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Examination of the role of Covid-19 in the decline of fair value accounting in international businesses

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Abstract

Aims: The research aimed to examine the role of Covid-19 on fair value accounting in international business.

Method/design: The study was conducted through primary quantitative research in which 200 participants responded to the Likert scale-based questionnaire.

Findings: The research showed that market uncertainty does not directly impact fair value accounting significantly. However, risk in the international market influences fair value accounting as a sole variable. Meanwhile, the mediating effect of the growth of the market post-lockdown was observed to be significant in a relationship of both independent variables.

Future implications: Future research could be done on more financial variables impacted by Covid and influencing fair value accounting.

Keywords: *international market, risk, fair value, business, Covid-19, lockdown*

Introduction

Fair value is regarded as a broad measure of a capital's worth (Bradley and Sun, 2021). According to Palea (2021), the accounting field describes fair value as the assessed value of an organisation's credit and liabilities within its financial statement. According to IFRS (2021), the International Accounting Standards Board has stated that fair value is the price gained for selling an asset or the price paid to make an organised transactional deal scheduled on a specific date for transfer of liability among market stakeholders. In 2020, the COVID-19 pandemic had affected the economic stability and financial markets internationally (Ozili, 2021). The author also stated

that the financial consequences of COVID-19 prevailed in 2021. Fair values have substantially changed for several credits and liabilities, demonstrating transformations within the cash-flow projections, creating greater uncertainty and higher risks (Levy, 2020). According to this study, the stock markets have experienced a sudden descent while the market volatility is increasing significantly. Nonetheless, several economies have rapidly recovered from COVID-19 as goods and services demand in these countries has increased. However, every sector doesn't need to experience the same frequency of recovery. Even fewer credits and liabilities may be recognised as Level 3 fair value since this transformed economy has made the market data more available (Levy, 2020).

Companies need to be aware of certain financial triggers such as considerable debility in equity value and deterioration of macro-economic factors. Making future projections for these triggers may give sectors time to respond and remain cautious in communicating such financial effects with investors and shareholders. Due to the impacts of COVID-19, valuation models are expected to transform, which includes a change in cash flow predictions and discount ratio inputs, specifically in businesses where demand fluctuations and supply chain disturbances are expected (Ozili, 2021). Thus, it is a sequential process since management functions to mirror its cash flow risk and uncertainty predictions along with determining suitable discount ratio, such that COVID-19 has presented a new reality and conditions. According to the uncertainty caused by COVID-19 (duration and brutality) and the economic consequences associated with it, it is expected for organisations to make highly vigilant reflections and decisions while surviving loss valuations related to credits, including PP&E, equity funds, and goodwill (Al-Masoodi et al., 2020). Finance and management divisions must make educated decisions that will directly impact the company's financial reporting process.

The research in this study revolves around the following objectives;

- To determine the impacts of COVID-19 on international fair value accounting.
- To suggest recommendations to international businesses for rapid recovery of fair value.

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Literature review

At the start of 2020, the world faced the viral disease known as COVID-19 that had infected more than 7 million people. More than 4 million deaths are caused by COVID-19 (WHO, 2020). According to Gormsen and Koijen (2020), COVID-19 causes a disturbance in the financial and economic sectors. One of the worst market crashes was experienced, making the S & P index fall by 500 points. The decline was 9.51 percent on March 12th, 2020, and 11.98 percent on March 16th, 2020, making the market unpredictable. The FTSE 100 index fell by 8.5 percent at first, then by 9.30 percent, with the Australian ASX 200 losing 9.7 percent (Gareth Hutchens, 2020).

The COVID-19 pandemic and the efforts that governments were forced to make to stop the virus's transmission, such as strict quarantines, social distancing measures, and lockdowns, caused dramatic decreases in the market (Ozili and Arun, 2020; Ashraf, 2020). According to De Vito and Gómez (2020), purchaser demand for goods and services has decreased, and manufacturing and service supply lines have come to a halt. The COVID-19 impact differed from past global crises like the 2008 and 2009 global financial crises. In COVID-19, the interest rates are at their lowest (Mamura, K., 2020). COVID-19 has also affected fair value accounting. Considering the substantial impact of COVID-19 on the market and the global economy, it was very difficult to estimate the fair value accounting of any company (Al-Masoodi, Al-Kawaz, and Abbas, 2020). Specific investment value drivers and the macro environment were also important when estimating FVA. The COVID-19 impact was not much different from the external impact like Brexit and natural disasters. However, the impact was unique in other ways. The companies are facing employment issues. The market's uncertainty has increased, making it more difficult and riskier to determine fair value accounting (Poggiolini, 2020). The risk proceeds to lower the prices of assets.

