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THE ACCOUNTING TREATMENT FOR THE REVALUATION SURPLUS OF FIXED ASSETS

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Abstract
The objective of this research is to examine and present the methods of recognizing, recording and doing the financial report of the surplus raised within the revaluation of the entity's fixed assets. As a starting point, there are presented the stipulations of the National Accounting Standards regarding the subsequent evaluation of fixed assets (NAS „Tangible and intangible assets", NAS „Investment Property", NAS „Impairment of Assets", etc.), afterwards being examined the provisions of the International Financial Reporting Standards concerning the methods of revaluating the fixed assets, their recognition, book-keeping and financial reporting.

Key words: *fixed assets, subsequent evaluation, revaluation, revaluation surplus, depreciation, amortization, fair value, book value, accounting records*

JEL Classification: M41, Q5, A2

I. Introduction

The aim of financial statements is to present a true and fair view of the entity's assets, to provide information regarding the entity's financial position, its performance and cash flows; information that ought to be useful to users in taking economic decisions. Thus, evaluation has a fundamental significance in offering a true and fair view because all the elements recorded in accounting pass though an „evaluation" process. Evaluation is the process within which the value of property items is determined. Depending on the time when the evaluation is carried out, it can be divided into two forms: current

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assessment (carried when the assets enter and leave the patrimony), and periodical evaluation (carried at the end of the year, with the aim of presenting the real information of the financial statements). Revaluation consists in modifying the costs at which the assets entered the entity with their new fair value.

The necessity of fixed assets' revaluation is determined by their long duration of use within the entity (more than one year, but which can be up to 100 years, according to the Catalogue of fixed and intangible assets of the RM), periods in which the values of fixed assets can be influenced by the macroeconomic processes. Therefore, the necessity of presenting their values within the reporting period, in accordance to the real situation of each period arises. This is done through the subsequent evaluation. The reason is that the information presented in the financial statements will genuinely report about the value of the entity's fixed assets.

II. Matter and method

According to accounting regulations, both the NAS and the IFRS, after the initial recognition of fixed assets the entity has to choose and indicate in its accounting policy the further evaluation model that will be used. To this end, SNC "Tangible and intangible assets", points 17-18, establish the following methods for the assets' subsequent evaluation:

- At book value, which is performed according to the rules of NAS; or
- *Can be performed* on the basis of the revaluation model under IAS 38 "Intangible assets" and IAS 16 "Property, Plant and Equipment" (according to NAS provisions "Tangible and intangible assets", p. 18). For this purpose, the entities in the Republic of Moldova that follow the national accounting standards shall apply the provisions of international accounting standards, under the condition to stipulate the respective provisions in their accounting policies.

So, the entity must choose and mention in its accounting policies the model of asset evaluation that it will subsequently apply: *the model based on book value (at cost) or the revaluation model.*

We should be mentioned that in the opinion of Professor Alexander Nederița "according to national accounting rules, local entities can apply voluntary basis under the revaluation model in accounting policies. However, this provision is not sufficiently substantiated and does not ensure completely the veracity of the indicators in the financial statements. It is considered reasonable to impose certain categories of entities nominated model, especially those holding a dominant position in certain industries and sectors of the economy " (5, p.98-99).

The revaluation *model is considered necessary to be applied when the fair value of an asset differs considerably from its book value.* The fair value represents the price that would be received to sell an asset in a regulated transaction between market participants at the measurement date (paragraph 9 of IFRS 13).

The frequency of revaluations depends on the changes in the fair values of revalued assets. Revaluations shall be performed regularly enough as to ensure that the book value does not differ significantly from the value that would have been determined if using the fair value at the end of the reporting period (9, IAS 16, pct. 34).

The revaluation model is based on the *revaluated value*, which replaces the entry cost of the asset. The revaluated value is the fair value of the asset on the date of the revaluation minus any depreciation subsequently accumulated and any accumulated impairment losses. The fair value is generally determined based on the evidence provided by the market through an evaluation normally carried out by professionally qualified assessors. If there is no evidence from the market regarding the fair value, because of the asset's specificity, and the asset element is rarely sold, the entity may estimate its fair value by using an internal approach based on income or depreciated replacement cost, only under the condition the asset is part of a continuous activity.

If an item of property is revaluated, the entire class of property to which the asset belongs shall be revalued (according to the provisions p. 36-38 of IAS 16 „Plant, Property and Equipment"). The simultaneous revaluation of the entire class of assets is performed in order to avoid the selective revaluation of assets and reporting in the financial statements values that are a combination between costs and values calculated at different dates.

