Study on Accounting of VAT in Measurement of Fair Value

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Abstract: It is found that the VAT is included in FV in the context of the separation of price and tax by means of the logic deducing of four Specific accounting standards. The reason is that the background of taxation system is ignored when introduced by the ISA, that is there is not VAT or the related requirement of the separation of price and tax in the initially---implementing Country---America. The solution as following (1) to identify the specific measurement unit of FV in the explanation Standard of FV, (2) to record the VAT into accounting elements observing the essence of economics with the rectifying of misunderstanding. The research is helpful to resolve the VAT practice involving in the smoothly implementation of FV; moreover, a newly-born perspective of the research of FV is put forward, which is regarded as a guidance for the formulating of related China accounting standards of FV, for the NO.13 of IAS.

Keywords: accounting of VAT; economic measurement unit of FV; accounting measurement unit of FV

1. Introduction

The theoretical research of Fair Value has been focus on all over the worldwide since the concept of FV initially put forward by APB NO.4 1970. The <Bulletin of Financial accounting NO.157 [1] ——measurement of FV> Issued by FASB 2000.9 represents the most newly research findings. In order to unit measurement criteria, IASB issued the draft of FV standards 2009 aimed at requesting advices over world and, the standard of the measurement of FV (IFRS13) eventually issued on May 12th, 2011 [2].

In China, the employ of “FV” is repeated several times. The conception of “FV” was firstly put forward in the specific standard of “restructuring of debt” and “non-monetary exchange” at 1998 and then, the implication is revised several times. However, the conception was emergently stopped at 2001 on account that much listed companies abused it to multiphase profits. The voice of the connection of the standards of China and those of intonations becomes more and more server with the sharp rise of Chinese economy. In order to gain the equal qualification with international financial reporting standards and considerate current economic context of China, one basic and 38 concrete standards which relevantly, prudently introduced the conception of “FV” were put forward at 2006 [3]. Then, opinion-seeking draft of “FV” was issued at May, 2012. The formal standard of FV NO.39 is already issued.

Although all countries in the world are highly discussing the issue of FV, the focuses are the reliability and relevance. Because of the impact of financial crisis, the FV measurement of financial instruments and its derivations expand the current researching realm. The practice of FV, especially the influence of VAT on FV, is rarely researched now

In fact, the fundamental of the measurement of FV has great variety for the differences of taxation and accounting system.

Now, more than 170 countries implement VAT except America [4]. The price and tax is separated in the countries carrying out VAT and the booking value of asset excludes VAT (the general tax-payers). In America, the separation of price and tax does exist in the sales tax, but it does not affect the production process and the separation of price and tax just occurs at the retail process.

In China, the issue of FV Nearly is involved in 18 specific standards, excluding the basic standard and the NO.38 (Initially-implement standard). Four items of the FV mentioned in 16 concrete standards have close relationship with VAT.

The four standards are: (1) NO.7: non-monetary exchange; (2) NO.12: restructuring of debt; 3) NO. 20: business combination; (4) NO.21: Lease

According to the rules of accounting and VAT, it is no doubt that the “FV” is defied as the price excluding VAT. But the four standards mentioned above are all paradox indeed. The NO 12, NO 20, No 21 explicitly includes VAT and the boot in NO. 7 closely related with VAT that the Tax should be separated from price. It is worth of deeply exploring the theoretical basis underling such phenomenon.

2. Analysis of the Issues

2.1. FV of Accounting Standards——Debt Restructuring

Debtor of the debt to be restructured: “When a debt is liquidated by a non-cash asset, the debtor shall record the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred as the current profits and losses. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profits and losses."

A for the debtor, the profits or losses originated from restructuring consists of two parties: one is the profits or losses from debt restructuring (the profits or losses of debtor from the concession of creditor) = book value of the debt to be restructured－fair value of the non-cash asset transferred; The other is the profits or losses from assets transferring which equal the different of fair value of the non-cash asset transferred and book value of the non-cash asset transferred.

On the condition of the determination of revenues and losses of debt-restructuring, the fair value of the non-cash asset transferred should use a VAT-inclusive unit because that there are two parties are involved in the settlement of debt and credit. What's more important is the book value of debt restructuring includes VAT, as a deductible item, the FV of non-cash assets transferred should be settled by the amount including VAT, Otherwise, it is very difficult to measure the profits and losses of debt restructuring as the measurement unit of them is not consistent.

