

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY



**A Model for the Accounting of Fair Value Adjustments on Investment Property to Enhance
Transparency in Financial Reporting: A Case Study of First Mutual Properties Limited**

PROGRAMME:

A Dissertation submitted in Partial Fulfilment of the Requirements for the
Honours Degree in

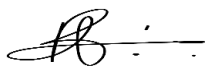
Bachelor of Accountancy Honours (BAcc)

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@2026

RELEASE FORM

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A Model for the Accounting of Fair Value Adjustments on Investment Property to Enhance Transparency in Financial Reporting: A Case Study of First Mutual Properties Limited	
30 JUNE 2026	
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The undersigned certifies that they have supervised, read and recommended to Bindura University of Science Education for acceptance a research project entitled “A MODEL OF ACCOUNTING OF FAIR VALUE ADJUSTMENTS ON INVESTMENT PROPERTY TO ENHANCE TRANSPARENCY IN FINANCIAL REPORTING: A CASE STUDY OF FIRST MUTUAL PROPERTIES LIMITED” submitted in partial fulfillment of the requirements of the Bachelor of Accountancy Honours (BAcc).



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Signature of Student

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Signature of the Chairperson

Date

DECLARATION FORM

I **Brighton Ngezimani** declare that this project is an original copy of my own work and has not been published before or submitted to any other institution/university.



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DEDICATION

Dedicated to my Mom

ABSTRACT

The research aimed to develop a model incorporating fair value adjustments over an investment asset in line with IAS 40. A blended approach to research was employed, utilizing data obtained from First Mutual Properties' audited financial statements and questionnaires distributed to 40 finance professionals, purposively selected from accounting and auditing backgrounds for their direct experience with fair value measurement and reporting. The research methodology involved computing profit-based ratios for First Mutual Properties, initially with fair value adjustments and subsequently without. The analysis was conducted utilizing the Wilcoxon rank test and Z score effect size. The results indicated a substantial disparity among profitability ratios with and without fair value adjustments as per IAS 40, with statistically significant differences observed across all four ratios tested ($p < .05$) and effect sizes ranging from moderate to large ($r = 0.612$ to 0.652). After consulting with the finance experts, the model included elements such as dual rate disclosure model for level 3 assets, standardized valuation inputs, real-time sensitivity analysis disclosure, and the integration of ESG factors into valuation models. . Rather than recommending the removal of fair value adjustments, the study recommends that these four disclosure elements be adopted to improve the transparency of fair value reporting under IAS 40, allowing users of financial statements to distinguish valuation-driven movements from underlying operating performance without requiring any change to the standard itself.

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CHAPTER I

1.0 Introduction

In an era of rapidly fluctuating property markets which is attributable to the increased demands for corporate transparency on the accounting for investment properties and their fair value adjustments has become a critical area for financial reporting. The regulatory authority outlines listed entities in Zimbabwe to abide by the provisions of IFRS (IFRS Foundation, 2016). This incorporates the true value accounting rules included in the IFRS 13 standard and IAS 40. The research project evaluated current fair value accounting practices of First Mutual Properties Limited under the fore mentioned standards and suggested strategies that seek to address concerns raised and improve the overall clearness of financial reporting which allows informed decisions.

The background data, problem statement, study goals, and research questions are all included in the first section. It will also look at the research study's motivation, significance, underlying assumptions, constraints, and boundaries. The section summary and research outline serve as the section's conclusion.

1.1 Background of the Research Study

Financial reporting provides important information through which investors, regulators, and other stakeholders make economic decisions. This need has grown over the past two decades as markets demand financial data that reflects the current, rather than historical, value of a company's assets, for example In Zimbabwe's property sector, this need is heightened by currency volatility and inflation, which make historical cost figures particularly unreliable indicators of an asset's true worth. The long-standing method of Historical Cost Accounting (HCA) has been criticized due to the fact that HCA does not account for the present-day costs of acquiring items or assets (for example., due to fluctuating market conditions or inflation), especially when those conditions are changing rapidly (McDonough et al., 2020).

In an effort to increase transparency and accuracy of financial reports with respect to the values of companies' assets and liabilities, Fair Value Accounting (FVA) was developed. FVA provides for the reporting of assets and liabilities based upon their current "fair" or market value rather than based on their original cost, which was the basis of HCA (IFRS Foundation, 2023). As such, FVA is intended to create greater comparability and credibility among financial reports by reflecting the economic reality of each reporting period, and thus enhance investor confidence and overall market efficiency.

The accounting treatment of investment property globally has been International Accounting Standard 40 (IAS 40), allowing businesses to use either the cost model or the fair value model for subsequent measurement. The fair value model is being adopted by real estate investment firms as it provides a better view of the asset's performance (PwC, 2024). However, a number of studies have noted that fair value adjustments could challenge the consistency of financial results across reporting periods and add volatility to earnings (Dalwadi, 2023). The need for balanced valuation techniques that offer accurate representation without subjecting financial statements to excessive fluctuations was further highlighted by the global financial crisis of 2008 (Alves, 2019).

Elsiefy and El Gammal (2017) concluded that fair value reporting is influenced by an entity's economy, regulatory environment and its exposure to the capital markets. In developing African countries, there are insufficient levels of available reliable data to allow for a good estimate of fair value. Thus, the reliance upon a professional valuation expert's judgment increases the subjective nature of the numbers being reported. While many African countries, such as South Africa, Nigeria and Kenya, have made significant advances in implementing International Financial Reporting Standards (IFRS), there continues to be significant variation between countries with regards to consistent application of those standards and adequate disclosures regarding fair value measurements (Owolabi & Morojele, 2022). These differences result in significant variability in the financial statements of real estate and property investment companies, particularly with regards to profit margins, debt to equity ratios and investor perceptions.

The economy of Zimbabwe has made it hard to report on finances in a clear way. Ongoing inflationary pressures, unstable exchange rates, and limited access to active property markets have made it hard to estimate fair value, and sometimes it isn't even possible (Mupanduki, 2024). The Zimbabwe Stock

Exchange (ZSE) requires listed companies to follow IFRS standards, such as IAS 40 and IFRS 13, to make reporting more clearly and easy to compare. First Mutual Properties Limited (FMPL), a subsidiary of First Mutual Holdings Group, is one of many property investment companies that work in a market where property values change a lot because of uncertainty in the economy as a whole. FMPL owns a wide range of properties, including office buildings, stores, and industrial parks in big cities like Harare and Bulawayo.

This research project adapts a quantitative approach to analyse the financial statements of First Mutual Properties Limited since it incorporate IAS 40 in its financial reporting. The study also incorporates a qualitative approach by getting insights from analysts as a dual approach provides a comprehensive understanding on the impact on fundamental analysis and possible solutions to address concerns raised.

1.2 Problem Statement

The implementation of the IAS 40 under fair value accounting was aimed at increasing the usefulness and transparency of financial reporting. In reality, however, subjectivity, inconsistency and comparability have been an issue with the accounting of fair value adjustments. However, in Zimbabwe where volatility of the economy and exchange rate instability are still an issue, it is still not easy to tell the real fair values of investment properties. This can create huge variation in profits that is not necessarily an indication of real operation performance. In the case of First Mutual Properties Limited (FMPL), fair value adjustments have been significant to reported earnings and this makes investors and additional financial statements users to be in doubt. Although IAS 40 and IFRS 13 provide the overarching measurement and disclosure requirements, they leave firms considerable discretion in how fair value adjustments are presented and explained to users. This entity-level gap in transparency, rather than an absence of standards, is what gives rise to information asymmetry and reduced confidence in financial reports. The current study is thus aimed at coming up with a model to account fair measurement changes on investment property to improve transparency and comparability in financial reporting in FMPL and other companies with comparable ones.

1.3 Research Objectives

1.3.1 Primary Objective

To develop a model for accounting for fair value adjustments on investment property that enhances transparency in financial reporting, using First Mutual Properties Limited as a case study.

1.3.2 Secondary Objectives

1. To assess existing practices for accounting for fair value adjustments on investment property.
2. To find out the impact of fair value adjustments of investment property on profitability ratios.
3. To determine the size of the effect of the fair value adjustments on the profitability ratios of the investment property.

1.4 Research Questions

1. What are the existing approaches for accounting for fair value adjustments on investment property?
2. How do fair value adjustments of investment property impact on profitability ratios?
3. What is the effect of fair value adjustments on the profitability ratios reported in First Mutual Properties Limited's financial statements?

1.5 Significance of the Study

1.5.1 Regulatory Bodies

The study will be beneficial to regulatory agencies, including the Zimbabwe Accounting Practices Board (ZAPB) and the Zimbabwe Stock Exchange (ZSE) in that they will obtain empirical data on the economics of listed property company reporting of fair value adjustments, as well as their disclosure. The results can be used in regulatory direction and improve the standards to increase transparency and comparability.

1.5.2 To the Investing Public

The investing population, such as the shareholders and the potential investors in FMPL will be aware of the ramifications of fair value adjustments on the profitability of FMPL, the value of its assets and transparency of its reports. This is capable of enhancing the decision-making of the investors and minimizing information asymmetry.

1.5.3 To the University

In the case of the Bindura University of Science Education, the research provides evidence of the use of the advanced accounting theory (fair value measurement) in a local setting, not only enhancing the research returns of the university but also serving as an example that can be used in future studies or curriculum development.

1.5.4 Auditors, Property Valuers, and Preparers of Financial Statements

The study is also relevant to external auditors and independent property valuers, who rely on consistent disclosure practices to support their assurance and valuation opinions. Preparers of financial statements within property companies stand to benefit from a clearer framework for presenting fair value adjustments, reducing the judgement burden currently placed on individual firms in the absence of entity-specific guidance.

1.6 Research Hypotheses

H0: Fair value adjustments on investment property have no statistically significant effect on First Mutual Properties Limited's profitability ratios (return on assets, return on equity, operating profit margin, and net profit margin).

H1: Fair value adjustments on investment property have a statistically significant effect on First Mutual Properties Limited's profitability ratios (return on assets, return on equity, operating profit margin, and net profit margin).

1.7 Limitations

There are limitations of this research.

1. **Data Access:** internal management accounting records, reports or detailed support documentation on the valuation of properties of FMPL, may be limited to restrict the scope of data analysis.
2. **Time constraints:** time restriction can be limited, and the research can fail to be evaluated properly. The researcher addressed this by triangulating financial statement data with questionnaire responses from finance professionals.
3. **Generalization:** The research is done in one company (FMPL) and does not allow generalization to other property companies with various structure or markets.

1.8 Delimitations

1. **Geographical location:** The research is restricted geographically to the country of Zimbabwe, and the operations of FMPL as a property investment firm in Zimbabwe.
2. **Sampling:** Purposive sampling will be used as the study will be interested in minimising generalization of findings.
3. **Research Focus:** Since the study will only concentrate on fair value adjustments, data outside the study scope will not be considered

1.9 Definition of Key Terms

Investment Property:

Under a finance lease, the owner or tenant uses the asset (land, structure, a portion of a structure, or both) to generate capital gains, rentals, or both rather than using it for administrative or output-related purposes.

Fair Value

IFRS 13 requires that a resource traded or an obligation exchanged in an orderly transaction between market stakeholders at the specified date be evaluated at its true value.