III. Results and discussions

Revaluations differences represent the element of own equity intended to balance the change in the value of the fixed asset as a result of its revaluation.

For generalizing the information regarding the existence, modifications (increase or decrease) and the settlement of the differences arisen from fixed assets' revaluation,

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one shall use the liability account ***343 „Other elements of own equity”*** *for which a separately sub account called* ***„Surplus from fixed assets' revaluation”*** *will be opened.*

In the ***debit of the account 343 „Other elements of own equity” sub account „Surplus from fixed assets' revaluation”*** *are recorded: cassation of the surplus after the fixed asset's revaluation (depending on the chosen method in the accounting policies), decreasing the revaluation surplus of the fixed asset that was tested for depreciation in previous periods.*

In the ***account's credit*** *is recorded the fixed asset's surplus after revaluation.*

The ***credit balance*** *represents the amount of the revaluation surplus of the existing fixed assets at the end of the reporting period.*

For the book-keeping of fixed assets' revaluation differences, it is necessary to take into account:

- ***the revaluation method that is used, depending on the means that is used for the accumulated depreciation:***
  - ✓ the revaluation only of the book value of the fixed asset, the accumulated depreciation is removed from the asset's gross book value (cost of entry); in literature it is called **the net value method;**
  - ✓ simultaneous revaluation of both the cost of entry and the depreciation of the fixed asset; it is called in literature **the gross method**. The gross book value (cost of entry) is adjusted in a way that is consistent with the revaluation of the asset's book value. The accumulated depreciation at the revaluation date is restated proportionally with the change of the asset's gross book value (entry cost), such as the asset's book value after revaluation to be equal to its revaluated amount.

The revaluation method that is used has to be provided in the entity's accounting policies.

- ***the result of the revaluation and if the revaluated fixed asset was previously the subject of revaluation through surplus or devaluation:***
  - ✓ *If the revaluation result is bigger* compared to the book value, then it is registered as follows:
    a) As an increase of the revaluation surplus (credit of the account 343 „Other elements of own equity”, sub account „Surplus from fixed assets' revaluation”), if previously there was no decrease recognized as an expense associated with that asset; or
    b) As a revenue to offset the expense with the previously recognized decrease of the value of that asset.

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- ✓ *if the revaluation result is a decrease (devaluation)* of the book value, then it is registered as follows:
  a) as an expense with the whole devaluation amount, when the revaluation surplus has not recorded any sum related to that asset; or
  b) as a decrease of the revaluation surplus with the minimum between the revaluation surplus' value and the depreciation value, and the remaining uncovered difference is recorded as an expense.

The book-keeping of the differences arisen from assets' revaluation are presented as follows:

In case the revaluation of fixed assets is carried at book value, before recording the revaluation, it is necessary to record the removal of assets' accumulated depreciation through settlement.

The accounting formulas used for the settlement of the fixed assets' depreciation that will be revaluated:

- *for intangible assets:*

Dt 113 „Amortization of intangible assets"
Ct 112 „Intangible assets"

- *for fixed assets:*

Dt 124 „Amortization of fixed assets"
Ct 123 „Fixed assets"

- *for mineral resources:*

Dt 126 „Amortization and depreciation of mineral resources"
Ct 125 „Mineral resources"

- *for fixed biological assets:*

Dt 133 „Amortization and depreciation of fixed biological resources"
Ct 132 „Fixed biological resources"

- *for real estate investments* – when their records are kept at cost value:

Dt 152 „Amortization and depreciation of real estate investments"
Ct 151 „Real estate investments"

- ➢ the surplus on the revaluation of fixed assets, in the case when the book value of the asset is increased as a result of reassessment, must be recognized in other elements of own equity and accumulated in own equity.

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The surplus from revaluation of fixed assets is recorded in accounting by the following formula:

Dt 112 „Intangible assets”
Dt 121 „Fixed assets in progress”
Dt 122 „Land”
Dt 123 „Fixed assets”
Dt 125 „Mineral resources”
Dt 132 „Fixed biological assets”
Dt 151 „Real estate investment” – when the records of real estate investments are kept at cost value
Ct 343 „Other elements of own equity” sub account „Surplus from fixed assets’ revaluation”

Nonetheless, IAS 16 “Property, Plant and Equipment” states that the increase has to be recorded either in profit or loss, given that it compensates a decrease from the revaluation of the same asset that was previously acknowledged as profit or loss. This provision applies under the existence of the following conditions:

- ✓ the revaluated fixed asset was previously revaluated,
- ✓ the result of the fixed asset’s previous revaluation registered a decrease,
- ✓ the decrease from revaluation was recorded as an expense.