H1: effects of COVID-19 on the FVA due to the uncertain market.

After covid 19, markets and businesses start opening gradually. COVID-19 had a huge impact, and experts predicted that the market would only grow by 2.6 percent until the end of

2021, which was nowhere near the pre-pandemic situation (Caballero-Morales, 2021). The market rose exponentially after COVID 19. At the end of 2020, e-commerce businesses experienced a rise of 3 percent, going from 16 percent to 19 percent. The exponential rise in the market affected fair value accounting. The daily rise or fall of the market makes the difficulties in fair value accounting worse as the market status changes rapidly. A bank or any business selling an asset during the market's exponential growth may incur a loss because the market value rises and the fair price value is not updated (Magnan, Menini, and Parbonetti, 2015). Another issue faced after COVID-19 was that if the bank is selling at a lower price than to compete in the market, other banks also have to reduce the price, which decreases the overall asset price.

H2: The exponential global market growth mediates the relationship between the unstable market and FVA.

The markets were pushed into a low pricing and quite high volatility condition due to the extreme sensitivity of the financial markets. The cause of this sensitivity was the negative impacts on corporate profitability, fear of the chances of negative consequences of economic conditions, and media scrutiny (Mamaysky, 2021). To reduce the effects of the economic shock due to COVID 19, the government, from March 2020, decided to emphasize and concentrate more on fiscal policy. To reduce the economic shock, the central bank initiated the plan of giving liquidity injections and ensuring monetary policy's transmission to stop the financial market from falling. It was of high concern for monetary authorities that great damage could be inflicted upon central players, which could, in turn, cause financial crises if price dislocation occurs (Bevilacqua et al., 2021). The recent pandemic has compelled many financial economists to play a role in predicting international market uncertainty (Baker et al., 2020). The findings of Miescu and Rossi (2021) were that structural uncertainty shocks and COVID-caused economic unstability are correlated to a great extent and provide relatable dynamic responses to main economic and financial indicators, which are both qualitative and quantitative. The evidence that both macroeconomic measures and announcements regarding them greatly affect the financial market is clear, which can be proven

by the study (Baker et al., 2020). It demonstrates that macroeconomic news announcements are critical for unpredictability forecasting S&P100 organisations.

The pandemic provides a rather crucial case study in economic policy, that is, the natural and cross-border relationship of volatility. The study of the effects of Fed policy on the stock market, directed by Bevilacqua et al. (2021) during the pandemic, illustrate that macro-prudential and foreign exchange policies, along with market liquidity, impart a great impact on the risk term structure. As a consequence of having difficulty forecasting the pandemic's economic impact, fair value measurements should show the rather high uncertainty soon while getting financial and economic forecasts using fair value accounting.

H3: The effects of FVA on the post-pandemic international economy.

The International Monetary Fund (IMF) forecasted global economic growth of 6% in 2021 following the COVID-19. However, the World Bank forecasted a 5.5 percent increase in 2022 (World Bank, 2021). Experts predicted that the acceleration of the economies of the USA and China would be 5.6 percent in 2021, as both these countries had the strongest economies before COVID 19. The opening of business gives an exponential rise to the global economy. In 2021, after an impressive start and rise of the economies of up to 5.5 percent, the expected rise of the global economy in 2022 is 4 percent, and 3.5 percent for 2023 (UN News, 2022). An increase in the global economy means an increase in the overall price of assets. Fair value accounting gives information about the current price of the asset. Fair valuation of the asset is time-consuming and needs to take the current market situation into account.

For evaluating the company, the financial statement can give important and useful information regarding the business (Liao et al., 2013). Alao and Gbolagade (2020) found that fair value gives more reliable information than the old methods. Still, the rapid increase in market growth can exploit the prediction of fair value accounting. Fair value accounting can undervalue the asset or business as it requires a stable market. However, in the post-pandemic time, the economy is rising,

and the fair value uses the current market situation. Still, the market changes after a few hours, making the valuation of assets difficult.

