Book Review

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The Value of Accounting for Value

Abstract: This is a book review for Accounting for Value. The book draws upon “Ten Commandments” instead of boring accounting jargon. Its unique value is based on renewed valuation formula to interpret the usefulness of fundamental accounting information that is consistent with historical cost accounting.

Keywords: accounting for value, historical cost, fair value

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Being accounting professor for years, one of my dreams–accounting professors don’t have so huge dreams indeed–is writing a book of accounting which may be sold at airport or train station bookshops. However, the majority accounting monographs are written for accounting professors or PhD students, with accountants referencing to themselves, according to Penman (p. 194), that is, full of parlance of accounting, rigid format, and boring language.

Accounting for Value tells you a different story about accounting. It does not begin with parlance or jargon of accounting academia, but with 10 principles which are every-daily talking. Amazingly, the whole book is anchored on these 10 principles which make it interesting for all readers which are not professionals in accounting, having limited knowledge of accounting matters such as financial statements.

Accounting has been often treated as the scapegoat of financial crisis and scandals. For example, after the bursting of Internet bubble, accounting was accused to be irrelevant to firm value, while it was blamed again after the subprime loans crisis to be misleading. Accounting defines reality, and valuation itself is actually a matter of accounting, according to “Accounting for Valuation.” Professor Penman uses several cases to illustrate that these statements are not just claims but inferences supported by evidence and rigorous analysis.

Claiming that valuation is a matter of accounting seems easy; however, valuation itself is a technical issue. How could accounting provide valuation
for a firm incurring leverage, risk, or growth? Accounting for Value gives a beautiful elaboration on how to value these firms drawing upon its fundamentals. Should we have known this before, we would not have bought so easily those “hot” stocks with high-rocketing Price/Earnings ratio during the technology bubble. Anchoring on fundamentals may help us not to lose money in future financial market investments.

During the last 20 years, fair value has been the sword of Damocles. Accounting with fair value is accused to be misleading, while accounting without fair value (namely, historical cost accounting) is deemed to be irrelevant. According to this book, accounting is a set of methods for producing information for (value) determination, that is, accounting without fair value actually is value relevant. This implies that claims against historical accounting as not suitable for “information age” are a bite for politicians rather than for investors.

I have enjoyed reading this book and hope that English native and non-native readers (like me) may enjoy reading it too.