However, the fair value of the non-cash asset transferred should use accounting measurement unit when determine the profits and losses of the assets transferring because the book value of assets excludes VAT here in light of the separation of Tax and price. Otherwise, the different can not be determined as the profits and losses of the assets transferring as a result of the dissimilar orientation of measurement units.

Creditor of the debt to be restructured: " When a debt is liquidated by non-cash asset, the creditor shall record the fair value of the non-cash asset received as the entering value and include the difference between the book value of the claims to be restructured and the fair value of the non-cash asset received in the current profits and losses."

As for the creditor, the non-cash assets received should be recorded with FV. As mentioned above, the entering price of assets excludes VAT according to Chinese accounting treatment characterized as separating tax from price. Consequently, the measurement unit is actually applied in the FV which should exclude VAT.

However, as two equal entities, the FV of paid-in non-cash assets should be settled by the amount including VAT when determine the profits and losses of the claims –restructuring by creditor, Otherwise, the profits and losses from the concession of creditor are hardly recognized. The Table 1 will show the detailed recognized.

Table 1. The application of FV measurement in standard of debt-restructuring

The selection of measurement units	**Contents determined**	**Note**
VAT-inclusive unit	The profits or losses of debtor from debt restructuring = book value of the debt to be restructured - FV of non-cash assets transferred The profits or losses of creditor from debt restructuring =book value of credit restructured - FV of non-cash assets received	Liquidation of debt between different debtors and creditors
VAT-exclusive unit	The profits or losses of debtor from assets transferring = FV of non-cash assets transferred - BV of non-cash assets transferred FV of the non-cash asset received by creditor	Recording within a specific entity

2.2. FV of Accounting Standards——Business Combinations

Article 12: The acquirer shall, on the acquisition date, measure the assets given and liabilities incurred or assumed by an enterprise for a business combination in light of their fair values, and shall record the balances between them and their carrying amounts into the profits and losses at the current period.

Because in the early period, the tax is excluded from price, so is the profit & loss. The FV paid for the purchasing of asset by buyer is the whole consideration including VAT; the difference with book value excludes VAT indeed.

Meanwhile, Article 13 (1): The acquirer shall recognize the positive balance between the combination costs and the fair value of the identifiable net assets it obtains from the acquired as goodwill. Article 14: "The balance between the fair value of the acquirees' identifiable net assets and the FV of liabilities & contingent liabilities---" This sentence of FV include VAT.

2.3. FV of Accounting Standards——Leases

Article 11 On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges.

Seemly, The FV of "leased assets" in the clause can be regarded as tax-included and tax-excluded. In the perspective of object of recognition, the book value of the leased assets should be merely identified as the tax-excluded amount on the condition of "replacement of the business tax with a value-added tax". On the other hand, if the present value of the lowest payment of lease is relatively poor, the book value of leased assets should include VAT since the lowest payment of leased-asset is the settlement price, so it includes the whole amount of VAT, the Present value still can not exchange the characteristics, To record the VAT-excluded present value as book value is really infringe skeleton of the separation of price and tax. Consequently, the separation of tax and price of current accounts needs carefully consideration.

Moreover, because of the combined effect of the "replacement of the business tax with a value-added tax" and the regulation of the separation of price and tax, the financing expenses that lessee do not recognize and the leasing revenue that leaser do not realize are all include VAT. As for the practice of VAT, there are not any specific standards.

Without any independent taxation system, under separated the VAT from asset and revenue, accounting separates the VAT from the financing expenses that lessee do not recognize and the leasing revenue that leaser do not realize is an inevitable choice in order to meet the need of taxation management.

In practice, the accounting for VAT separated out from price has two realistic models: the simple one and the general one. The former the VAT within the financing expenses that lessee do not recognize and the leasing revenue that leaser do not realize should be separated when settlement occurs; the other method is be separated when contract issued.

As for the simple one, the VAT, recognized at the same time point of taxation laws, can be directly recorded into in-put item or out-put item of "tax & expense payable"; as for the latter model, the time point of deduction according to accounting principles is not the same as that in taxation principles, so, it can not be recorded into in-put item or out-put item of "tax & expense payable", i.e. it is recorded in a separately-formulated account to reflect the deferring and deducted attributes of VAT. And, the long-term accounts receivable and long-term accounts payable should be considered to separate the price and tax in order to enhance the reliability of accounting information.