H4: exponential economic growth after COVID-19 as the mediating factor between risk in the international market and FVA

Conceptual framework

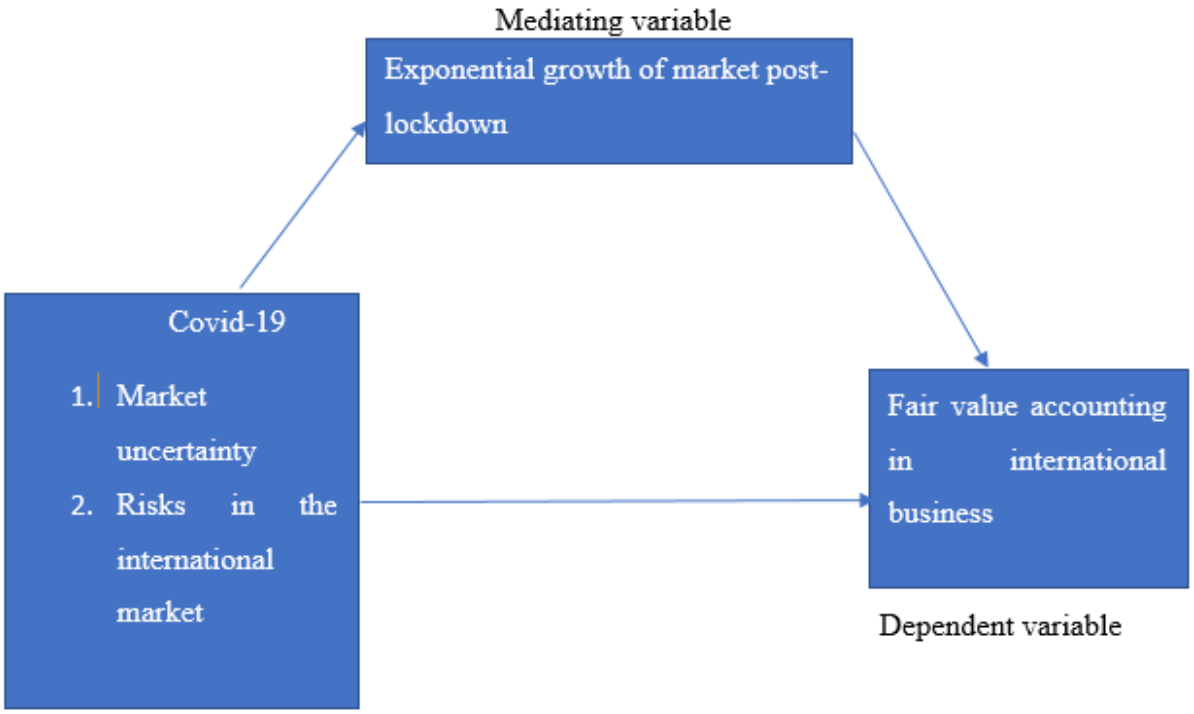

Figure 1 Conceptual Framework

Research methodology

Research philosophy is the framework that provides an idea about the nature of the data used for research (O'Gorman and MacIntosh, 2016). There are four major research philosophies: realism, pragmatism, interpretivism, and positivism. The positivism philosophy believes in a practical reality that can be defined from a neutral point of view. Positivism philosophy is isolated,

and the observations and data used should be repeated if the experiment is conducted again. Positivism philosophy is used in the current study because it depends upon reliable information. The Positivism philosophy assists the researcher in differentiating between the literature review's objective information and the data they collected. To build the literature review component, those parts only engage the quantitative data can back that. The literature review also uses qualitative theories to build the framework and objective. The researcher removed the biasness from the study by choosing the positivism philosophy, and the data used in the study is reliable.

Quantitative and qualitative research design are the two basic types (Akhtar, 2016). Qualitative research is used to interpret and understand data that is not in numbers. However, the quantitative research design includes the data in number form and explains the prediction and other controllable variables. The study used a quantitative research design and formed a foundation on the data present in the literature review. The approach offers the statistical and mathematical analysis of data that ensures the validity of the results.

Three major research approaches are inductive, deductive, and abductive (Teherani et al., 2015). The current study took a deductive approach because it is a better method for quantitative research design. The researcher established the hypothesis in light of the literature review and the goals and objectives of the study. Primary data sources are used in the research, and survey questionnaires are developed to collect the data. The primary data source enables the researcher to identify and rectify the mistakes that were present in the previous research, and the research is completely based on the questionnaire. Researchers used convenience sampling to collect data, and the participants were selected based on easy accessibility. The researcher sent a questionnaire to 200 participants, but some participants did not respond. A statistical analysis method is performed on the data collected to analyse and conclude the research findings.