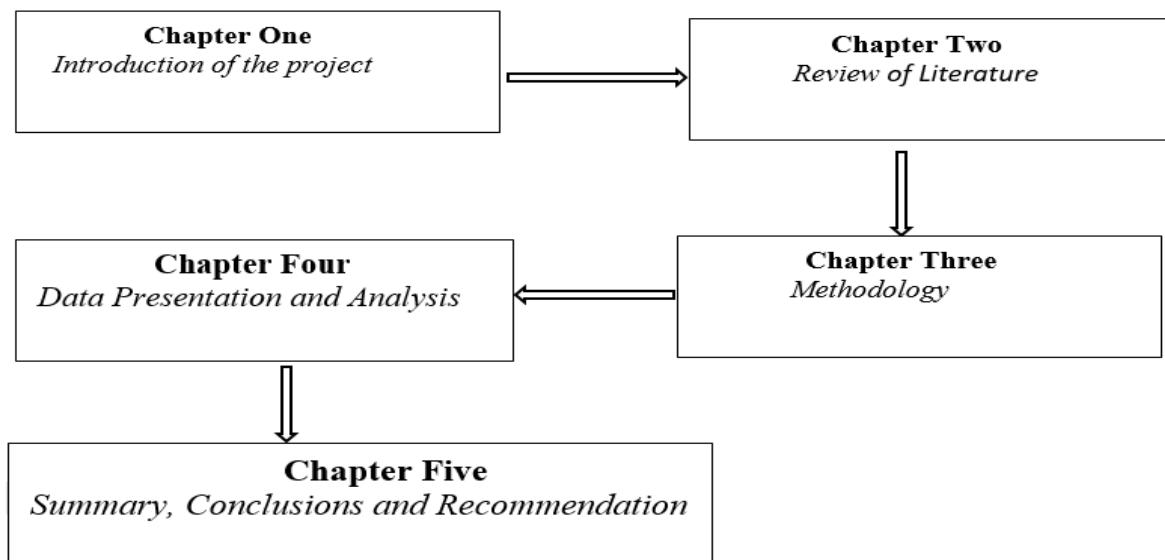
Transparency (financial reporting):

Transparency is associated with the concept of creating an environment whereby all the market participants can effortlessly access, view, and understand information on prevailing conditions, decisions, and actions.

1.10Dissertation Outline

The five sections of the study are as follows:

Figure 1.1: Dissertation Outline



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Chapter One: the section yields a summary of the project by going into more detail about the backdrop, the dissertation's rationale and significance, the research declaration of the issue, the study issues and goals, and the boundaries and restrictions of the research study.

Chapter Two: This section critically examines relevant literature on fair value accounting. The chapter delves into reviewing the related literature and introduces the project's fundamental basis.

Chapter Three: the section explains and vindicates the research method utilised in the project research in gathering evidence utilised.

Chapter Four: in this section, the project outcome is outlined and summarised.

Chapter Five: The evaluative project concludes with section by giving recommendations on treatment of fair value adjustment in financials.

1.11 Chapter Summary

This section serves as an introduction and provides a summary of the entire project. The study's goals, research questions, background, importance, bounds, and limitations have all been clearly stated. Important terms were described as being further provided. The following portion is an assessment of the published materials.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

Chapter 2 incorporates an analysis of prior research on the concept of fair value accounting and its effect on corporate performance. The literature review is confined to fair value accounting. In particular, how reporting financial information is affected by International Accounting Standard 40 Investment Property. The previous research on fair values, IFRS 13 Fair Value Measurement, and fair value accounting will be reviewed in this part. The chapter includes an overview of the chapter as well as an empirical and theoretical review.

2.1 Theoretical Literature Review

This portion examines theories pertaining to fair value and how they improve financial reporting fairness. The realistic value theories would therefore be pertinent when attempting to comprehend the impact on financial reporting fairness. The hypothesis of agency and the Positive Accounting Theory are related theories. Taken together, these theories explain why fair value adjustments create the transparency problem this study addresses. Agency Theory explains the managerial discretion embedded in fair value estimates; Positive Accounting Theory explains why managers might exercise that discretion in self-interested ways; and the Efficient Market Hypothesis explains why the resulting information matters to how investors price the firm. The proposed dual-rate and standardized-input disclosure model responds directly to the discretion identified by Agency Theory and the reporting incentives identified by Positive Accounting Theory, while supporting the informational efficiency that the EMH assumes markets require.

2.2.1 Efficient Market Hypothesis

This theory explains how asset values absorb accessible data, making it difficult for investors to continuously outperform the market. The theory has been a cornerstone of finance, influencing how markets are seen and investors make decisions. (Fakhry, B., 2016) Fair value accounting, IAS 40, and IFRS 13 are important components of financial reporting and valuation methods, determining how information is reflected in asset values in the context of market efficiency.

Fair value accounting, as used in IFRS 13 and IAS 40, illustrates the necessity of valuing assets at current market prices. In an efficient market, fair value accounting aligns with the EMH by guaranteeing that assets are valued using the most recent information, improving financial reporting openness and accuracy. This is because prices accurately represent the available data.

Investigating how fair value accounting links with the Efficient Market Hypothesis (EMH) entails examining how market participants react to information once it becomes accessible. In practice, investors and analysts do not always make perfectly rational choices, something behavioral finance has long pointed out. Emotions, biases, and differing interpretations can easily cause markets to move in ways that don't fully align with the idea of efficiency. Because of this, it becomes uncertain whether fair value figures always reflect every piece of relevant information or if market prices consistently capture those values correctly. In this study, the EMH is used mainly as a theoretical guide to understand how fair value adjustments influence the financial reports on their presentation on preparation.

2.2.2 Positive Accounting Theory

First described by Watts and Zimmerman in 1986, the Positive Accounting Theory provides a less abstract perspective on the real process of making accounting decisions. PAT is concerned not with prescribing best practices as normative theories are, but with describing and explaining what is actually determined by managers in the daily context of business. It presupposes that individuals are reacting to incentives and restrictions, that is, accounting decisions can be biased by personal or organizational drive, instead of technical arguments.

This theory is based on three major concepts that includes the bonus plan, debt covenant, and political cost hypotheses. Both describe how managers can change their reporting decisions. The bonus plan hypothesis indicates that management that enjoy bonuses prefer methods boosting current period income, while the debt hypothesis posits that higher debt ratios lead managers to choose methods increasing earnings. The political costs hypothesis suggests that under political scrutiny, managers tend to adopt methods that decrease reported income. These trends are easily transferred into fair value measurement, where discretion creates the opportunity to adjust property values or re-evaluations.

The PAT approach is supported by research that shows how agency costs, knowledge asymmetry, and managerial opportunism influence accounting decisions. Remuneration arrangements, for example, have a significant impact on accounting procedure decisions (Aitken and Loftus, 1994), even though corporations that use revenue-raising procedures frequently have distinguishing characteristics such as lower financial leverage and greater investment opportunities (Astami and Tower, 2006). Additionally, corporations that use an IAS 40 fair value approach are associated with distributed ownership and a commitment to financial openness (Müller et al., 2008).

PAT can thus be used to justify why fair value adjustments may not correspond necessarily with objective market information. The reported figures may be influenced by managerial influence, which may be subtle or even intentional. This is why it is significant to structure an accounting model that can minimize biasness and ensure that fair value information can be transparent and reliable among the financial statement users. This project explores the contributing factors of accounting choices for investment property of First Mutual Properties limited based on this theory.

2.2.3 Agency Theory

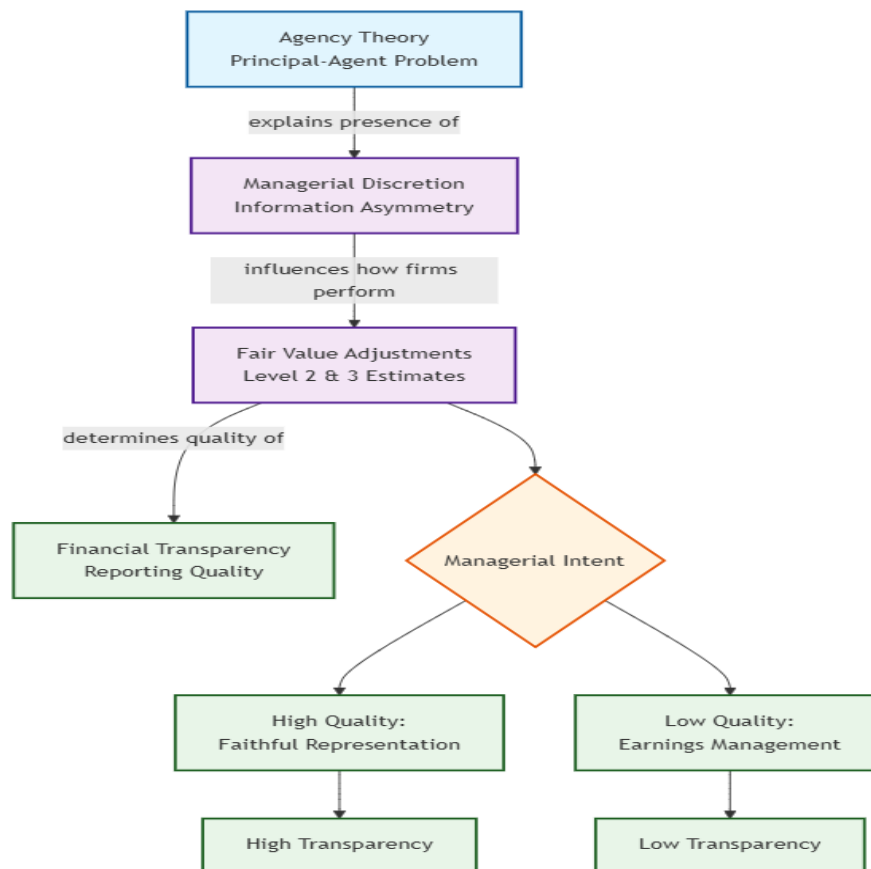
The agency hypothesis, proposed by Jensen and Meckling in 1976, investigates how the connection between owners and managers might lead to a conflict of interest. Managers in most organizations represent the shareholders but their interests sometimes might not necessarily match with the owners. The split of duty and oversight may cause the employers to take advantage of their information superiority and make decisions advantageous to them. In the accounting field, this conflict is reflected in how the financial information is prepared and presented. The subjectivity in fair value measurement which arises due to discretion given in fair value measurement particularly in valuing of investment property presents a chance to have subjective judgment which can either enhance or diminish financial statements transparency.

Agency theory has been extensively used by past researchers in explaining management behavior in fair value accounting and in financial reporting. Healy and Palepu (2001) noted that managers flaunt their better access to information in the preparation of financial statements and will occasionally give overly optimistic valuation in an attempt to affect market perceptions. Dechow and Skinner (2000) also connected the agency issues with the earnings management practices and demonstrated the way

the flexibility in accounting standards could be used to gain personal or organizational gains. Laux and Leuz (2009) studied this relationship in the course of global financial crisis and noted that few companies exploited fair value adjustments to safeguard their reported capitals. Combined, these studies indicate that agency issues continue to be one of the major factors that affect the reliability of fair value adjustments and financial reporting credibility in general.

Building on these findings, this project uses Agency Theory as a basis to create a model that minimizes managerial discretion and better transparency in explaining fair value adjustments on investment property. The paper acknowledges the fact that it is true that sometimes professional judgment may require discretion, but too much of it may undermine stakeholder trust. The proposed model thus focuses on orderly valuation procedures, closer oversight processes and elaborate disclosure procedures in order to make sure that fair value adjustments actually represent economic facts. Through connecting the management responsibility to the transparent reporting practices, the model aims to reduce the agency-related distortions and mirror the fair value accounting as the larger goal to benefit the reliable and credible financial reporting.

Framework 2.1 the conceptual Analysis of Agency cost



Source Author 2026

The information in the table above illustrates the conceptual analysis of Agency cost and how significant fair value estimates are on financial reporting quality and financial transparency.