The advantage of the latter model is that no matter lease or rent behavior, the information is readily understood by users since different item is separated listed in statement. And, it is helpful to meet the various decision needs of users observing the accounting object of decision-useful.

2.4. Fv, Boot and VAT——Non-monetary Assets Exchange

According to the Accounting Standard and related Application Guide of the exchange of non-monetary assets: "If a non-monetary transaction involves boot, the enterprise that pays boot should record the asset received at an amount equal to the aggregate of the carrying amount of the asset surrendered and the boot paid, plus any related tax payments. The enterprise that receives boot should record the asset received at the amount equal to the carrying amount of the asset surrendered less the boot received if the exchange possesses commercial substance and the FV can be reliably measured. " The following equations are expressed in mathematical term:

Cost of assets received of the party paying boot

= FV of the assets surrounded + boots + relevant taxes and expenses

= FV of assets received +relevant taxes and expenses

(Note, the "relevant taxes and expenses" here certainly means price-inclusive taxes and expenses that can be reliably recorded as the value of non-monetary assets because, on the condition that VAT is separated from and price, the book value doesn't consist of VAT measured individually. The paper analysis will not be influenced by the price -inclusive tax & expense, in this case, "relevant taxes and expenses" will be deleted on the following discuss.)

Cost of assets received of the party paying boot

= FV of the assets surrounded + boots

= FV of assets received

Meanwhile, "relevant taxes and expenses" will be deleted also, thus, the enterprise that receives boot should record the asset received at the amount equal to the carrying amount of the asset surrendered less the boot received, or equal to FV of assets received. The detailed calculation is as the following:

Cost of assets received of the party receiving boot

= FV of assets surrender － boots

= FV of the assets received

The purpose of the two equations analyzed above ascertain the entry value of non-monetary assets exchanged by two parties, the accounting measurement of assets excludes VAT on the condition that VAT is separated from and price. Based on this conclusion, the "boots paid" in the equation above also excludes VAT, i.e. it is just a "boots" rather than others since the item of summation and subtraction should be identical.

The total amount of boot should be divided two parties: price compensated and VAT compensated. The compensation of VAT can be viewed as the derivative of the compensation of price, which is the result of the determination of tax-exclusive price. If the price of non-monetary assets' FV of two parties equal and if, what's different is just the ratio of VAT, then, the amount of boot refers to the compensation of tax without the compensation of price. In other word, the compensation of tax may not be added or subtracted by VAT-exclusive part of the FV.

Note that the FV of the settlement basis of two parties includes VAT I.e. it is an exchange on the basis of quality, though the FV of the booking cost excludes VAT according to accounting standards.

3. Theory and Practice Problem-solving

The VAT greatly affects the measurement o f FV, especially affects the practice of FV on account of the analysis mentioned above. There is a considerable contradiction of the understanding defied in this research and defied in main train, focusing on the issue whether the VAT is included in FV. The current Accounting standards do not set foot in this issue at all.

In fact, as for the definition of FV, in the early of 2006 some scholars points out that: FV is the most fundamental, the most complicated, the most important and the emergent accounting theoretical and practice issue. The measurement of FV is stood side by the other four measurement attributes such as historical cost, replacement cost, net reliable value and present value in the basic standard NO.42 in China. However, the relationships of the four attributes are not explained at all which seriously mislead the extension of FV.

3.1. Fair Value

Assets and liabilities are carried at the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (Chinese Accounting Standards: No 5 Clause 42 CH 9 of Fundamental standard).

The draft of the Chinese accounting standard of FV defies FV as: the price received from the sale of a kind of asset or paid for the transfer of a kind of liability in the regular transaction by market participants.

The definition of IASB (IFRS13): [5] The price received from the sale of a kind of asset or paid for the transfer of a kind of liability in the regular transaction by market participants on the measurement date.

The definition of FASB (SFAS157): FV refers the price received from the sale of a kind of asset or paid for the transfer of a kind of liability, on a measurement date, in the regular transaction by market participants.

