to deviate from this principle because it is more reliable, but it is not appropriate to rely on it in Making investment decisions because they represent events from the past. Also, the fair value basis is more appropriate for the purposes of evaluating the quality of earnings than the historical cost.**
Interviewee No.3	**In my opinion, the fair value is better, because the fair value measurement provides better information and comparison about the current and future performance of the bank as it includes current information provided by the market, which facilitates the possibility of comparing the information. Fair value measurement also reduces the difference between the accounting value and the inventory value of listed entities, and it involves valuing all or most of the financial statement components in amounts based on capital market information. I**

Interviewee No.	Response
	believe that fair value measurement is more global in nature than historical cost.
Interviewee No.4	From my long experience in the field, I believe that fair value is better used than historical cost, because measurement and disclosure on the basis of fair value leads to the availability of financial indicators that reflect the actual reality, and increases its transparency and effectiveness in providing appropriate information to its users in making rational decisions regarding the quality of earnings, and a good evaluation of management performance.

Regarding the third question, which aimed to find out which is the better to use in practice and theory, historical cost or fair value in the Jordanian banking sector; The respondents indicated fair value is better in their opinion than historical cost. Both M1 and M3 indicated air value accounting improves the quality of earnings. M1 said: "fair value accounting improves the quality of earnings in the Jordanian banking industry…" Both M2 and M4 agreed on the fair value represents market value, as M2 emphasized that the air value represents the value of the benefit or the value of future cash flows, market value, replacement value, net book value. M4 said: "…fair value represents the value of future cash flows or market value, I believe it is effective enough in the valuation process in the bank…" Based on the responses of the participants, the researcher believes that all of the interviewees expressed great support for the importance of fair value when it is significantly different (above or below) from historical cost. In particular, the interviewed financial expert emphasized his inability to estimate fair values, which in his opinion should be determined by the company itself and disclosed in the notes to the financial statements. In contrast, financial analysts determined that estimating fair values as part of their skill set, and therefore they took a critical look at amounts estimated by banks.

The following table shows the answers of the study sample members regarding the principles of the better to use in practice and theory, historical cost, or fair value in the Jordanian banking sector.

Table 4: Interviewees' responses to a question about the better to use in practice and theory, historical cost or fair value in the Jordanian banking sector.

Interviewee No.	Response
Interviewee No.1	Fair value is better in my opinion, as fair value accounting improves the quality of earnings in the Jordanian banking industry. I think it is sufficiently effective in the evaluation process in the bank. I believe that accounting standards also play an important role in addition to the disclosure policy of the bank. It is accepted that sometimes fair value does not add to the understanding of a bank's valuation but has sufficient advantages to provide qualitative and reliable information.
Interviewee No.2	Of course, fair value is better in my opinion, In practice, the fair value represents the value of the benefit or the value of future cash flows, market value, replacement value, and net book value. On the contrary, from my point of view, the application of the historical cost evaluation model in the Jordanian banking industry works to underestimate or overestimate some elements in the financial statement, the real value of the balance sheet items, and the earnings and loss account.
Interviewee No.3	From my long experience in the bank, fair value is better; I believe that accounting standards also play an important role in addition to the disclosure policy of the bank, as fair value improves the quality of profits in the Jordanian banking industry. The application of the historical cost evaluation model works to underestimate or overestimate some items in the financial statement and the true value of budget items and profit and loss accounts.
Interviewee No.4	As the job as a bank financial expert, fair value is better but does not diminish the importance of historical cost in the Jordanian banking industry, fair value represents the value of future cash flows or market value, and I believe it is effective enough in the valuation process in the bank. From my point of view, fair value has many advantages for providing quality and reliable information in the Jordanian banking industry.

The advantages of shifting towards fair value measurement in the Jordanian banking sector

<u>The four question aims to identify the advantages of shifting toward fair value measurement in the Jordanian banking sector</u>. All respondents agreed that the fair value is more realistic and useful for use and application in accounting measurements for the Jordanian banking sector, as M1, M3, and M4 agreed on the importance of fair value in accounting measurements for the Jordanian banking sector. M3, M4 pointed out the importance of ensuring order and maintaining security in the work environment, as M3 said: "… The application of fair value accounting increases the degree of reliability and comprehension of the information included in its financial reports…." But M2 disagreed with them, saying that "the application of fair value accounting on a larger scale may not necessarily provide users of financial statements with more transparent and more informative reports.