2.3 Empirical Literature Review

This involves looking at and analyzing in depth studies and research articles that have already been published on a certain topic or research question. An empirical literature review's objective is to evaluate, condense, and integrate the findings of earlier studies in order to develop new ideas and hypotheses for further research or to obtain a deeper understanding of an issue in question.

While these studies agree that fair value adjustments introduce volatility into reported earnings, they differ in method and context: Christensen and Nikolaev (2013) rely on cross-country panel data from developed markets, while Alves (2019) and Trajkovska (2016) focus on single-jurisdiction disclosure practices. None examine a Zimbabwean property firm operating under sustained currency instability, and none propose a disclosure-based remedy rather than a measurement-based one. This is the gap the present study addresses: existing literature diagnoses the volatility problem but stops short of a practical transparency model for firms reporting in unstable-currency environments.

2.3.1 Theory of Fair Value

Through evidence indicating discussions date back to 1973, regulatory bodies are supporting fair value accounting over traditional accounting practices (Biondi, 2011).

Fair value, as opposed to entity-based assessments, is determined by market conditions. It may be possible to have observable market transactions or market information for certain resources and obligations. There could be the absence of observable industry information or typical exchanges for other resources and obligations. However, the goal of determining fair value is the same in both cases: to determine the price for which an orderly purchase or sale of an item of property or transfer of an obligation would occur in the current market environment. This approach changes the focus from the collective representation of the firm's capital and earnings to a fragmented approach to valuation based on prospective cash flows, which could alter the very essence of the business.

2.3.2 Fair Value versus Historical Cost

Finance experts have employed the historical cost approach as a model for asset valuation (Gulin & Hladika, 2016). As stated by Petrović et al. (2023), the historical cost is applied in line with a number of guidelines, such as the matching concept, which matches expenses to a specific time period. Additionally, the realization principle which only uses transactions that have occurred as a result of market operations is the foundation for the historical cost model's significance (Arsenijević, 2022). But according to Petrović et al. (2023), the historical cost model has a flaw in that it doesn't provide current and pertinent information, which jeopardizes its accuracy.

Christensen and Nikolaev (2013) investigate the process of choosing among the expenditure model and the equitable value model for investment property, as mandated by IAS 40, within the context of businesses implementing the International Financial Reporting Standards. The research investigation

will investigate the economic factors that impact firms' decisions to utilize the expenditure model or the fair value model, with a particular emphasis on the trade-off between relevance and dependability. Organizations are more probable to implement the fair value idea when reliable market valuations are easily accessible and competitively priced, according to research findings based on information acquired from Organizations in the UK and Germany. In relation to the results of the study, firm-specific factors such as leverage, traditional accounting practices, and the informational benefits of fair value all have a significant impact on firms' decisions to use the concept of fair value and the expenditure model for investment property, as advised by IAS 40. As stated by Christensen and Nikolaev (2013), firms' decisions to apply the expenditure model and the idea of fair value, as recommended by IAS 40, show their efforts to weigh the benefits and drawbacks of measurement. Dalwadi (2023) gives a comprehensive discussion of the benefits of using the theory of fair value. The utility of stakeholder decisions improves when information used for decision-making becomes more timely and relevant. In addition, because revealing an asset's fair value is deemed necessary for comparability, fair value accounting improves transparency and comparability. Fair value accounting, by taking into account fair value projections of assets and obligations, assists management in better managing risk and making more informed decisions. However, Dalwadi's (2023) article raises several concerns with fair value accounting. Within the challenges include the complexities of assessing fair value, as well as the risk of noise and volatility in financial statements. Fair value accounting is equally prone to bias and exploitation. In a nutshell, since accounting for fair value is based on fair value assumptions, it has an impact on the reliability and accuracy of financial reports.

According to Petrovic et al. (2023), inaccuracies in financial statements can occur as a result of the use of unrealized gains or losses due to defects in fair value accounting systems of measurement. This is in contrast to another generally accepted accounting principle, which emphasizes the need of realizing revenues from cash or cash equivalents. According to other scholars such as Toluwa and Power (2019), unrealized improvements in fair value might be deceptive, opening the door to financial statement fraud. To address these shortcomings in financial measuring systems, the authors propose establishing a legal framework that requires the appointment of approved appraisers. In accordance with a study carried out by Alves (2019), a company's leverage and the assessment approach used for investment properties are related. According to the findings, businesses with substantial indebtedness seem generally more inclined to employ the fair value approach. The

expectation to enhance the pool of assets and, as a result, their debt ratio may be the driving force behind this preference using a framework of equitable values.

Alhusaini and Elshamy (2016) investigated the fair value eligibility of the International Accounting Standard 40 Investment property. To come to a conclusion, they looked at the worth significance of unearned profits and losses in the financial accounts. They found that the inclusion of fair value unrealized gains and losses of the investment property reduces the explaining power of the model. In effect, measuring gains and losses at fair value complicates the assessment of the entity's true performance.. According to Alhusaini and Elshamy (2016), fair value modifications have an impact on share price and are therefore susceptible to management manipulation.

Accounting standards and reporting systems support fair value accounting regardless of the concerns expressed regarding it (Trajkovska, 2016).

Table 2.1 Important items making use of fair value accounting

Financial Instruments: Recognition and measurement- assets/liabilities eligible for fair value option (IAS 39)	Investments in associates and joint ventures held by mutual funds and similar entities (IAS 28)	Property, plant and equipment - revaluation model and exchange of assets (IAS 16)
Business combination, assets acquired and liabilities assumed (IFRS 3)	Employee benefits, post employment benefit obligations (IAS 19)	Intangible assets - revaluation model (IAS 38)

Revenue (IAS 18)	Financial instruments: Recognition and measurement - financial guarantee contracts (IAS 39)	Consolidated financial statements - investments in subsidiaries by investments entities (IFRS 10)
Financial instruments: Recognition and measurement - debt and equity investments (IFRS 9 and IAS 39)		
Business combination - non-controlling interest in an acquire (IFRS 3)	Business combination - previously held interest (IFRS 3)	Financial instruments: Presentation - hybrid financial instruments (IAS 39)
Non current assets held for sale and discontinued operations (IFRS 5)	Business combination - contingent consideration (IFRS 3)	Financial instruments: Recognition and measurement - derivatives (IAS 32)

Source: Trajkovska (2016).

The information in the table above shows how significant fair value adjustments are on financial reporting.

2.3.4 IFRS 13 on Fair Value

As previously stated, fair value in accordance with the standard is the amount agreed upon by interested buyers and sellers in a typical trade involving an asset or a liability at a certain date (IFRS, 2017a: A635). KPMG (2023) states that an organization can use one of three primary methods and methodologies for valuing an asset or liability in order to determine its value. The same manual states that the best methods should make extensive use of pertinent observable information and attempt to minimize unobservable inputs. These are the principal methods as explained by (Koppeschaar et al., 2016):

- **Market approach:** this refers to methods of valuation that make use of market prices and other relevant operational data pertaining to comparable assets or liabilities. This includes obtaining market data from a collection of comparable assets that are currently traded on the market and using set valuations in active markets.
- **Income Approach:** at the measurement date, this method converts future amounts into a present value amount. The basic concept is that the current worth of an asset's expected long-term economic benefits affects its worth.
- **Cost Approach:** The cost approach reflects the value needed to substitute a resource's ability to service. The substitution principle, which holds that a wise investor is unlikely to forgo a large sum of money for an asset with a comparable purpose, is at the heart of it.

2.3.5 Analyzing IFRS 13

Fair value is governed by IFRS 13, which is the accounting principles. To define the assessment of fair value, describe possible methods of measurement and specify how changes in the fair value are to be disclosed in the entity's financial statements, IFRS 13 was introduced (Koppeschaar et al., 2016). All accounting principles that permit the recognition of the fair value are included in IFRS 13. The following standards have been explicitly excluded (Koppeschaar et al., 2016). Empirical application of these principles to Zimbabwean-listed property firms remains limited in the literature, which is one reason FMPL provides a useful single-firm case study for examining how IFRS 13's fair value hierarchy plays out in practice under local reporting conditions.

- Equity-settled compensation under IFRS 2
- IAS 2: Inventory
- Impairment losses under IAS 36
- IFRS 16: Leases
- IAS 19: Benefits for employees
- Retirement benefit plans are covered by IAS 26.

IAS 40's fair value measurements can be deemed to be governed by IFRS 13 since it is not specifically excluded from this standard's purview. As a result, the assessment makes a difference between liability and equity instruments, including a distinction between economic and non-economic assets. To clarify these ideas, Figure 1 was created.

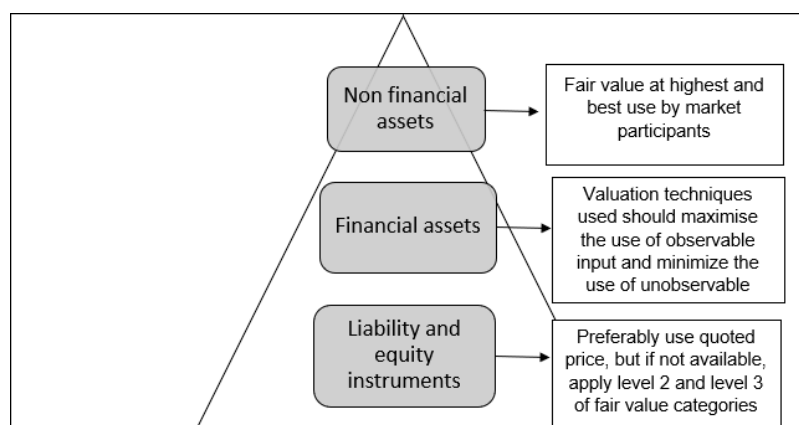


Figure 2.2 Assessment according to IFRS 13
Origin: Koppeschaar et al. (2016, p. 773)

The diagram in Figure 2.2 illustrates how financial assets, liabilities, equity, and non-financial assets are measured using a variety of metrics. Market participants are responsible for determining the best and most prominent use of non-financial assets. Financial assets should be valued using measurable contributions as opposed to unidentified ones. As seen in Figure 1, stocks and obligations are valued using the real value framework. At the time of the transactions, all financial obligations and assets must be appraised fairly. Even in cases where the acceptable value and the actual cost of the transaction are different, the level of acknowledgment has reached its peak (Koppeschaar et al., 2016). Initial acknowledgment occurs at cost for non-economic assets, such as a rental property. To acknowledge an asset at its true value, accounting rules should specify how and when re-measurement may take place.

2.3.6 Fair Value in IAS 40 Investment Property

According to Taplin et al. (2014), a number of accounting rules permit the true worth changes. Among these is IAS 40, which offers techniques for evaluating cost and fair value (IASPlus, 2019). If a company decides to use the fair value approach, valuation gains or losses are reported as earnings or losses. According to Koppeschaar et al. (2014), they are mentioned in the Statement of Profit or Loss and Other Comprehensive Income. Particularly if the business choose to hold real estate investments utilizing the cost model, the actual value of the property should be revealed in footnotes (Taplin et al., 2014). Land, buildings, portions of buildings, or both can be considered property.

According to Koppeschaar et al. (2014), undeveloped land could be regarded as an investment property. According to IAS 40.30, the basis of fair value is more likely to accurately portray such a property than the cost model. It is therefore forbidden to switch from the fair value approach to a cost model (IFRS, 2017b: B112).