In fact, the Chinese accounting standards just "copy" IFRS NO.13; Likewise, IFRS NO.13 just "copyies" SFAS157. However, please NOTE that there is not VAT applied in America indeed.

According to the analysis mentioned above, it is can be induced, in fact, that FV is a kind of Accounting measurement no matter the "name" or the "implication" of standards, even no matter the "foothold- amount" of Chinese accounting standard or the "price" determined by FASB, IASB.

As for the relationship between "value" and "price", Shichi–Ren and Binghui-Chen [6] have pointed out that the essence of FV is a kind of objective value and there is not any contradictory between the value-measuring and price-reflecting. The measurement of assets is viewed as the process of value-measuring; likewise, the price is the result of measurement since the money was used as a kind of measurement dimension. In another word, the value is the inward attribute; meanwhile, the price is the outward performance. In a word, the inward measurement attribute should be "explicated" as concrete marketing price.

It is necessarily need to be identify the relationship between the price and VAT since the measurement unit of FV is "price" or "exit price".

3.2. Tax and Price

In fact, all of the taxes in the world can be classified as "direct tax" and "indirect tax" according to the relationship between tax burdens and taxpayers.

Direct taxes mean that the taxes should be directly paid to tax departments in accordance with the revenue, profit as well as other taxable income of taxpayers, including income tax, capital gains tax, in-hesitance tax and corporation tax.

On the contrary, indirect taxes focus on the consumption of taxpayers, which means the price-inclusive taxes are initially paid to sellers by taxpayers on the condition of purchasing specific goods, and then the taxes are remitted to tax departments by sellers, these sellers are only titular taxpayers, including value added tax, customs duties, excise duties.

It is indirect taxes that are closely related to sales price. Indirect taxes can be classified to "price-inclusive tax" and "price-exclusive tax". The former means the taxable price includes tax; otherwise, the latter means the taxable price excludes tax. The exemplification is as the Table 2:

Table 2. The relation of price-inclusive tax, price-exclusive tax and merchandise price (unit: Yuan)

Items	Purchasing price of consumers	revenue price of firms	Tax payable	Taxable price	Ratio of tax available
price-inclusive tax	100	80	20	100	20
price-exclusive tax	100	80	20	80	25

Based on the analysis of Table 2, from the appearance point of view, it is can be concluded that there is a similarity between price-inclusive tax or price-exclusive tax, i.e. it is customs bear tax burdens though the taxable basis of the two kinds has a little different. The fact is, because of commodity supply and demand elasticity, unless demand is perfectly inelastic and perfectly elastic supply situation, buyers pay the full tax burden; otherwise, tax burden is not all passed on to consumers. The proportion of the tax burden and the home will not be discussed in the paper. Actually, here is a clear conclusion, tax affect price and even become a part of sales price on account of the shifting attribute of indirect taxes.

The practical problem is that there is not VAT applied in America at all. The concept of FV defied by SFAS157 points out that the price receipted from the sale of assets or the transfer of liabilities certainly does not include VAT. The fair value of the transaction price or the exit price of the other members of OECD, European Union countries as well as all the countries implementing VAT should include VAT. Nevertheless, according to the Chinese tax law and accounting standards, the "fair value" is defied as VAT-exclusive price, which seemly incontrovertible.

As we know, the fair value of SFAS157 means the VAT –exclusive exit price. It is really a dilemma that The Chinese Accounting standard of FV measurement wants to keep caliber consistent with that of America about FV standards. If adhere to the idea that excludes VAT from the price, FV of China are not exit price indeed; whereas, if adhere to the other idea that exit price, it includes VAT into the price.

The issue mentioned above should be carefully considered in the process of establishment of the standards of FV in china. The consequent of the different choice is not only a matter of definition, but also a matter of strategically issue affecting the measurement of FV. If the latter consistence is selected, i.e. price includes VAT, the institute skeleton separating the price and tax should be changed by the reformation of current taxation & imposition of VAT and accounting method. Within a long duration, it is hardly realized. If the former consistence is selected, how to eliminate the influence of VAT on the measurement of FV, special on practice of VAT accounting is a considerable issue.

