

Incorporating Highest and Best Use into Accounting Standards Expands Opportunities for Appraisers

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ABSTRACT

Never before have politicians and accounting rule makers focused so much attention on the concept of fair value. This fast-moving and evolving area of financial reporting establishes a need to value real property as well as the more-often discussed security investment portfolios. Appraisers familiar with the current and developing valuation standards of the accounting profession, and the differences with current appraisal rules, are positioned to provide much-needed real property valuation services. This article explores and explains these developments and describes how real estate appraisers may benefit from them.

The preparation of financial statements is governed by the accounting profession's complex network of principles and rules. Collectively, this network is known as *generally accepted accounting principles*, or simply GAAP. In the United States, the Financial Accounting Standards Board (FASB) is the primary private sector body that establishes specific financial accounting rules. Globally, the International Accounting Standards Board (IASB) plays a similar role. Indeed, these two bodies are working diligently toward a single, converged set of standards. In addition to GAAP, when an accountant conducts an audit of financial reports, there is a duty to follow generally accepted auditing standards (GAAS). The GAAS comprises systematic guidelines to ensure accuracy, consistency, and verifiability of audit reports.

In 2007, the FASB issued a new financial accounting standard: FASB Statement no. 157, *Fair Value Measurements* (FAS 157). This standard articulated a highest and best use concept that is familiar to appraisers but new to many accountants. The fair value accounting ruling opens up new venues of appraisal services, as foretold in a leading accounting journal:

In some cases the help of a real estate valuation specialist who has an understanding of highest and best use and its relation to Statement no. 157 may be needed to confirm that a company's real property assets are properly valued, and those valuations comply with the new standard.¹

1. Steven Gottlieb, Robert Meulmeester, and Matthew Bohlin, "Will FASB 157 Achieve a Higher and Better Use?" *Journal of Accountancy* (January 2009): 53.