On the other hand, M1 added a set of ways the fair value affects or maximizes earnings' quality, as he said: "...As such I don't see anything wrong with the fair value approach, or the market value. I think if you look at a bank as a pool of resources, those resources have a value that you have to be able to compare to the resources of another entity, and you can't do that at historical cost at this level, the statement at fair value seems very reasonable to me." The following table indicates the answers of the study sample members regarding the advantages of shifting towards fair value measurement in the Jordanian banking sector.

Table 5: Interviewees' responses to a question about the advantages of shifting towards fair value measurement in the Jordanian banking sector.

Interviewee No.	Response
Interviewee No.1	**I think the fair value is good. The problem is to properly separate what comes in income from changes in fair value and what comes from normal business because a change in fair value does not necessarily reflect immediate enrichment, it may just be potential enrichment. My own calculations are at fair value, my Excel forms at fair value, while some companies report at fair value and others at historical cost. I put everything at fair value." "As such, I don't see anything wrong with the fair value approach, or the market value. I think if you look at a bank as a pool of resources, those resources have a value that you have to be able to compare to the resources of another entity, and you can't do that at historical cost At this level, the statement at fair value seems very reasonable to me."**
Interviewee No.2	**Yes, fair value is more realistic and useful for use, as fair value accounting helps make financial information appropriate for grant and loan decision makers in Jordanian banks. However, the application of fair value accounting on a larger scale may not necessarily provide users of financial statements with more transparent and informative reports.**
Interviewee No.3	**Yes, the fair value is useful for use in Jordanian banks. The financial performance of the banks is greatly affected due to the valuation of financial instruments at fair value, as there was a very high positive value of the earnings per share when applying the fair value. The application of fair value accounting increases the degree of reliability, and comprehension of the information included in its financial reports.**
Interviewee No.4	**Yes, fair value is useful for use in Jordanian banks, as the accounting information resulting from fair value standards has a great deal of relevance, confidence, and comparability and contributes to supporting stakeholders' ability to evaluate the bank's performance, forecast future cash flows, share pricing and forecast future returns, which reflects its impact on the quality of accounting information and the value of the bank. The application of fair value accounting increases the degree of relevance, and comparability of the information included in its financial reports.**

The fair value measurement effect on earnings quality in the Jordanian banking sector

As for the five and final questions, it aimed to identify the fair value measurement effect on earnings quality in the Jordanian banking sector. Respondents M1, M2, M3, and M4 agreed that fair value measurement affects the quality of profits in the Jordanian banking sector. M1 and M2 referred that fair value accounting helps in the ability to predict the return from economic resources, where as M1 indicated that fair value accounting contributes to improving the quality of profits in Jordanian banks. Where M1 said: "...fair value accounting positively affects the profit response factor, more than the historical cost (when comparing the two periods with each other), which helps investors in making their decisions". The respondents added several answers, including; fair value accounting has an impact on the effective management of the bank by reducing principal-agent conflicts and agency costs, and enhancing the efficiency with which the bank is directed (M3), fair value instead of historical cost figures is closely related to inventory returns (M2), in addition that the application of fair value by the Jordanian banking sector increases the degree of reliability and appropriateness of the information contained in its financial statements (M4).

The following table shows the respondents' answers regarding the fair value measurement effect on earnings' quality in the Jordanian banking sector.

Table 6: Interviewees' responses to a question about the fair value measurement effect on earnings' quality in the Jordanian banking sector.