3.3. Economic Measurement Unit of FV and Accounting Measurement Unit of FV

Without the abusing the current skeleton of VAT, The paper rethinks the accounting assumptions in order to settle the problem. Accounting serves for a specific entity. The economic activities are divided as asset-transaction process and asset- maintenance process. The market laws should be employed if they are market transaction. And, the equality "price" is the need of economic transaction and the break-even point of the interesting of the two parties. The pricing of assets should comply with the essence of economy which is defied as economic measurement; the measurement of asset-maintenance process is the managerial arrangement of a specific entity which is hold for the preparation of accounting statement.

Generally speaking, the accounting measurement is the same as the economic measurement and, they will reach a similar result. With significance, it is necessary to separate the price and VAT on account that the VAT is a kind of tax-excluded item and the accounting regulation.

The economic measurement unit (including VAT) is the transacting-price of asset i.e. the bargain price is the recognized by two parties in the process of equal transaction.

The accounting measurement unit is the second measurement in the asset- maintenance process for a specific entity. Because of the institute arrangement of the separation price and VAT, the assets' price acquired in entity is separated as booking value of assets and deducted VAT. The booking value deducted is called as accounting measurement unit of FV and the VAT is separately recognized. The concrete analysis is Figure 1:

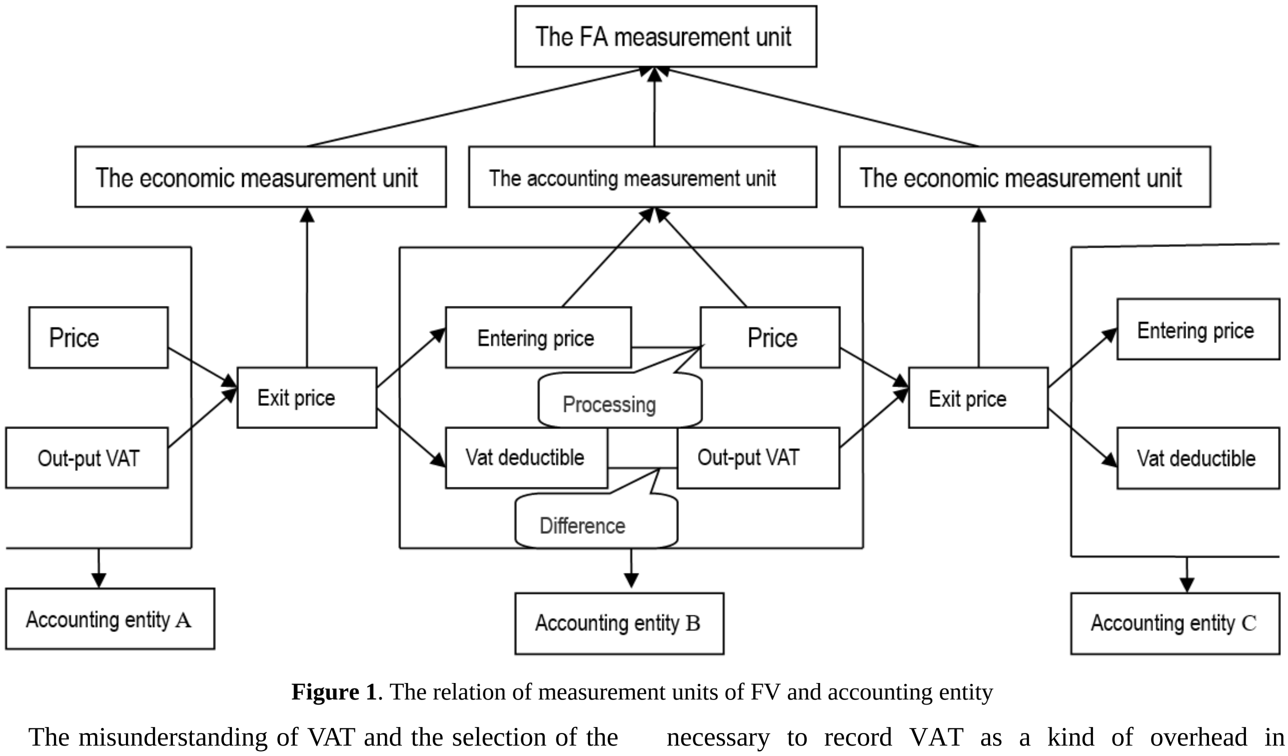

Figure 1. The relation of measurement units of FV and accounting entity

The misunderstanding of VAT and the selection of the current VAT Accounting skeleton leads to the results mentioned above.