2.3.7 Revaluation Model According To IAS 16

The fair value model's application, as covered in the literature above, stands in sharp contrast to PPE's requirements. As long as the entity chooses the revaluation technique, assets under IAS 16 may be

revalued. The asset is carried by the entity at its current value, which is the asset's fair market price as of the valuation date minus depreciation and impairment (IAS 16.31). The standard specifies criteria that must be adhered to when handling fair value adjustments. The revaluation is recorded as a credit entry into other comprehensive income (OCI) as revaluation surplus if it leads to an increase in value (IAS 16.39). If there is a decline as a result of the revaluation, it is recognized as a cost, but it cannot be greater than the amount which was previously credited to OCI as an excess in regard to the same asset (IAS 16.40).

2.3.8 Choice of Method under IAS 40

Research has been done to examine the variables that affect the measuring method selection under IAS 40 Investment Property. The results of a 2013 study by Christensen and Nikolaev on businesses in Germany and the UK indicate that organizations used fair value accounting on financial assets to a limited degree. The few organizations who opted for fair value had acquired estimates at minimal expense, and the use of fair value provided operational performance context. The authors also point out that companies with debt-financed real estate investments assets typically think about using the fair value method (Christensen and Nikolaev, 2013).

2.3.9 Financial Ratios and Analysis

One prediction method for evaluating the performance of possible investments is ratio analysis. It examines market efficiency, profitability, liquidity, liability management, and operational efficiency (Marx et al., 2017). Potential shareholders who plan to invest in any company can benefit from the aforementioned ratio analysis. Myburgh et al. (2012) defined duality as having equal debits and credits. The Report of Financial Position and the Report of Profit or Loss are therefore affected by fair value accounting transactions. In this instance, the ratios that affect an entity's profitability. To make wise decisions, it is necessary to analyze the ratios in the financial statements. The key ratios influencing profitability are displayed in Table 2.2.

Table 2.2 the Profitability Ratios

Heading	Expound	Ratios Associated to Heading
Profitability	The ability to apply the entity's assets to generate revenue and returns.	• Gross profit margin; • Operating profit margin; • Net profit margin; • Return on investment; • Return on equity; and • Return on net assets.

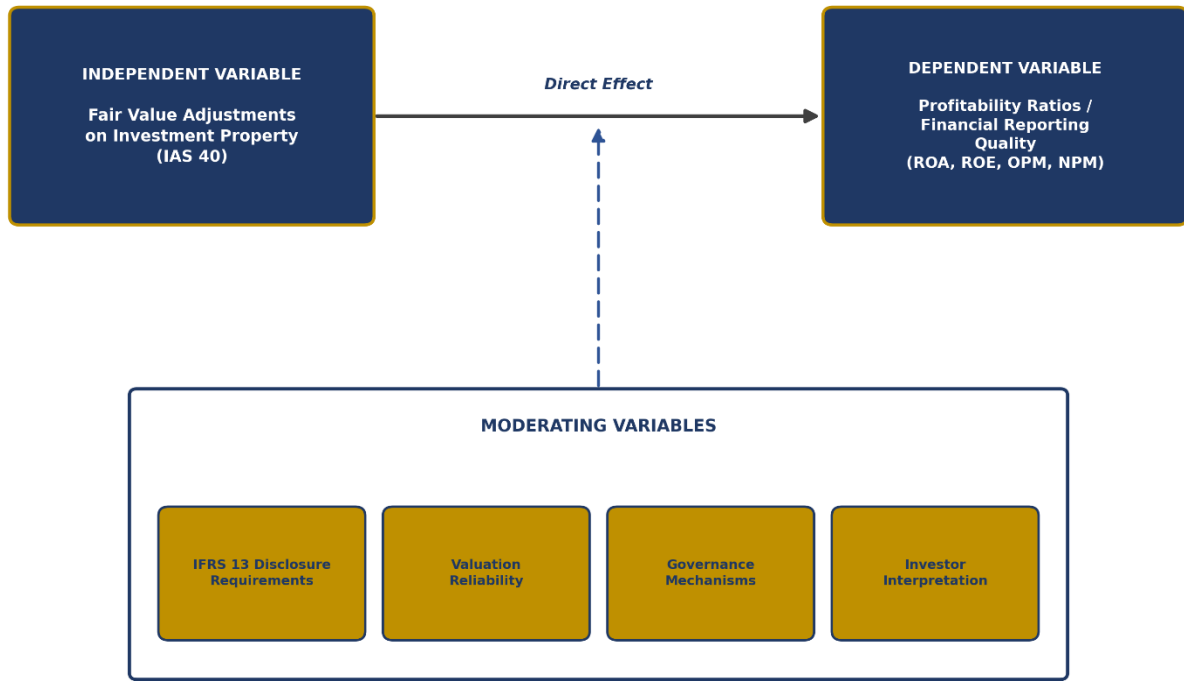
Source: Author 2026

Fair value accounting and earnings management are significantly correlated, according to Taplin et al. (2014), because changes in market value are documented through profit or loss. Fair value adjustments affect debt-to-asset ratios since growing asset values lead to declining ratios, claim Christensen and Nikolaev (2008).

By conducting a study on South African public firms, Philander (2016) also provided insights into the relationship between ratios and fair value changes. Five accounting ratios financial leverage, interest cover, and net current assets per share were the subject of the study. The author came to the conclusion that between 50% and 75% of the organizations under analysis had experienced a decline in profitability. According to Philander (2016), fair value adjustments are not a reliable way to determine a company's profitability because they are dependent on market conditions and are susceptible to manipulation

2.4 The Conceptual Framework

Figure 2.3 the Conceptual Framework



Source Author

Financial statement quality is significantly impacted by the gain or losses on the fair value and this is attributable to the fact that it affects several aspects of the financial statements. This project will examine the effect of these adjustment on the caliber of financial report using the profitability ratios.

2.5 Chapter Summary

The pertinent publications of literary works on fair value accounting was examined in Chapter 2. The reviewed literature emphasized the concerns expressed by various authors on fair value, with the majority reaching the overall conclusion that the approach might be manipulated so that the company's performance might be inaccurately presented. According to accounting standards, the chapter also examined how fair value changes are now treated in accounting. Despite this body of literature, no existing study examines how fair value adjustments affect the profitability ratios of a Zimbabwean-listed property firm under sustained currency volatility, nor proposes a disclosure-based framework to address the transparency concerns this creates. This is the gap the present study addresses through the case of First Mutual Properties Limited. There was evidence that the reported profit in financial statements was significantly impacted by fair value adjustments. Ratio analysis used by stakeholders is therefore impacted. This study will collect data to support First Mutual Properties' representations.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The third section describes the research methods used to investigate the study question. It describes the procedures for collecting and evaluating data in order to address research questions and achieve research objectives. The section concludes with a summary of the chapter.

3.2 Research Philosophy

According to Sultan Ahmed (2011) a research philosophy is said to refer to the underlying set of ideas and principles which guide the approach and techniques used to conduct a research study. A research Philosophy can be attributable to be positivism, pragmatism, postmodernism, interpretivism, and realism. This study was conducted using positivism as the research philosophy. The use of positivism as the research philosophy is considered convenient for this study since empirical data can be collected and statistical methods can be used to analyze the relationship between profitability and fair value adjustments. The research applied positivism by gathering information which can be used to test hypotheses and draw informed conclusions on the nexus between profitability ratios and fair value in 1AS 40 in First Mutual Properties Limited. Because the study also gathers the perceptions of finance professionals through questionnaires alongside objective financial statement data, a purely positivist stance would understate the interpretive element of the research. The study therefore adopts a predominantly positivist philosophy for the analysis of audited financial data, supplemented by a pragmatist orientation for the questionnaire component, reflecting the mixed-method design used throughout.

3.3 Research Design

The study adopts a case study design, focusing on First Mutual Properties Limited as a single, information-rich firm through which the effects of fair value adjustments can be examined in depth over time. This case study design is combined with a longitudinal, descriptive, and correlational approach: longitudinal because the analysis spans the 2010–2024 financial statements, descriptive in profiling how fair value adjustments have been applied, and correlational in examining the statistical relationship between fair value adjustments and profitability ratios.

3.4 Research Approach

The researcher adopted a mixed-method approach, combining quantitative analysis of audited financial statements with qualitative insight from finance professionals gathered through questionnaires. The two strands were integrated at the interpretation stage: the quantitative results from the Wilcoxon Signed Rank Test and descriptive analysis established the statistical relationship between fair value adjustments and profitability, while the questionnaire responses were used to explain the practical drivers behind that relationship and to inform the components of the proposed transparency model.

3.5 Research Population

According to Feldmann (2014), a research population refers to the complete set of elements from which a sample is drawn. In this study, the population consists of two distinct elements: the full set of First Mutual Properties Limited's annually audited financial statements from 2010 to 2024, and the population of finance professionals in Zimbabwe with experience preparing or auditing fair value measurements. These two populations correspond to the study document-based and perception-based data sources respectively.

3.6 Sampling Method

The study employed purposive sampling. Purposive sampling is a way for selecting data sources that are directly relevant to the research purpose (Etikan, Musa and Alkassim, 2016) the exact disclosures required to study fair value adjustments and profitability ratios were chosen from First Mutual Properties Limited's audited financial statements for use in this research. For the financial statement data, the study used a census/document analysis approach, examining all fifteen available audited annual financial statements from 2010 to 2024 rather than a sample drawn from a larger population, since the complete set of statements was accessible and directly relevant to the research objectives. Purposive sampling was applied separately to select the 40 finance professionals who completed the questionnaire, based on the inclusion criteria described below.

3.7 Sample size

The sample comprises of fifteen (15) audited annual financial statements of the financial years 2010-2024. Every annual report is corresponding to one observation of the time-series data used in the analysis. The study eliminates selective bias since it takes into account all available audited financial statements within the time frame set; and the study is effective in providing sufficient coverage of the financial reporting of the organization over the years. Multiple-year-long time-series data enhance the accuracy of the correlational analysis in recording fluctuations and trends in fair value adjustments and profitability indicators (Hair et al., 2022). The researcher also chooses 40 finance professionals.

The sample of 40 finance professionals was considered adequate given the specialized nature of the population — individuals with direct experience preparing or auditing fair value measurements under IAS 40 are a narrow subgroup within the broader accounting profession, and 40 respondents provided sufficient variation for the non-parametric statistical tests used in Chapter 4

3.8 Research Instruments

The researcher created a systematic financial data extraction template, which would be the primary research tool employed in this study. The template was created to make the recording of financial information consistent across all fifteen annual reports. The questionnaire instrument was structured into three sections: Section A captured respondent demographic and professional background information; Section B used a five-point Likert scale (1 = strongly disagree to 5 = strongly agree) to capture perceptions of the challenges and effects of fair value adjustments; and Section C invited open responses on the proposed components of the transparency model. Before distribution, the questionnaire was reviewed by [supervisor/two accounting practitioners] to establish face validity, and minor wording adjustments were made in response to this feedback. The instrument's measurements might record the following variables:

- Total Assets
- Net profit after tax
- Return On Assets (ROA)
- Return on Equity (ROE)
- Net profit margin.
- The fair value of investment property gains or losses.

The researcher also distributed questionnaires to individuals in the finance sector to contribute their thoughts on the treatment of fair value adjustments since it was a mixed approach.

3.9 Data Collection Procedure

This refers to consecutive steps issued to gather information when conducting research. The research project collected secondary data in the form of audited consolidated financial statements for First Mutual Properties Limited which is listed on the Zimbabwe Stock Exchange. Primary data was fetched by distribution of feedback forms to individuals in finance field and this was carried out in the form of online questionnaires. The individuals would express their opinions on the treatment of fair value adjustments, with their contributions incorporated in the recommendations of the study. As the research will be dependable on the audited financial statements from 2010 to 2024 the researcher took into account the currency shift period (2019–2023) and relied primarily on the exchange rates disclosed and applied by FMPL's external auditors in the audited financial statements. Where audited rates were not available for a specific reporting date, the CIA World Factbook, accessed via IndexMundi, was used as a supplementary source, consistent with its use in comparable Zimbabwean accounting research.