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Results

Descriptive analysis

The statistical computations used to summarise and characterise the properties of the sample data set are known as descriptive statistics. These include the variables' arithmetical means, standard deviations, and data skewness, among other things. The results from a descriptive test conducted on the participant responses are shown in the following figure. As observable, the mean statistics of the market uncertainty variable is 1.36, risk in the international market is 1.58, exponential growth in the market post-lockdown is 1.53, and that of the fair value of accounting in international business is 1.31. These all indicate towards "agreed" option in the Likert scale, indicating that most participants agreed with the notions under these factors in the questionnaire.

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Market uncertainty	200	0.33	3.67	1.36	0.5645	0.902	0.172	1.751	0.342
Risks in the international market	200	0	3.67	1.5833	0.79834	0.046	0.172	-0.271	0.342
The exponential growth of market post-lockdown	200	0	4	1.5367	0.98893	0.446	0.172	-0.661	0.342
Fair value accounting in international business	200	0	3.67	1.31	0.99609	0.402	0.172	-0.729	0.342
Valid N (listwise)	200								

Correlation analysis

Correlation analysis was conducted to gauge the statistical association between the study variables. As shown in the table below, the association between market uncertainty and fair value accounting is moderate and positive, with a coefficient of 0.464. Meanwhile, risks in the international market are also moderate and positively associated with fair value accounting in international business. The correlation between the exponential growth of the market post-lockdown and fair value in international business was found to be strong at 0.957.

Table 2. Correlation analysis

		Market uncertainty	Risks in the international market	The exponential growth of market post-lockdown	Fair value accounting in international business
Market uncertainty	Pearson Correlation	1	.270**	.502**	.464**
	Sig. (2-tailed)		0	0	0
	N	200	200	200	200
Risks in the international market	Pearson Correlation	.270**	1	.654**	.608**
	Sig. (2-tailed)	0		0	0
	N	200	200	200	200
Exponential growth of market post-lockdown	Pearson Correlation	.502**	.654**	1	.957**
	Sig. (2-tailed)	0	0		0
	N	200	200	200	200
Fair value accounting in international business	Pearson Correlation	.464**	.608**	.957**	1
	Sig. (2-tailed)	0	0	0	
	N	200	200	200	200

** Correlation is significant at the 0.01 level (2-tailed).

Regression analysis

Regression analysis was conducted to decipher the potential causal effect of the independent variables on the dependent variable. The following results are obtained with the mediating effect of exponential growth of the market post-lockdown. Firstly, mediation analysis was conducted using the market uncertainty sole independent variable.

Model: 4
Y: Fair value accounting in international business
X: Market uncertainty
M: Exponential growth of market post-lockdown
Sample size: 200

OUTCOME VARIABLE: Exponential growth of market post-lockdown

The following table shows the fitness of the model to explain the relationship. With a high R-sq value, the model appropriately predicts the relationship.

Table 3. Summary of the model

R	R-sq	MSE	F	df1	df2	p
0.5023	0.8523	0.7349	66.8228	1.000	198.000	0.000

The following model analysis shows that the LLCI and ULCI values for market uncertainty have an insignificant effect on the model.

Table 4. Analysis of the model

	Coeff	se	t	p	LLCI	ULCI
constant	0.3399	0.1585	2.1447	0.0332	0.0274	0.6523
Market uncertainty	0.88	0.1077	8.1745	0	0.6677	1.0923

Table 5.Standardized coefficients

Variable	Coeff
Market uncertainty	0.5023

Meanwhile, for the resultant variable of fair value accounting in international business, the model also predicts the behaviour of the variables with high certainty, as shown in the following summary.

OUTCOME VARIABLE: Fair value accounting in international business

Table 6. Summary of the model

R	R-sq	MSE	F	df1	df2	p
0.9573	0.9164	0.0838	1079.639	2.000	197.000	0.000

Despite the high predictive value of the model itself, the following table shows that neither market uncertainty nor exponential growth of market post-lockdown has a significant causal relationship with fair value accounting.