3.4. VAT & VAT Accounting

In practice, generally believe the VAT that every taxpayer should pay according to their taxable income, in fact, is levied by taxpayers instead of government: Or paid by customers. The whole tax paid by taxpayers during each period of manufacturing are composed in the price paid by customers. The taxes paid by taxpayers are compensated from customers at sales. Consequently, it is customers that bear the final taxation burden. It is not necessary to record VAT as a kind of overhead in financial reports since it itself is not the cost of taxpayers in intermediate phase.

Why VAT was widely adopted by several countries since fifty years after the invention is that it assures the governmental finance. In fact, VAT, depending on "invoice", rather than corporate income tax depending on corporate accounting, on the design of tax institute, mostly reflects the pragmatism [7].

The accounting of France and England that are the countries most early adopted VAT in the world advocate that accounting is guided by tax law. In accordance with the principle of "convenient to levy, convenient to inspect", tax is separated from price in accounting.

Basically, the countries adopting VAT implement the accounting method characterized as "separating tax from price" effecting by the ideas mentioned above. It is viewed as the reasonable consequence of institute arrangements and managerial requirements. As a result, the economic measurement of FV isn't consistent to that of accounting measurement in the countries applying VAT. (General taxpayers)

The SSAP5 [8] (Statements of Standard Accounting Practice 5: Accounting for value added tax) points out the following four situations that the tax is borne by the corporation itself: Not need pay, being busy with Tax-free business, not deductible input tax as well as not receive VAT. Here, accounting measurement unit refers to two items: the VAT-exclusive assets price on the condition of general principle and VAT-inclusive assets price on the condition of bearing VAT by corporation itself.

The <Corporate Law > of England defied sales revenue as a difference deducting the following items from revenue resulting from the sale of goods or the rendering of service: (1) commercial discount; (2) VAT; (3) other taxes based on this amount. Corporations can freely choose "marginal sale revenue method" including VAT or "net sale revenue method" which excludes VAT from revenue, when accounting treatment. But, in finally, both of them do not consist of VAT, no matter whether capitalized income or revenue income,

In Germany, VAT is separated from price in accounting. It is very convenient to be inspected by government by setting deductible accounts. Also, it is a practical way to simplify the calculation before taxation.

In Korea, tax accounting corrects, supplements, emphasizes or selects on obeying the basic Accounting principles, which is the same as that of China and just the name of accounts differ. When corporations purchased material, the account "raw material" and "Accrued VAT" is debited and "cash" or "account payable" is credited. When corporations sell goods, "cash" or "cash in bank" is debited, at the same time, the accounts "sales revenue" and "VAT in advance" is credited. At each end of period, corporations should debit "VAT in advance" and credited "VAT Payable" when deduct VAT payable. When they pay tax to government, "VAT in advance" is debited and "cash or cash in bank" is credited. VAT needn't to be reported in income statement.

In order to cooperate with the implementation of VAT, the China Ministry of Finance has issued <Value-added tax accounting regulations > in 1994. The regulations point out the assets of general taxpayers should be recorded separating tax from price and small-sized taxpayers can record assets as a VAT-inclusive price.

3.5. Naturally Selection of Economics

The related projects mentioned as chart 1 are set on the basis of the current accounting skeleton of VAT identifies that the measurement of FV has bi-units which is a result of essence of management. However, the recognition of booking value and revenue should seriously observe the implication of economy which means the whole settlement amount is the base of recognizing. Then, the FV is the "out-hand price" received form the sale of assets of liquid liabilities which is complying with the international definition. Characteristics of the formation of so above treatment as following:

1. In a law of tax perspective, the traditional ideas that unilaterally emphasized VAT, a kind of price-exclusive tax, should be taken by final consumers and should be treated as a part exclusive of price need changed, VAT should includes in the price. All taxes are ultimately borne by consumers, so do the price-inclusive turnover and the income tax is not an exception. The difference between VAT and income tax is that the amount of value-added on a wide line is regarded as taxation object of VAT; but the taxation object of the latter is the amount of residual value-added, a relatively narrow. The idea "price-exclusive tax" resulting in confusions is really ridiculous no matter in a theory or in a practice perspective.