3.10 Data Analysis and Presentation

This comprises the research process of analyzing and disseminating conclusions drawn from gathered data. Presenting data in an understandable and succinct manner so that decisions can be made with confidence is the aim. The researcher used Microsoft Excel and SPSS version 26 to analyze the data, performing descriptive statistics (means and standard deviations) for both the financial ratio data and the questionnaire responses. The Wilcoxon Signed Rank Test was used to compare profitability ratios computed with and without fair value adjustments. Statistical significance was determined at a threshold of 5% ($p < 0.05$). The analysis will enable for an objective evaluation of the fair value modifications that are positively, adversely, or significantly related to profitability.

3.11 Validity and reliability

Validity is the extent to which a research tool measures what it is intended to measure, whereas reliability is the stability and consistency of measurement over time (Bell, Bryman, and Harley, 2022).

The inclusion of audited financial statements as the major source of data enhances the study's validity. The data is an accurate reflection of the organization's financial condition and performance since First Mutual Properties Limited's financial statements are prepared in accordance with established accounting standards and confirmed by external auditors. Construct validity is additionally enhanced by the fact that established financial ratios are widely acknowledged indicators of profitability in accounting research. The questionnaires were designed so that the respondents could understand them with simplicity.

3.12 Ethical considerations

The issue of research integrity and professionalism is based on ethical considerations (Saunders et al., 2019). Despite the fact that there were no human participants in this study, ethical concerns were considered throughout the study. The data used in this analysis were publicly available audited financial statements from First Mutual Properties Limited. There was no access to sensitive or insider information. The researcher ensured that all data were used solely for academic purposes and were accurately portrayed, with no manipulation or misunderstandings.

All academic sources were appropriately acknowledged to ensure that plagiarism was avoided and academic honesty maintained. Statistical data were objectively reported, regardless of whether they confirmed or contradicted the predicted theoretical relationships.

Transparency guarantees that the study adheres to acknowledged ethical standards of research, as it is related with honesty and appropriate data handling.

3.13 Chapter Summary

The section includes project philosophy, design including the approach. It also validates the project population selected and the sampling criteria and size used in the evaluative project. The section outlines the research instruments used, data collection procedure and the means of analyzing and reporting the results. The following part is going to offer and analyze collected facts.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The project's major findings about a methodology for accounting for fair value adjustments on First Mutual Properties are presented in the fourth section. The goals of the study are taken into consideration when presenting the findings. In order to draw conclusions on the project questions, the researcher used tables and charts.

4.2 Analysis of Response Rate and descriptive statistics

4.2.1 Response Rate

The research study used annually audited financial statements of First Mutual Properties from 2010 to 2024 and set of these years provided a well reliable data for the project since there is application of the provisions of IAS40. The researcher identified 112 potential candidates through LinkedIn accounting professional groups and some auditing firm directories, chosen because these platforms allow targeted access to professionals who explicitly identify their accounting and auditing experience. This approach may introduce some selection bias toward professionals who are active on LinkedIn, and the sample should therefore not be read as fully representative of all Zimbabwean accounting professionals, but rather of those engaged in professional networks relevant to fair value reporting. Professional experience was verified through the screening questionnaire, which asked respondents to specify their role, years of experience, and direct involvement in preparing or auditing fair value measurements before inclusion in the final sample of 40. The questionnaires were done and submitted as shown in Table 4.1

Table 4.1: Instrument Response Rate

Category	Details	Frequency	Percentage
Initial distributed	Total number of questionnaires sent to Accounting professions	112	100%
Responses Received	Returned Questionnaires	60	53.57%
Not Responded	Questionnaires not returned	52	46.43%
Total		112	100%
Screening Process	Respondents lacking experience on preparing or auditing of fair value	20	33.33%
Effective Response Rate	Experienced Professionals with complete responses	40	66.67%
Total		60	100%

Source: Survey Data (2026)

Of the 112 questionnaires distributed, 60 were returned, giving a response rate of 53.57% ($60/112 \times 100$), which Mugenda (2008) considers acceptable for analysis. Of the 60 returned responses, 40 met the inclusion criteria relating to direct experience with fair value measurement and were retained for analysis, representing 66.67% of the selected distribution after screening.

4.3 Descriptive Statistics

4.3.1 Background Information

The background information focused on the gender, age, education level, and accounting skills of finance professionals in terms of preparing and auditing fair value adjustments. Table 4.5 provides general information about the respondents.

Table 4.2 general information about the respondents.

Details	Frequency	Percentage
Gender		
Male	28	70
Female	12	30
Total	40	100
Age		
25-35 years	7	17.5
36- 45 years	17	42.5
46-55 years	12	30
Over 55 years	4	10
Total	40	100
Education Level		
ACCA	8	20
DIPLOMA	7	17.5
UNDERGRADUATE	15	37.5
POSTGRADUATE	10	25
Total	40	100
Working experience		
3 - 5 years	10	25
6 - 9 years	12	30
Above 10 years	18	45
Total	40	100

Source: Survey Data (2026)

The higher proportion of male respondents reflects the broader gender composition of Zimbabwe's accounting and auditing profession rather than a deliberate sampling choice. While the study did not test for gender-based differences in perception, this imbalance suggests that the findings on fair value

adjustment challenges may be weighted toward male professional perspectives, which is worth noting as a limitation when generalizing the questionnaire findings.

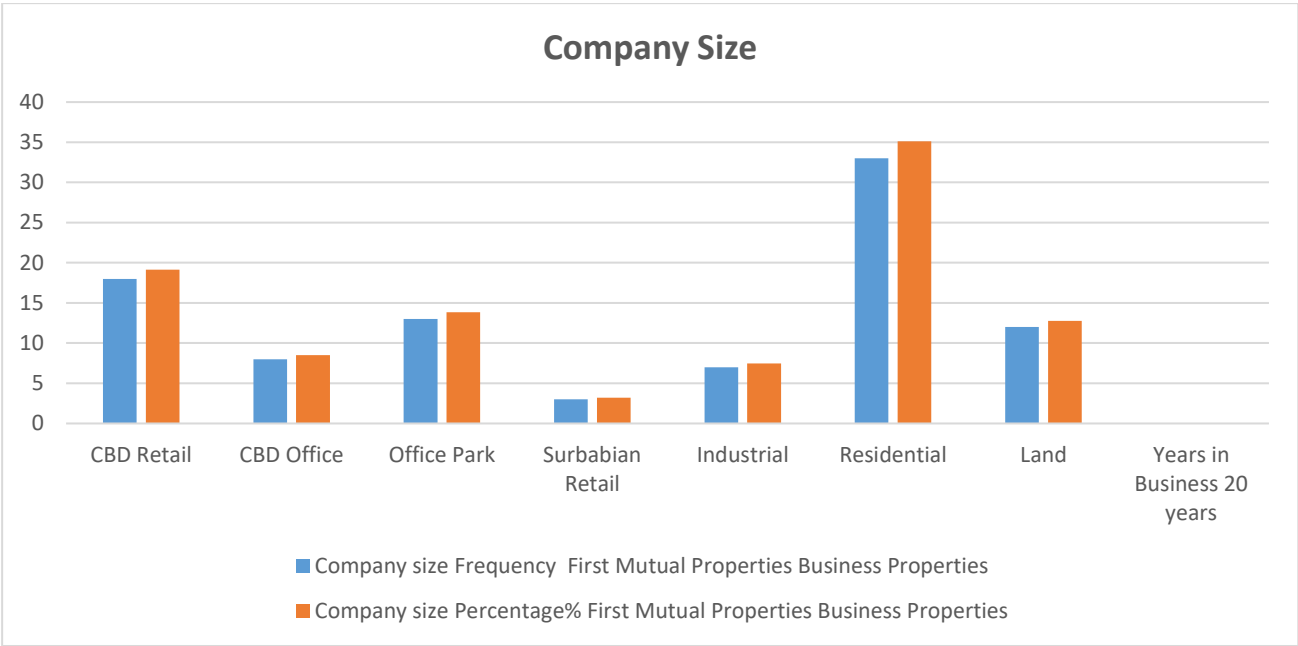
The age demographics of the participants indicate that a considerable number of the participants were between the ages of 36 and 45 who accounted for 42.5% of the respondents. The second largest group were individuals aged between 46 and 55 years, making up 30% of the total sample. The third group were individuals aged between 25 and 35 years, making up 17.5% of the total sample. The last group consisted of professionals over the age of 55, who made up 10% of the respondents.

The largest number of the respondents had a bachelor's degree which is 37.5% followed by those with Postgraduate degree which is 25%, the third group had only ACCA which is 20% and lastly 17.5% had Diploma in accounting. Most respondents had 45% work experience of above 10 years followed by those who had worked for 6 to 9 years with 30% in terms of work experience. Meanwhile 25% of respondents had work experience of between 3 to 5 years. The study results showed that the respondent has enough work experience according to the number of years in preparing and auditing fair value adjustments. The predominance of respondents holding professional qualifications such as ACCA, alongside postgraduate and undergraduate accounting degrees, suggests that the sample was well positioned to comment on IFRS 13 and IAS 40 requirements, as these qualifications typically include direct training in fair value measurement and disclosure standards.

4.3.2 Company Size

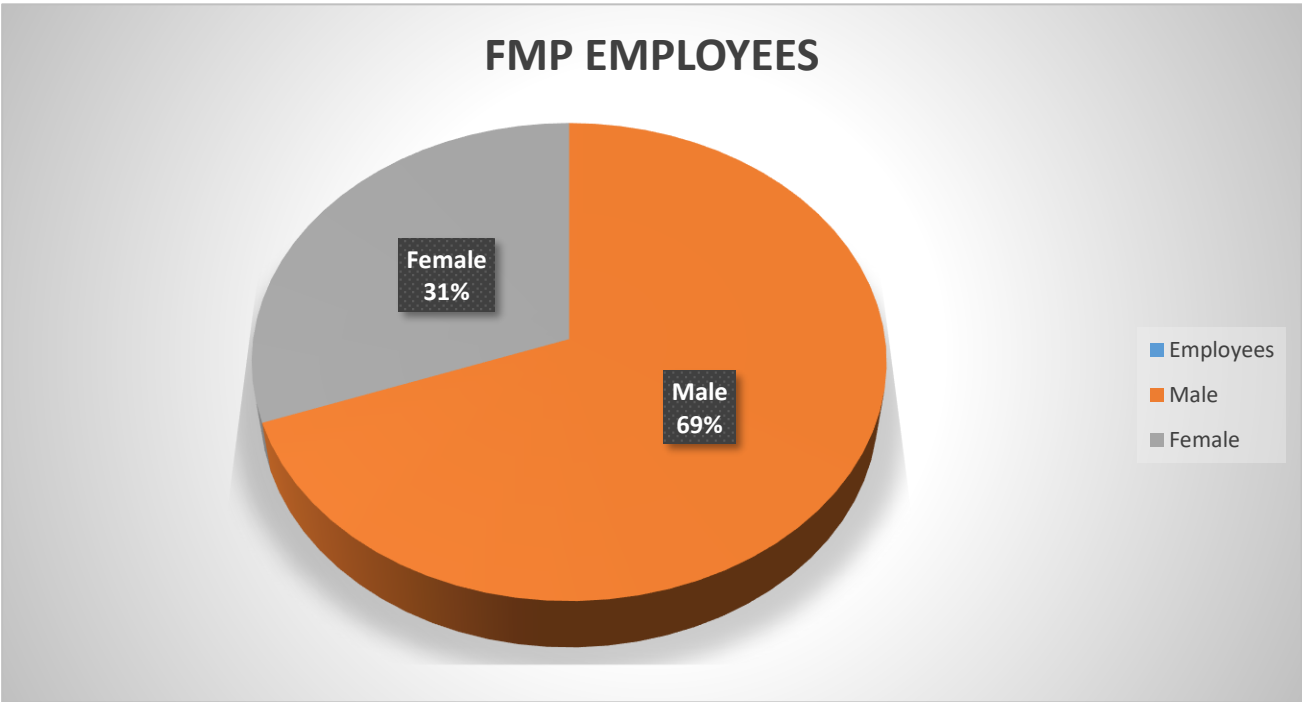
First Mutual Properties (formerly Pear Properties Limited), a subsidiary of First Mutual Holdings Limited, is a Zimbabwe-based real estate company listed on the Zimbabwe Stock Exchange. This background is relevant because the scale and diversification of FMPL's investment property portfolio, illustrated in Figure 4.1, directly affects the extent to which fair value adjustments influence its reported profitability — a larger, more diversified portfolio is likely to generate more frequent and more material fair value movements, which is why FMPL was selected as a case study firm for this analysis. This size of the company is illustrated below.