Interviewee No.	Response
Interviewee No.1	**Yes, it affected, as fair value accounting helps in the ability to predict the return from our economic resources (profits). As the financial manager of the bank, I believe that fair value accounting contributes to improving the quality of profits in Jordanian banks. That fair value accounting positively affects the profit response factor, more than the historical cost (when comparing the two periods with each other), which helps investors in making their decisions**

Interviewee No.	Response
Interviewee No.2	Yes, the measurement of fair value affects the quality of earnings, as the use of fair value accounting results in high-quality profits in the Jordanian banking sector, and that fair value instead of historical cost figures is closely related to inventory returns.
Interviewee No.3	Yes effect, that fair value accounting has an impact on the effective management of the bank by reducing principal-agent conflicts and agency costs and enhancing the efficiency with which the bank is directed. It also represents a new decision-making mechanism within the bank that incorporates risk assessment. I prefer moderation in fair value accounting and being able to use professional judgment in preparing annual reports in order to generate higher quality earnings.
Interviewee No.4	Yes, it is affected, as the application of fair value by the Jordanian banking sector increases the degree of reliability and appropriateness of the information contained in its financial statements, and the application of fair value by the Jordanian banking sector faces many obstacles, including the lack of active markets suitable for measuring fair value for many of origins in Jordan, Thus, I think it affects the quality of profits

Conclusion

The current research concluded several results, the most important of which are:

- The fair value recognizes the gains or losses resulting from price changes upon sale or settlement only, and the amounts are recognized based on the internally available information about historical prices without reference to external market data. However, the historical cost recognizes the profits or losses resulting from price changes as soon as they occur, and the amounts are proven based on current market prices and this may require ignoring the previous values, which may cause reliability problems.
- Measurement and disclosure on the basis of fair value leads to the availability of financial indicators that reflect the actual reality, and increase their transparency and effectiveness in providing appropriate information to its users in making rational decisions, and a good evaluation of the performance of the administration.
- The results showed that the increase in the application of fair value positively affects the quality of earnings on the positive side for the banks listed in Jordanian banks.
- That fair value accounting positively affects the earnings response factor, more than the historical cost (when comparing the two periods with each other), which helps investors in making their decisions.
- The fair value accounting helps in the ability to predict the return on economic resources (earnings), and thus contributes to improving the quality of earnings.
- The unrealized earnings or loss of the expected fair value through comprehensive income has high predictive power for the quality of earnings. The results also proved that the unrealized earnings or losses of the expected fair value through net income also have high predictive power for the quality of earnings in Jordanian banks.

The current research is in agreement with previous studies (Alameen, 2018; Tutino & Pompili, 2018; Al-Sa'bary & Mardan, 2012; Saib & Bensahel, 2019; Dudycz & Pra´zników, 2020 and other) that the fair value principle provides the principle of appropriateness because disclosure, in this case, is appropriate with the situation in which the economy is living, which allows decisions to be taken on the basis of financial information that is more appropriate with the prevailing environment in which the organization lives. Therefore, "the historical cost differs from The principle of fair value with reliability, the historical principle cost can be verified and prove its existence, and represents the real and actual cost at the time of its occurrence, in contrast to the fair value that often depends on estimates and personal judgment, but otherwise, the fair value may be appropriate to the needs of users of financial statements more than historical cost

In conclusion, based on the results of the research, fair value is undoubtedly useful, but its usefulness depends on the type of assets and the duration of holding them. The fair value agreement should be used, in the opinion of all interviewees, in a manner appropriate to the business's economic model. But the fundamental problem behind the discourse is the emerging construction of a "market" for measuring fair value that is not governed by sufficiently strict rules. Bank users would like these assessments to be handled by accounting professionals (accountants and external auditors). This can be seen as a call to expand the field of accounting skills, by actors who do not operate in the financial markets but constitute a clear majority in the national economic fabric. Campaigns for this at national and international levels are likely to be supported by the identification of users' needs. Based on the findings of the study, the researcher recommends the following:

1. Directing investors and users of financial statements to pay attention to the quality of accounting profits declared by commercial banks, because it helps them in making the right decisions, and that the application of fair value in these banks will not negatively affect the quality of their earnings but to increase its quality,
2. Conducting broader studies in this area, and denying or proving that there is an effect of applying fair value on the quality of earnings

3. And conduct this study on sectors other than the banking sector, especially with regard to the banking sector. The method of measuring the independent variable (fair value) was used in this study.
4. The need to work on providing clear and specific guiding rules for measuring fair value, as the problem of reliability is the most important difficulty in implementing fair value, in order to reduce dependence on personal judgment by financial report preparers to avoid problems resulting from earnings management operations.

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