However, the change of tax laws is not the necessary prerequisite of the VAT accounting, which means the VAT, still can be included in the entering value of assets even if the traditional taxation or supervision practices of input –tax and out-put tax are abided and, even if the Vat invoice is widely used in practice. In fact, the "out-put VAT receivable" has been included in "accounts receivable", likewise, the "in-put VAT payable" has been included in "accounts payable". It is logical that record VAT into the cost of inventory and revenue.

It is the prejudice of VAT and the requirement of the taxation & management of VAT that lead to the fact separating VAT and price in the world. It is distort to exclude VAT from the value of assets.

As for the income tax, the amounts of tax can be separated from price. The value of assets comprises VAT, Having returned to the essence of economics, the separation of accounting and tax technically is not a difficulty.

When calculate the factual amount of tax, the VAT invoice can be viewed as a basis and the calculation can be finished by mean of simple register. It is necessary to periodically summarize the "out-put VAT", "in-put VAT" and "in-put VAT transferred" according to VAT invoices. The sales revenue recognized comprises out-put VAT and the "cost of goods sold" includes "in-put VAT"

2. In accounting perspective, the significations of the integration of VAT and assets' value are:

(1) To maintain the integrity of the value of assets;

(2) To help calculate and analyze the amount of value-added in a comprehensive sense which means the amount newly-created in a specific period including wage & salary, interests, as well as all kinds of tax paid to government. In practice, VAT effectively enhances the sales prices of goods and service from a consumer perspective.

(3) To simplify the calculation;

(4)To simplify the VAT mathematics. VAT mathematics is always regarded as a complex and theory-lacking item in teaching.

Difficulties: the need for a major change in the ideas, the VAT treatment practices need to retrain [9].

4. Conclusion and Significance

In conclusion, four concrete standards are put forward based on the recognition which VAT is excluded FV even; there is not relation between the two items. It is found that not only VAT affects FV, but also the VAT is included in the definition of FV. There is a vacuum in current standard which is embarrasses of the maintain ideas.

The reasons are as following: (1) the measurement of FV comes from America, a country without VAT. So, there is not any consideration of this effect in America. China ignore this problem when introduce it indeed; (2) It is the prejudice of VAT and the requirement of the taxation & management of VAT that distorts the measurement of FV, resulting in the separation of VAT and price.

Countermeasures option: (1) It is necessary to recognize the double criteria of the measurement of FV such as “economic measurement unit” and “accounting measurement unit” in the explanation accounting standards of the measurement of FV and to apply them in relevant standards without any change of the existing institutional frameworks. The current accounting norms need a subtle adjustment since VAT is separated from the entering value of assets, Then, the corresponding debt and credit, financial cost and financial revenue are also recorded in accordance with the principle separating tax from price, which will provide a clearer and more understandable explains. The Principles of above treatment is practical and efficient, is a concrete manifestation of management theory

(2) The recognition of the integration of tax and price thoroughly change accounting measurement of assets. Likewise, amounts of revenue should be adjusted as the amount consisting VAT since the price-exclusive VAT has been returned to what is defied by economics essence. But the cost implementing the strategic adjustment in the Chinese practice, maybe, is considerable and hardly achieves success in a relatively short term.

It is really an advisable choice to develop the accounting standards with Chinese characteristics adapted to existing frameworks if the first suggestion is selected.

The significance of the disclosure of this reality is to provide the academic circles a new perspective. The different national conditions should be concentrated on much emphasis when consider the measurement criteria of FV in a worldwide perspective.

In practice, it can not avoid the effect of VAT on FV, especially in the context of changing sale-tax into VAT. The issue of lease and non-monetary exchange are a typical item. The latter always avoid the effect of VAT by the exchange of fixed assets.

With the expanding of the implementation of the “changing of sales tax into VAT” and the improvement of regulation system, the influence of such issue will concentrate more and more attention in practice. The result of this research is very important to rectify the Standards of FV in China; moreover, it is viewed as guidance for IFRS NO.13 aimed at setting unitary measurement standards of FV.

Acknowledgment

We would like to acknowledges PhD. De-Ming Dai in the school of Business, Renmin University of China, for supporting the research with which the development of there ideas has been associated.

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