Fig 4.1 Company size



Source: Survey Data (2026)

Fig 4.2 FMP Employees



Source: Survey Data (2026)

According to Fig 4.1 and 4.2 respectively it shows that First Mutual Properties has ninety four properties across the country, whereas residential properties is the most area with the majority of the total properties which is 33. First Mutual Properties constitute of 25 male employees and 11 female employees to make it a total of 36 employees, and the company have been in operation for almost 20 years.

4.3.3 Property location

Figure 4.3 Property Location



Source: Audited Annual Report (2021)

FMPL's properties are concentrated in Harare and other major urban centers, which are generally characterized by more active property markets and therefore more observable transaction data. Properties in less active regional markets rely more heavily on unobservable, entity-specific inputs, placing them at a higher level within the IFRS 13 fair value hierarchy (Level 3) and increasing the degree of management judgement embedded in their valuation. This geographic distribution therefore has a direct bearing on the reliability of the fair value adjustments this study analyses.

4.4 Analysis of Data

The researcher made of narrative and statistical analysis in analysing the data collected.

4.4.1 To evaluate existing practices for accounting for fair value adjustments on investment property.

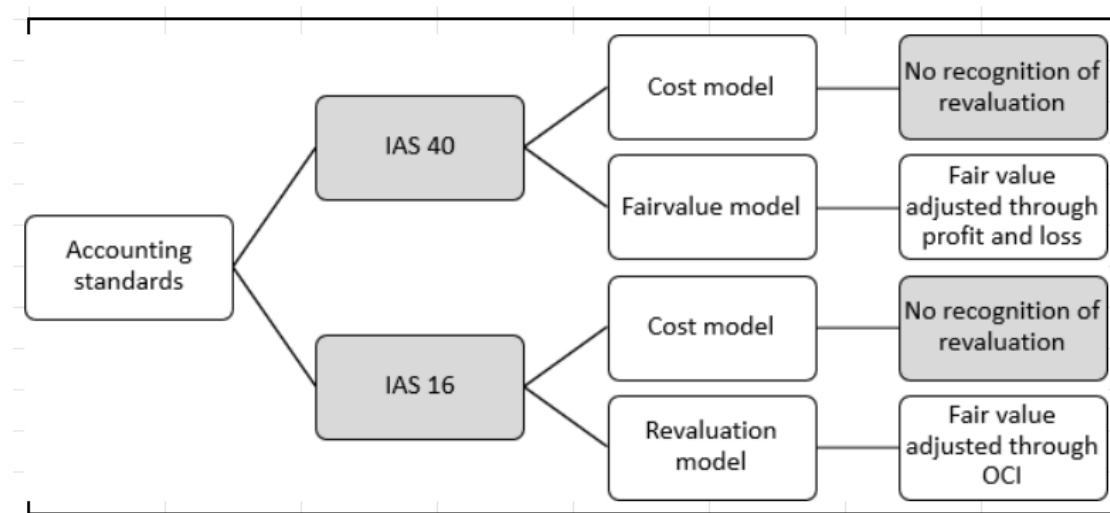
Narrative analysis

IAS 40 Investment Property standards govern how fair value changes are handled in financial statements. The researcher examined the IAS 40 standard and the IAS 16 PPE in order to compare existing practices.

According to IAS 40, fair value adjustments are measured using the fair value model or historical cost. If it is picked, the income statement is used to account for the asset's change in market value. As a result, variations in fair value under IAS 40 may cause notable swings in net income and equity.

According to Koppeschaar et al. (2018), Other Comprehensive Income (OCI) is used to account for the gains and losses that occur when PPE is revalued to reflect market conditions. FMPL applies the fair value model permitted under IAS 40, with investment property revalued annually by an independent external valuers. The valuations rely primarily on Level 3 inputs under the IFRS 13 hierarchy, given the limited number of comparable market transactions for commercial property in Zimbabwe's currently constrained property market. This reliance on unobservable inputs is consistent with the subjectivity concerns raised by respondents in Table 4.3, where management bias and subjectivity was rated the most significant challenge (mean = 4.37, SD = 0.868).

Figure 4.4 fair value treatment in IAS40 and IAS 16



Origin: Koppeschaar et al.

The aforementioned figure makes it distinct that any fair value adjustment made in accordance with IAS 40 will impact the entity's profitability. Consequently, IAS 40 fair valuations affect profitability ratios, but IAS 16 revaluations have no such effect.

Statistical Analysis

Table 4.3 Challenges in fair value accounting in IAS 40.

Descriptive Statistics						
	N Statistic	Minimum Statistic	Maximum Statistic	Mean Statistic	Std. Error	Std. Deviation Statistic
Management Bias and Subjectivity	40	2	5	4.37	.137	.868
Reliability of Market Data	40	3	5	3.72	.088	.554
Market Inactivity and exit Price Estimation	40	2	5	4.17	.094	.594
Technical Complexity of Level 3 Inputs	40	4	5	4.23	.067	.423
Valid N (listwise)	40					

Source: SPSS (2026)

The results to determine the difficulties experienced by finance professionals in accounting for fair value adjustments are displayed in Table 4.3 above. The floor mean and ceiling of the responses were 3.72 and 4.37, respectively.

The first challenge is management bias and subjectivity. The average response of 4.37 with standard deviation of 0.868, and a high standard deviation suggests that while the majority of the participants agrees that management bias and subjectivity is a challenge in accounting for fair value adjustments there is some divergence in professional opinion regarding the extent to which management actually exploits this subjectivity.

The second challenge analysed was reliability of market data with a mean of 3.72, which indicates that a great number of participants agreed with the said notion. The standard deviation for this item of 0.554 was indicative of the absence of a great variance in the answers given.

Third challenge on the list was Market Inactivity and exit Price Estimation. This had an average response of 4.17 and a 0.594 standard deviation of implies most participants showing high agreement on the instability this creates. There was major variance in the responses supplied by the respondents.

The final challenge was Technical Complexity of Level 3 Inputs. Analysis of the data collected indicates an average response of 4.23 and standard deviation of 0.423, proving

most of the participating people corresponded that valuing illiquid assets without active market data is a fundamental and universal technical barrier in modern accounting.

4.4.2 To determine the effect of fair value adjustments of investment property on profitability ratios.

The table below exhibits a descriptive analysis on the influence of fair value on profit-based ratios in IAS40.

Table 4.5 Profitability Ratios with and without Fair Value Adjustments for First Mutual Properties.(2010-2024)

YE A R	Operating Profit Margin		Net Profit Margin		Return on Equity		Return on Assets	
	With Fair Value Adjustments	Without Fair Value Adjustments	With Fair Value Adjustments	Without Fair Value Adjustments	With Fair Value Adjustments	Without Fair Value Adjustments	With Fair Value Adjustments	Without Fair Value Adjustments
2010	195.13%	64.11%	182.65%	51.63%	18.25%	5.15%	34.43%	9.73%
2011	288.74%	48.33%	330.46%	85.62%	25.04%	6.48%	45.38%	11.75%
2012	146.45%	45.46%	182.54%	81.56%	14.09%	6.29%	25.23%	11.27%
2013	132.93%	44.05%	170.22%	81.34%	12.38%	5.92%	22.29%	10.65%
2014	56.11%	42.07%	87.62%	73.59%	6.03%	5.06%	10.29%	8.65%
2015	-35.93%	42.48%	-4.21%	74.20%	-0.28%	4.97%	-0.54%	9.66%
2016	22.71%	41.87%	58.61%	77.77%	3.69%	4.89%	6.52%	8.65%
2017	37.09%	45.09%	91.07%	83.06%	5.28%	4.82%	9.34%	8.52%
2018	107.83%	30.26%	152.28%	74.71%	9.39%	4.60%	16.46%	8.07%
2019	873.03%	38.86%	908.70%	74.53%	45.47%	3.72%	74.33%	6.09%
2020	1230.73%	26.62%	1277.44%	73.33%	38.86%	2.23%	70.49%	4.04%

2021	1192.07%	28.82%	1238.67%	75.43%	37.23%	2.26%	65.44%	3.98%
2022	1162.36%	4.84%	1189.65%	32.13%	34.76%	0.93%	56.48%	1.52%
2023	1339.59%	13.24%	1369.62%	43.27%	54.59%	1.72%	137.93%	3.21%
2024	-553.54%	28.87%	528.77%	53.64%	41.25%	4.18%	69.70%	7.07%

SOURCE: MICROSOFT EXCELL 365

The above table shows key profit-based ratios of the 15 analysed Audited financial statements for First Mutual Properties. To achieve the first goal, the researcher collected financial data from the set of financial statements, data was collected from the period of 2010-2024. The data was extracted from publicly available information from the ZSE and FMP website. The researcher made use of the audited financial figures in the context of this evaluate project for reliability and transparency.

The researcher collected financial figures used in ratio calculation that included fair value adjustments. The ratios were calculated for a fifteen-year period, 2010-2024 and the mean ratio was determined. This is shown in the table above in the highlighted column for all four ratios for 15 fifteen year period. Thereafter, the same ratios were recalculated, but excluding fair value adjustments in this instance using the same formula as before. This presented in Table 4.3 above in the columns that are not highlighted.

The table indicates that the profitability ratios which are inclusive of fair value adjustments (highlighted column) are different from the ratios when fair value adjustments are excluded. This is the trend for all 15 year period for First Mutual Properties audited financial statements.

The table below shows the Wilcoxon rank-sum test of the analysed audited financial statements for 2010 - 2024 to determine whether a sizeable variation exists between the profit-based ratios inclusive and exclusive of fair value.

Table 4.6 Wilcoxon Signed Rank Test for First Mutual Properties Audited financial statements (2010-2024)

Profitability Ratio	Negative Ranks (FVA inflated ratio)			Positive Ranks (FVA reduced ratio)			Z	Asymp. Sig. (2-tailed)
	N	Mean Rank	Sum of Ranks	N	Mean Rank	Sum of Ranks		
Operating Profit Margin	11	9.11	100.18	4	4.75	18.98	−2.371	.018*
Net Profit Margin	12	8.63	103.50	3	4.50	13.49	−2.524	.012*
Return on Equity	12	8.50	102.00	3	4.17	12.50	−2.524	.012*
Return on Assets	12	8.50	102.00	3	4.17	12.50	−2.524	.012*

Source: SPSS Output (2026)

The Wilcoxon rank test is a nonparametric statistical test for comparing two sets of information. The test was employed in this study to determine whether profitability ratios with and without fair value adjustments differed significantly.