Table 7. Analysis of the model

	Coeff	se	t	p	LLCI	ULCI
constant	-0.1346	0.0541	-2.4875	0.0137	-0.2414	-0.0279
Market uncertainty	-0.0399	0.042	-0.9501	0.3432	-0.1229	0.043
Exponential growth of market post-lockdown	0.9755	0.024	40.6488	0.000	0.9281	1.0228

Table 8. Standardized coefficients

Variable	Coeff
Market uncertainty	-0.0226

Exponential growth of market post-lockdown	0.9685

Total effect model

OUTCOME VARIABLE: Fair value accounting in international business

Table 9. Summary of the model

R	R-sq	MSE	F	df1	df2	p
0.4638	0.2152	0.7827	54.2775	1.000	198.000	0.000

Table 10. Analysis of the model

	Coeff	se	t	p	LLCI	ULCI
constant	0.1969	0.1635	1.2039	0.2301	-0.1256	0.5194
Market uncertainty	0.8185	0.1111	7.3673	0	0.5994	1.0376

Table 11. Standardized coefficients

Variable	Coefficient
Market uncertainty	0.4638

The following tables illustrate the direct and indirect effects of the model. While the total effect is strong, a direct effect between independent and dependent variables is insignificant. Instead, it was found that the variables have a statistically significant indirect effect.

Table 12. The total impact of X on Y

Effect	se	t	p	LLCI	ULCI	c_cs
0.8185	0.1111	7.3673	0	0.5994	1.0376	0.4638

Table 13. Direct impact of X on Y

Effect	se	t	p	LLCI	ULCI	c'_cs
-0.0399	0.042	-0.9501	0.3432	-0.1229	0.043	-0.0226

Table 14. Indirect impact of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
Exponential growth of market post-lockdown	0.8584	0.0905	0.671	1.0219

Table 15. Standardized indirect impact of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
Exponential growth of market post-lockdown	0.4865	0.0595	0.3595	0.5956

In the next stage, regression analysis was conducted by taking risks in the international market as the sole independent variable.

Model: 4
Y: Fair value accounting in international business
X: Risks in the international market
M: Exponential growth of market post-lockdown
Sample size: 200
OUTCOME VARIABLE: Exponential growth of market post-lockdown

The following model summary indicates the model only moderately predicts the behaviour of the variables. Meanwhile, the model analysis shows that risk in the international market has an insignificant relationship with the confluence of the variables.

Table 16. Summary of the model

R	R-sq	MSE	F	df1	df2	p
0.6538	0.4275	0.5628	147.8348	1.000	198.000	0.000

Table 17. Analysis of the model

	Coeff	se	t	p	LLCI	ULCI
constant	0.2543	0.1181	2.1543	0.0324	0.0215	0.4871
Risks in the international market	0.8099	0.0666	12.1587	0.000	0.6785	0.9413

Table 18. Standardized coefficients

Variable	Coefficient
Risks in the international market	0.6538

Afterward, the fair value accounting outcome variable was selected to gauge the regression.

OUTCOME VARIABLE: Fair value accounting in international business

The following model summary indicates that this model has a high predictive value.

Table 19. Model Summary

R	R-sq	MSE	F	df1	df2	p
0.9574	0.9165	0.0837	1081.662	2.000	197.000	0.000

Table 20. Model

	Coeff	se	t	p	LLCI	ULCI

constant	-0.1421	0.046	-3.0869	0.0023	-0.2329	-0.0513
Risks in the international market	-0.0378	0.0339	-1.1147	0.2663	-0.1048	0.0291
Exponential growth of market post-lockdown	0.984	0.0274	35.9119	0.000	0.9299	1.038

Table 21. Standardized coefficients

Variable	Coeff
Risks in the international market	-0.0303
Exponential growth of market post-lockdown	0.9769

OUTCOME VARIABLE: Fair value accounting in international business

Table 22. Model Summary

R	R-sq	MSE	F	df1	df2	p
0.6084	0.3701	0.6281	116.3568	1.000	198.000	0.000

Table 23. Analysis of the model

	Coeff	se	t	p	LLCI	ULCI
constant	0.1081	0.1247	0.8668	0.3871	-0.1378	0.3541
Risks in the international market	0.7591	0.0704	10.7869	0.000	0.6203	0.8979

Table 24. Standardized coefficients

Variable	Coeff
Risks in the international market	0.6084

The following effect analysis indicates that while there is no direct effect of risk in the international market on fair value accounting, an indirect effect is present, which may be attributable to the mediating effect of exponential growth of the market post-lockdown.