When fulfilling these conditions, the surplus from the previous revaluation of the fixed asset (that was previously revaluated) is recorded as part of the income and not as part of own equity. In this case, the following accounting formula is used:

- *in case of using the direct method of recording the losses from depreciation*

Dt 112 „Intangible assets”,
Dt 121 „Fixed assets in progress”
Dt 122 „Land”
Dt 123 „Fixed assets”
Dt 125 „Mineral resources”
Dt 132 „Fixed biological assets”
Dt 151 „Real estate investment” – when the records of real estate investments are kept at cost value
Ct 621 „Revenues from operation with fixed assets”

- *in case of using the indirect method of recording the losses from depreciation*

Dt 114 „Depreciation of intangible assets”, 126 „Amortization and depreciation of meneral resources”, 127 „Depreciation of of fixed assets in progress”, 128 „Depreciation of lands”, 129 „Depreciation of fixed assets”, 133 „Amortization and depreciation of fixed biological assets”, 152 „Amortization and depreciation of real investment investments” (in case the records of real estate investments are kept at cost value)
Ct 621 „Revenues from operations with fixed assets”

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- The decrease from the revaluation of fixed assets, when the book value of an asset decreases as a result of revaluation, has to be recognized as profit or loss (through expenses). As such, it is necessary to perform the book record of spending' increase (debit 721) and decrease of the depreciated fixed assets' value – if the direct method of accounting is applied (the credit part of the accounts of the depreciated fixed assets) or the increase of the fixed asset's depreciation – if the indirect method of accounting is applied (the credit of the depreciation accounts corresponding to the depreciated fixed asset).

Nonetheless, the decrease that arises from the revaluation of fixed assets has to be recognized in other elements of own equity, because the revaluation surplus represents a credit balance for that asset. Therefore, the decrease that is recognized in other elements of own equity reduces the accumulated sum of own equity by the sum of the surplus obtained after revaluation.

This provision is applied under the existence of the following conditions:

- ✓ The fixed asset that is currently revaluated, was also revaluated previously;
- ✓ The result of the previous revaluation of the fixed asset registered a surplus;
- ✓ The revaluation surplus was recorded as part of other elements of own equity.

When fulfilling these conditions, the decrease from the fixed asset's previous revaluation (that was previously revaluated) is recorded as part of own equity and not as part of expenses. For this case, the following accounting formula is used:

The accounting formula used at the decrease of revaluated fixed assets' value that has previously registered a revaluation surplus:

Dt 343 „Other elements of own equity" sub account „Surplus from fixed assets' revaluation"

- *in case of using the direct method of recording the losses from depreciation*

Ct 112 „Intangible assets",
Ct 121 „Fixed assets in progress"
Ct 122 „Land"
Ct 123 „Fixed assets"
Ct 125 „Mineral resources"
Ct 132 „Fixed biological assets"
Ct 151 „Real estate investment" – when the records of real estate investments are kept at cost value

- *in case of using the indirect method of recording the losses from depreciation*

Ct 114 „Depreciation of intangible assets", 126 „Amortization and depreciation of mineral resources", 127 „Depreciation of fixed assets in progress", 128 „Depreciation of lands", 129 „Depreciation of fixed assets", 133 „Amortization and depreciation of fixed biological assets", 152 „Amortization and depreciation of real investment investments" (in case the records of real estate investments are kept at cost value)

Note: we should mention that *the amount exceeding the loss from depreciation against the revaluation surplus of the same fixed asset,* is recorded in accounting the same way as the loss from depreciation in the case when the fixed asset did not previously record a revaluation surplus (by recording the increase of current expenses (the debit of account 721) and the decrease of the depreciated fixed asset's value (the credit of the fixed assets' accounts – if it is used the direct method of recording the depreciation, or the accounts for the depreciation of the fixed assets – if it is used the indirect method of recording the depreciation of fixed assets).

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The accounting records regarding the revaluation of a fixed asset, in order to present the recording mechanism, will be presented in the following example:

Example: *The entity JSC „Succes" bought at 15 March 201X a land, with a cost of 120 000 lei. The first revaluation of the land was carried out on 30 December 201X, determining the land's fair value of 162 000 lei. The second revaluation, carried out at 28 December 201X+2 showed that the fair value of the land is 104 000 lei. The third revaluation, at 27 December 201X+4, presented that the land's fair value is of 152 000 lei. At the fourth revaluation, carried out on 15 December 201X+7, the fair value was of 126 000 lei. At the fifth revaluation, on 20 December 201X+9, the fair value of the land was of 134 000 lei. All the revaluations have been carried out by an evaluator from professional evaluation entities.*

Recording the economic operations regarding the land's revaluation.