Fair value adjustments on investment property had a significant impact on First Mutual Properties' profitability ratios over the 2010–2024 financial period, according to the researcher's analysis of all the data collected on the company's financial statements, which was then run in SPSS using the Wilcoxon rank test. According to Pallant (2016), a P-Value of less than 0.05 suggests that there is a significant difference between the two sets of information.

For each ratio, the difference was computed as (Ratio with fair value adjustments) minus (Ratio without fair value adjustments). A positive rank therefore indicates that including fair value adjustments increased the ratio, and a negative rank indicates that including fair value adjustments decreased it

According to the table's results, there were 11 cases where the operating profit margin without fair value adjustments was lower than as compared to the one with fair value adjustments (mean rank was 9.11) as compared to only 4 cases when it was hire (mean rank was 4.75).

Additionally, a continuous and dominant trend in all financial metrics including operational profit margin, net profit margin, return on equity, and return on assets was identified by the test. The computation demonstrated that in the great majority of the fifteen years under investigation, profitability significantly decreased when fair value adjustments were negative. Therefore, 12 out of 15 years, or 80% of the recoded negative ranks and this implies that the ratios were lower once the fair value adjustments was negative, and also it can be directly attributed to Net Profit Margin, Return on Equity, and Return on Assets

The research also reviewed that there was identical ranks for Return on Equity and return on Assets which both showed 12 negative ranks which might further underscores on how First mutual Properties Perceived management efficiency is tied to assets revaluation. This is attributable to the fact that properties valued in Zimbabwe have been greatly subject to extreme valuation distortions which is due to exchange rate mismatches.

From analysed financial statements, the Wilcoxon rank-sum test was analysed for the selected financial period of 2010 to 2025. The table above shows that for the operating profit margin, net profit margin, Return on Equity and Return on assets they had a P-Value that was under 0.05. These are shown by bolded figures on the test statistic table. This translates to a total percentage of 100% of the analysed data. The research utilised the Wilcoxon test to verify whether inclusion or exclusion of fair value adjustments resulted in statistically substantial variance in the mean figures of profitability ratios. According to the information provided, the results are regarded statistically considerable, since the probability (p-value) score was less 0.05.

4.4.3 To analyze magnitude of the effect of fair value adjustments on investment property on profitability ratios.

Table 4.7 Summary of Wilcoxon Signed Ranks for Company Ratios (2010-2024)

Profitability Ratio	N	Z	$\sqrt{N}$	Effect Size $r = Z /\sqrt{N}$	Magnitude	Significance
Operating Profit Margin	15	-2.371	3.873	0.612	Large	$p < .05$
Net Profit Margin	15	-2.524	3.873	0.652	Large	$p < .05$
Return on Equity	15	-2.524	3.873	0.652	Large	$p < .05$
Return on Assets	15	-2.524	3.873	0.652	Large	$p < .05$

Source: Computed from SPSS Wilcoxon Output (2026)

Note. Effect size $r = |Z|/\sqrt{N}$. Benchmarks Small r 0.1 Medium r 0.3 Large r 0.5 (Cohen, 1988) the second null hypothesis that the effect of FVA on profitability ratios is non-significant is rejected for all four ratios.

Source: Microsoft Excel 365

The effect sizes of the variations in profitability ratios, both inclusive and exclusive of fair value adjustments, are displayed in Table 4.10 using the Z score effect size (r). Effect size is a metric employed in establishing practical differences between two sets of data. The most common test for effect size is the use of Z score effect size (r), which divide the differences which is Z score from the sample size factor. Between two means and express it in terms of standard deviation units. For reference, Z score effect size r values are interpreted using the following frame:

Small $R = 0.1$

Medium $R = 0.3$

Large R is greater than or equal to 0.5

For this project, the Z score effect size (r) values was calculated for all 4 profitability ratios for the 15 year financial period for First Mutual Properties as indicated by the table above. For FMPs, the Z score impact size (r) for operating profit margin, net profit margin, return on equity, and return on assets was computed. All four of the profitability ratios from the 15 audited annual statements had a Z score impact size (r) above 0.5, indicating a substantial effect size.

All four ratios showed an effect size (r) above 0.5, indicating a large effect. This means fair value adjustments are economically significant to FMPL's reported profitability, not merely statistically detectable — the magnitude of the difference is large enough to materially change how a user of the financial statements would interpret the company's performance. On this basis, the null hypothesis (H_0) is rejected: fair value adjustments have a statistically significant and economically meaningful effect on First Mutual Properties Limited's profitability ratios

4.4.4 To develop a model for accounting of fair value adjustments in financial reporting.

Table 4.8 exhibits the descriptive statistics employed in the evaluative project to determine the improvements that can be made to enhance the fair value accounting of investment property.

Table 4.8 Improving Current Practices of Fair Value Accounting

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
articipant	40	1	40	20.50	11.690
Dual-Rate Disclosure Model for Level 3 Assets	40	2	5	3.90	.955
Standardized " Confidence Index" for Valuation Inputs	40	2	4	3.28	.716
Elimination of Fair Value Adjustments	40	1	3	2.13	.607
Real-Time Sensitivity Analysis Disclosures	40	3	4	3.60	.496
Integration of ESG Factors into Valuation Models	40	3	5	4.00	.784
Valid N (listwise)	40				

Source: SPSS 2026

According to the literature analysis, Table 4.8 displays the findings from the feedback forms given to the respondents in order to assess the factors influencing the authenticity and dependability of fair value accounting.

The first variable, the dual rate disclosure model for three inputs, had a mean of 3.90, meaning that participants generally agreed with the concept. The 0.955 standard deviation indicates a modest degree of variation in the responses. With an average of 3.28 and a standard deviation of 0.716, the second measure, standardization for valuation inputs, shows that participants generally agreed with the notion of implementing standardized valuation inputs. The majority of respondents agreed with

this viewpoint, as indicated by the standard deviation of 0.716, which indicates that there was comparatively little variation in the responses.

Thirdly, the variable of elimination of fair value adjustments was tested and it had average of 2.13 and standard deviation of 0.607. Average value of 2.13 falls in the disagree range of the Likert scale, indicating that the respondents, on average, disagreed with the elimination of fair value adjustments into valuation models. The low standard deviation suggests a relatively low variability in responses, meaning that most respondents disagreed with elimination of fair value adjustments into valuation models.

Additionally, the researcher examined the variable of real-time sensitivity analysis disclosures, which had a standard deviation of 0.496 and an average of 3.60. The average indicates that the participants generally agreed with the use of disclosures from real-time sensitivity analyses. The majority of participants agreed with the use of real-time sensitivity analysis, as indicated by the standard deviation of 0.496, which indicates that there were very few variable replies provided.

Lastly, the variable of integration of ESG factors was tested on the respondents and the results had an average of 4.00 and a standard deviation of 0.784. Average value, indicates an agreement among the participants on implementing Industry specific benchmarking database.

Ultimately, the results showed that the respondents agreed with the integration of ESG factors and the use of dual rate disclosure model for 3 inputs and the use of real time sensitivity analysis disclosures, and disagreed with the elimination of fair value adjustments into valuation models.

4.5 Chapter Summary

The findings of an evaluative project on a model to account for fair value adjustments of investment property to enhance financial reporting transparency are presented in this fourth section. The results were extracted in order to fulfill the project's objectives. Descriptive tables and maps were created as a consequence of the statistical and descriptive analysis of the gathered data. The part that follows provides the summary, conclusions, and suggestions.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The project's primary objective was to develop a model that takes IAS 40's fair value modifications into account. In order to achieve this, the researcher looked at how profitability ratios are impacted by fair value modifications as they are now handled. The opinions of finance experts were gathered to offer plausible fixes for the problems discovered. This final section summarizes the research findings, makes inferences from the data, and offers recommendations for resolving the concerns brought up.

5.2 Summary of Findings

This section summarises outcomes extracted from the data gathered.

5.2.1 What are the current methods for accounting for fair value adjustments on investment property accounting for fair value adjustments on investment property?

Fair value adjustments under IAS 40 are recorded through the profit and loss by either debiting or crediting it, according to a narrative analysis which was conducted by the researcher. The treatment of assets subject to revaluations under IAs 16 was also examined in the study. According to the analysis, revaluations are accounted for through OCI in the profit or loss statement even though they are a type of fair value adjustment. As a result, the difficulties with the current practice were established. According to the evidence gathered, the challenges include management bias and subjectivity, a lack of reliability of market data, market inactivity and exit price estimations, and technical complexity of level three inputs.

5.2.2 What is the effect of fair value adjustments of investment property on profitability ratios?

Four earnings ratios which include net profit margin, operating profit margin, ROE and ROA were calculated. These accounting ratios were calculated inclusive and exclusive of fair value adjustments from 2010 to 2024. The Wilcoxon rank test was used on the ratios which were calculated for the set of financial periods and a statistically significant difference existed when profitability was with and without fair value adjustments

5.2.3 What is the magnitude of the effect of fair value adjustments on financial reporting?

To examine magnitude of differences, the effect sizes for the variances was calculated using Z score effect size (r). From the 15 audited annual statements, all 4 profitability ratios had a Z score size above 0.5 which mean a large effect size that existed on the differences.

5.2.4 What model can be used to recognize for fair value adjustments?

This project primary focus was to develop a model that would take IAS 40 fair value adjustments into account. The researcher tested variables based on the reviewed literature to accomplish this goal. The findings showed that real-time sensitivity analysis disclosures, the use of dual rate disclosure models for three inputs, the implementation of industry-specific benchmarking databases, and the integration of ESG factors into valuation models could all be used to improve fair value accounting of investment property. Nevertheless, the data indicates that the best way to enhance fair value accounting was not considered to be by eliminating fair value adjustments from financial statements.

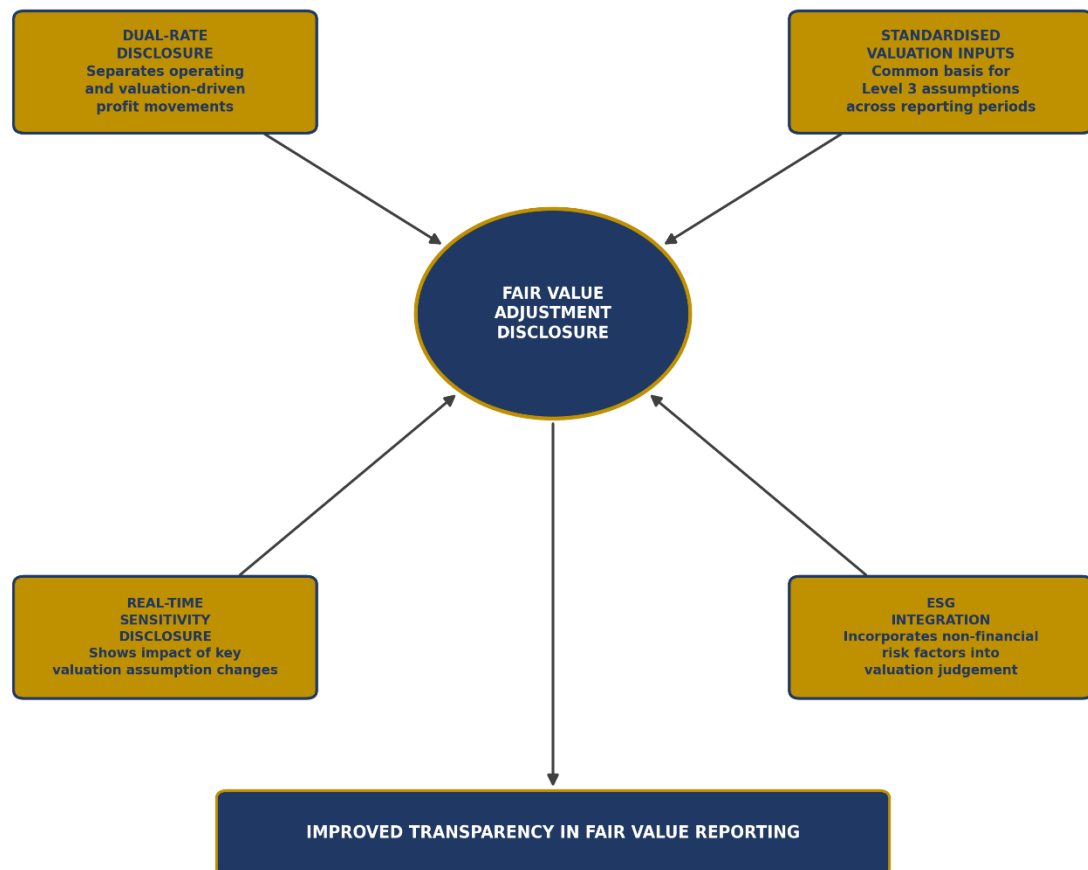
5.3 Conclusions

According to the study's assessment of the current procedure for accounting for fair value adjustment, it has drawbacks because it is easily manipulated, is impacted by a

dearth of market inactivity and exit price estimations and is subject to market fluctuations in extremely unstable economies like Zimbabwe.