Table 25. The total impact of X on Y

Effect	se	t	p	LLCI	ULCI	c_cs
0.7591	0.0704	10.7869	0	0.6203	0.8979	0.6084

Table 26. Direct impact of X on Y

Effect	se	t	p	LLCI	ULCI	c'_cs
-0.0378	0.0339	-1.1147	0.2663	-0.1048	0.0291	-0.0303

Table 27. Indirect impact of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
Exponential growth of market post-lockdown	0.7969	0.0613	0.6776	0.9191

Table 28. Standardized indirect impact of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
Exponential growth of market post-lockdown	0.6387	0.0413	0.5552	0.7167

Discussion and hypothesis assessment

The current research was conducted to analyse the role of the pandemic of Covid-19 on the usage of fair value accounting in the context of international business. The initial analysis of

contemporary literature explicated that Covid-19 has caused multifaceted impacts on the local and international financial strata. With the random lockdowns throughout the world, businesses could not create uniformity in their financial balance sheets, further aggravated by burgeoning risks of credit and loans. In this respect, the current study agreed with the literature that the general dependency on fair value accounting has reduced during the pandemic. During the pandemic, the fair values for most libailities as well as of assets are predicted to change considerably. This change is attributed to increased risks, transomfration of cash flows, and concomitant risks. Performing financial valuation in the present market scenario is a challenging task because of the unpredicatale factors involed in price determination. Companies now need to adjust the valuation processes and employ more generalised assumptions owing to the increase in the uncertainty involved in estimation. Intransparecny of the market data is also responsible in this regard. due to increased estimation uncertainty and less observable market data.

Strategies and measures used to limit the virus have had a significant negative influence on expected future cash flows used in the discounted cash flow valuation approach, as well as on the production and demand of goods and services. The effects on various economic sectors have been very diverse; for instance, businesses in the transportation and entertainment industries have been hurt worse than those in the technology and telecommunications sectors. Due to the unstable economic environment, credit risk and liquidity risk have risen for several firms. Own credit risk and counterparty credit risk, which are used as inputs into valuation algorithms, might therefore increase. The current research also agreed with the rise of market risks as a determinising factor behind reduction in the fair value accounting valuation method.

Table 29. Hypotheses status

S. No.	Developed and tested hypothesis	Status
1.	Market uncertainty has a significant impact on fair value accounting in international business.	Rejected

2.	Risks in the international market significantly impact fair value accounting in international business.	Accepted
3.	Growth of the market post-lock down significantly mediates the relationship between market uncertainty and fair value accounting in international business.	Accepted
4.	Growth of the market post-lock down significantly mediates the relationship between risks in the market and fair value accounting in international business.	Accepted

Conclusion

The current study was aimed at examining the role of the Covid-19 pandemic on the fair value accounting method of valuation of assets in international business. To achieve the objectives established at an earlier stage, the role of Covid was ascertained through the factors of Market uncertainty and Risk in the market for their impact on fair value valuation accounting. The study was conducted through a primary quantitative methodology in which 200 participants were selected for the survey. Their responses were gathered on a 5-point Likert scale questionnaire. For analysis, descriptive analysis, correlation, and mediation analysis were conducted. The tests showed that market uncertainty does not directly impact fair value accounting significantly. However, risk in the international market influences fair value accounting as a sole variable. Meanwhile, the mediating effect of the growth of the market post-lockdown was observed to be significant in a relationship of both independent variables.

Future implications

Future studies on this subject could investigate other variables arising from the pandemic influencing how assets are evaluated for transparency. Moreover, the current study will also help guide future policy research to ameliorate finical market as the impact of Covid recedes.

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Appendix: Survey questionnaire

Variable/ Codes	**0**	**1**	**2**	**3**	**4**
	Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Market uncertainty					
Financial markets during the COVID-19 pandemic are characterized by a prolonged period of increased uncertainty					
Extreme sensitivity of financial markets due to media scrutiny and fears of disastrous economic consequences and associated negative impacts on corporate profitability					
Induced shocks and structural uncertainty shocks are highly correlated and generate qualitatively and quantitatively comparable dynamic responses of key financial and economic indicators					
Risks in the international market					

COVID-19 epidemic significantly increases the risk contagion effects in international stock markets					
Risk contagion in international market due to Covid lasted longer than initially projected					
Strategies to enhance risk aversion in international markets have been majorly successful					
Exponential growth of market post-lockdown					
Covid caused rapid markets by boosting consumerism					
Exponential growth of market after lockdowns enhanced risk aversion outcomes					
Exponential growth of market after lockdowns reduced the focus on fair value accounting					
Fair value accounting in international business					
Fair value accounting in international business has been impacted by market uncertainties because of lack of information					
Fair value accounting has been influenced by market risks introduced during covid-19					
Rapid growth of international market post-lockdown has impacted focus on fair value accounting					