Table no. 1 - Economic operations record book

No	**Date**	**Operation content**	**Amount, lei**	**Accounts' correspondence**	
				Debit	**Credit**
1	15.03.201X	Recording the purchase of the land	120 000	122	521
2	15.03.201X	Paying for the land	120 000	521	242
3	30.12.201X	Recording the revaluation surplus of the land's value at the first revaluation (162 000 -120 000)	42 000	122	343
4	28.12.201X+2	Recording the depreciation of the land's value at the second revaluation (162 000 – 104 000): -in the amount of the previously established revaluation surplus - a) exceeding the depreciation of the revaluation surplus, in case of using the direct method, **or** - b) exceeding the depreciation of the revaluation surplus, in case of using the indirect method **Note:** only record a) or b) is performed, depending on the chosen accounting method within the entity's accounting policies.	42 000 16 000 16 000	343 721 721	122 122 128

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5	27.12.201X+4	Recording the revaluation surplus of the land's value at the third revaluation (152 000 –104 000) - a) in the limit of the previously recorded depreciation when using the direct method **or** - b) In the limit of the previously recorded depreciation when using the indirect method. - Exceeding the revaluation surplus as against the recorded depreciation	16 000 16 000 32 000	122 128 122	621 621 343
6	15.12.201X+7	Recording the depreciation of the land's value at the fourth revaluation (152 000 – 126 000)	26 000	343	122
7	20.12.201X+9	Recording the revaluation surplus of the land's value at the fifth revaluation (134 000 – 126 000)	8 000	122	343

Source: Personal elaboration

Table no. 2 - Opening the account 343, sub account „Revaluation surplus of fixed assets"

Debit 343, sub account „Revaluation surplus of fixed assets" Credit

	Initial balance 01.01.201X 0
	30.12.201X) 42 000
Turnover Dt 0	***Turnover Ct 42 000***
	Final balance 31.12.201X 42 000
28.12.201X+2) 42 000	
Turnover Dt 42 000	***Turnover Ct 0***
	Final balance 31.12.201X+2 0
	27.12.201X+4) 32 000
Rulaj Dt 0	***Turnover Ct 32 000***
	Final balance 31.12.201X+4 32 000
15.12.201X+7) 26 000	
Turnover Dt 26 000	***Rulaj Ct 0***
	Sold final 31.12.201X+7 6 000
	20.12.201X+9) 8 000
Turnover Dt 0	***Turnover Ct 8 000***
	Final balance 31.12.201X+7 14 000

Source: Personal elaboration

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It is necessary to mention that when a fixed asset is revaluated for multiple times, there must be information regarding the revaluations and depreciations history for each fixed asset.

- *For the case when fixes assets' revaluation is performed at entry cost,* along with the increase of the entry cost after revaluation (which is performed similarly to the method of increasing the book value), the increase of their accumulated amortization has to be proportionally recalculated. The following accounting formula is written:

The accounting formula for recording the revaluation surplus (through the proportional revaluation method):

- *For intangible assets:*

Dt 112 „Intangible assets"
Ct 113 „Amortization of intangible assets"
Ct 343 „Other elements of own equity" sub account „Surplus from fixed assets' revaluation"

- *For fixed assets*

Dt 123 „Fixed assets"
Ct 124 „Amortization of fixed assets"
Ct 343 „Other elements of own equity" sub account „Surplus from fixed assets' revaluation"

- *For mineral resources:*

Dt 125 „Mineral resources"
Ct 126 „Amortization and depreciation of mineral resources"
Ct 343 „Other elements of own equity" sub account „Surplus from fixed assets' revaluation"

- *for fixed biological assets:*
- **Dt 132 „Fixed biological assets"**

Ct 133 „Amortization and depreciation of fixed biological resources"
Ct 343 „Other elements of own equity" sub account „Surplus from fixed assets' revaluation"

For real estate investments – when their records are kept at cost value:

Dt 151 „Real estate investments"
Ct 152 „Amortization and depreciation of real estate investments"
Ct 343 „Alte elemente de capital propriu" subcontul „Surplus din reevaluarea activelor imobilizate"

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The revaluation surplus of fixed assets is reflected in the accounting records throughout the fixed asset's existence within the economic entity.