According to the study, fair value adjustments have a great impact on the profits of First Mutual Properties which examined. It is important to remember that these adjustments are estimates rather than precise changes in values. The evaluation project shows that IAS 40's fair value adjustments possess a notable impact on the company's profitability ratios, and that regulators and investors should be mindful of this impact when evaluating financial statements and making decisions.

Figure 5.1: Proposed Fair Value Adjustments transparency Model



Model Explained

Dual rate disclosure model for level 3 Assets

This reporting framework allows the entity to disclose both assessment methods and significant unobservable inputs which have been used for assessment for the fair value of illiquid assets. This would provide a clearer picture for the entity's principal functional accomplishment and reduce the impact of market fluctuations on profitability ratios.

Standardized valuation inputs

For certain types of assets, like properties, the standard could provide a more defined framework for valuation, reducing the room for subjective judgements and enhancing consistency.

Real time sensitivity analysis disclosure

More detailed explanations of valuation techniques, and immediate or timely updates on how changes in key variables such as exchange rates affect financial metrics such as net assets and profit. These updates used can be able to enhance transparency.

Integration of ESG factors into valuation models

This technique of valuation allows the entity to quantitatively adjust the core drivers of company worth to reflect sustainability risk and opportunities. This would provide a clearer picture of an entity's principal operating performance and reduce the impact of market fluctuations on profitability ratios.

By applying the above variables together, fair value adjustments of IAS 40 Investment Property can be accounted for in a transparent manner

5.4 Implications of the research findings

The main goal of the evaluation research was to determine how fair value accounting affected profit ratios, with a focus on First Mutual Properties. Participants in the study came to the conclusion that 50% to 75% of businesses were affected when fair value adjustments were applied to the income statement. This suggests that investors' perceptions of a company's financial health may be significantly influenced by fair value accounting. The study emphasizes the need of taking fair value adjustments into account when assessing profit-based ratios since they have the potential to drastically change reported results. For investors who rely on these statistics to make judgments, this is essential.

The study also shows that while upward adjustments on fair value increase the value of the company, they are purely hypothetical and there is no guarantee that they will occur when the asset is sold. Since they are only estimates, these fair value adjustments may not be included in profitability analyses.

The research findings indicate that investors rely heavily on profitability measures when assessing potential returns. However, it is crucial to point out that increases in fair value do not directly impact dividend payments, which are instead influenced by cash flows instead of profit. Considering this, investors are advised to consider cash flow analysis alongside profitability mechanisms in deciding on investment issues.

Beyond investors, the findings also carry implications for regulators, who may consider incorporating elements of the proposed transparency model into local financial reporting guidance for property companies; for auditors, who would need to extend assurance procedures to cover the additional disclosures the model proposes; and for preparers of financial statements, who would bear the primary responsibility for implementing dual-rate disclosure and sensitivity reporting in practice. At the policy level, the findings suggest that IAS 40 compliance alone is insufficient to ensure comparability across Zimbabwean property firms, pointing to a role for supplementary local guidance.

5.5 Recommendations

According to the researcher, the appreciation of fair value adjustments had an impact on First Mutual Properties' profitability ratios between 2010 and 2024. When analyzing profitability, investors are encouraged to interpret fair value adjustment measures distinguishing valuation-driven movements from underlying operating performance when assessing profitability. Fair value adjustments represent both realized and unrealized changes in the value of investment property, recognized in profit or loss under IAS 40 where the fair value model is applied; they are not accounting errors, but transparency around their composition and drivers can be improved.

5.6 Suggestions for further research

This study has two limitations which includes that it only takes into account some part of First Mutual Properties' annual audited financial statements for the period 2010 to 2024. This suggests that it does not accurately represent the 2006-2010 and 2025 financial years. The study is restricted to two variables: Profitability ratios and valuation of investment property (IAS 40), Future studies can investigate further disclosures on market liquidity and profitability or add other ratios to be studied. Since the IAS 40s principles of value originate from IFRS 13 fair value measurement, all fair value standards derive their principles from IFRS 13. Thus, IFRS 5 adjustments for discontinued operations and non-current assets held for sale also apply here. Future studies might concentrate on analyzing this.

Future research could also examine how regulators might formalize elements of the proposed transparency model into local reporting guidance; how audit procedures would need to adapt to provide assurance over the additional disclosures; how FMPL's practices compare with other Zimbabwean or regional property firms; and how investor behavior and decision-making respond to the enhanced disclosures once implemented in practice.

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APPENDICES

Appendix A: Questionnaire

1. Demographic Information

Age

☐

35 years or below

☐

36 to 45 years

☐

46 to 55 years

☐

Older than 55 years

Gender:

☐

Male

☐

Female

Highest Level of Educational Qualifications

☐

ACCA

☐

Diploma

☐

Undergraduate

☐

Postgraduate

☐

Other, specify _____

Occupation.....

2. Understanding of Fair Value Accounting

- How familiar are you with fair value accounting principles?

- ☐ Very familiar
- ☐ Somewhat familiar
- ☐ Not familiar at all

3. Awareness of IAS 40

- Have you heard of International Accounting Standard 40 (IAS 40) regarding investment property?

- ☐ Yes
- ☐ No

4. Perception of Fair Value Adjustments	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
Do you believe that fair value adjustments impact financial statements significantly?					

5. Effect on Profitability Ratios	Positively impact	Negatively impact	No impact
In your opinion, how do fair value adjustments in IAS 40 affect profitability ratios?			

6. Understanding of Financial Ratios	Very comfortable	Somewhat comfortable	Not comfortable
How comfortable are you with calculating and interpreting financial ratios?			

7. Experience with Financial Analysis

- Have you conducted financial analysis involving fair value adjustments before?

- ☐ Yes
- ☐ No

-What are some of the challenges you have noted in the current treatment of fair value adjustments in financial analysis?

Challenges in current treatment of fair value	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
Management Bias and Subjectivity					
Reliability of market data					
Market inactivity and exit price estimation					
Technical complexity of level 3 inputs					

8. Suggestions for Improvement

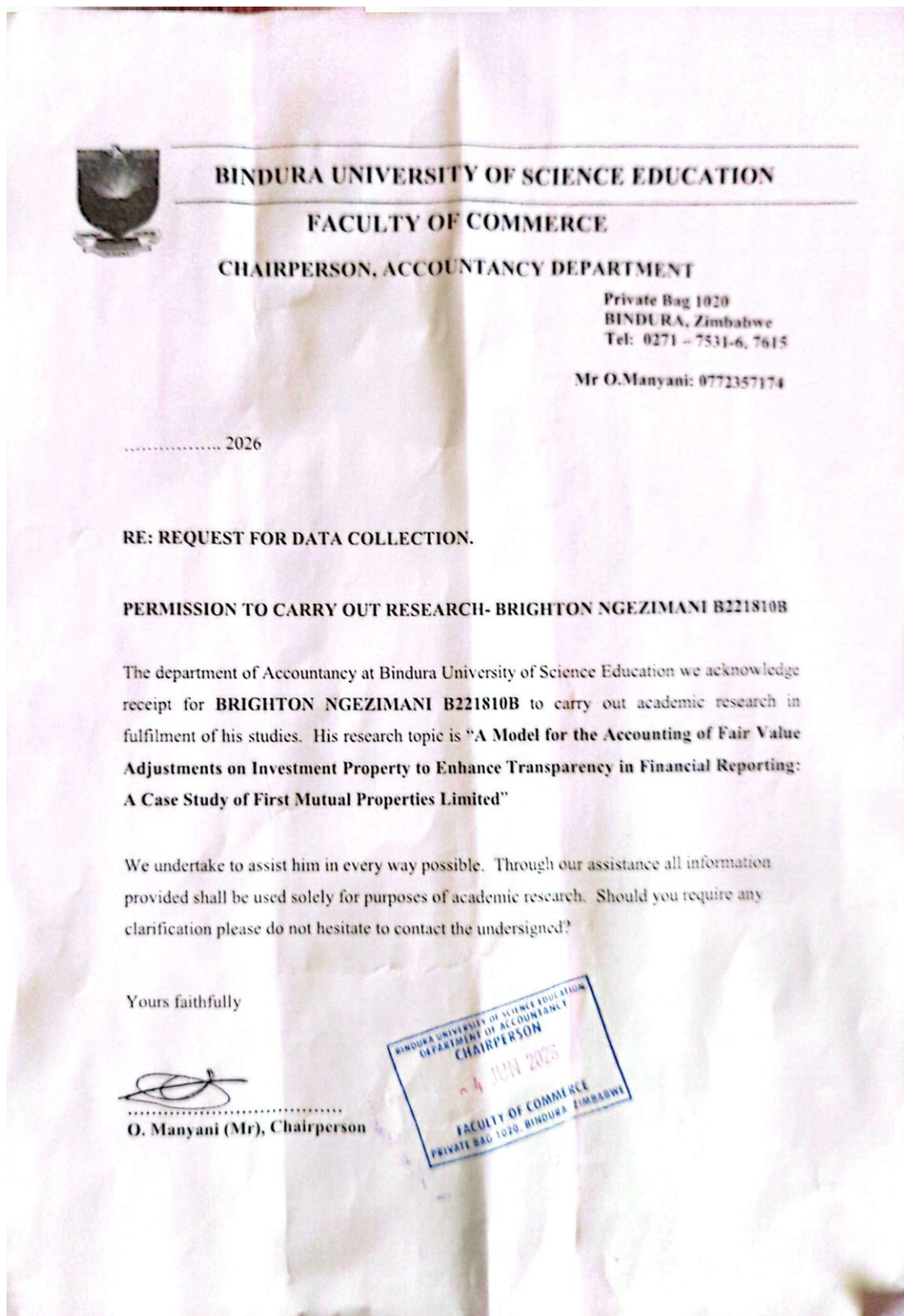
- What improvements do you think could be made in the accounting treatment of fair value adjustments in IAS 40 to enhance the accuracy of profitability ratios?

Improving the Fair Value Treatment	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
Dual rate disclosure model for level 3 inputs					
Standardized & quote for valuation inputs					
Elimination of Fair Value adjustments					
Real time sensitivity analysis disclosures					
Integration of ESG factors into valuation models					

9. Additional Comments

- Please provide any additional comments or insights related to fair value adjustments and profitability ratios.

Appendix B: Research Letter



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