At the exit of the fixed assets that were previously revaluated within the entity (regardless the cause: liquidation, sale, giving off for free, etc.) it is necessary to also discount the revaluation surplus of the respective objects.

The discount of the revaluated fixed assets included in other elements of own equity can be performed through one of the following methods (according to point 41 IAS 16):

- ✓ The revaluation surplus included in own equity afferent to an element of immobilizations can be directly transferred in the reported result when the asset is derecognized. This can imply the transfer of the whole surplus when the asset is decommissioned or disposed of.

Discounting the revaluation surplus of the decommissioned fixed assets is performed through the following accounting formula:

The accounting formula for recording the discount of the revaluation surplus of the entity's decommissioned fixed assets:

Dt 343 „Other elements of own equity" sub account „Surplus from fixed assets' revaluation"
Ct 332 „Undistributed profit (uncovered loss) from previous years"

Example: *On 1 January, the revaluation surplus for the fixed assets of the JSC „Miorita" constituted 54 000 lei, recorded in other elements of own equity as revaluation surplus of fixed assets.*

In June, an equipment that was previously revaluated with a surplus of 35 000 lei, was decommissioned.

In November, the economic entity performed the revaluation of fixed assets. According to the revaluation documents, the following results were established (performed at book value):

-revaluation surplus of a lathe, in amount of 17 000 lei;

- the value reduction of a transport means, as a result of a 8000 lei revaluation, that was previously revaluated and registered a surplus of 10 000 lei.

Recording the respective economic operations:

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Table no. 3 - Economic operations record book

Nr.	Date	Operation content	Amount, lei	Accounts' correspondence	
				Debit	Credit
1	June	Discounting the revaluation surplus of the decommissioned equipment **Note:** it is to mention that this operation is performed with the accounting records when decommissioning the equipment (Dt 124 – for the amortization amount, Dt 721 – at book value Ct 123)	35 000	343	332
2	November	Recording the revaluation surplus of the lathe	17 000	123	343
3	November	Recording the value reduction of the revaluated transport means (that had previously registered a revaluation surplus)	8 000	343	123

Source: Personal elaboration

Determining the balance of the account 343 „Other elements of own capital", sub account „Revaluation surplus of fixed assets" at the end of the year:

Table no. 4 - Debit 343, sub account „Revaluation surplus of fixed assets" Credit

	Initial balance 01.01 54 000
1) 35 000	***2) 17 000***
3) 8 000	
Debiting turnover 43 000	***Crediting turnover 17 000***
	Final balance 31.12 28 000

Source: Personal elaboration

However, a part of the surplus can be transferred as long as the asset is used by the entity. In this case, the value of the transferred surplus would be the difference between the amortization calculated on the basis of the asset's revaluated book value and the amortization value calculated on the basis of the asset's initial price. The transfers of the revaluation surplus in the reported result are not performed through profit or loss.

Example: *The entry cost of a purchased asset, used in the production activity of JSC „Saturn" constitutes 200 000 lei (VAT 20%), the usage period being established for 5*

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years, residual value is zero and the straight-line amortization method is used. The equipment was put into operation on 1 January 201X. At the end of the first year of maintenance, 31.12.201X its revaluation was performed and according to the assessor's report, the asset's fair value was established to be in amount of 180 000 lei. According to the entity's accounting policies, revaluation is performed by removing the amortization at the time of revaluation (at book value and the revaluation surplus is discounted during the time when the asset is used).

Recording the respective economic operations:

Table no. 5 - Economic operations record book

Nr.	**Data**	**Operation content**	**Amount, lei**	**Accounts' correspondence**	
				Debit	**Credit**
1	01.01.201X	a) Recording for entries the cost of the purchased equipment (put into operation) b) Recording VAT, 20%	200 000 60 000	123 5344	521 521
2	Monthly in 201X	Recording the calculation of the equipment's amortization (200 000 lei / (5 years x 12 months)	3 333,33	821	124
3	31.12.201X	Discounting the amortization of the revaluated asset (3333,33 x12 months)	40 000	124	123
	31.12.201X	The asset's book value =200 000 – (3333,33 x12 months)	160 000		
4	31.12.201X	Recording the asset's revaluation surplus	20 000	123	343
5	Monthly in the years 201X+1 201X+2 201X+3 201X+4	Recording the calculation of the asset's amortization (180 000 lei / (4 years x 12 months)	3 750	821	124
6	Monthly in the years 201X+1 201X+2 201X+3 201X+4	Recording the discount of the revaluation surplus during the asset's usage (3 750 – 3 333,33)	416,67	343	332

Source: Personal elaboration

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The method that is used for discounting/transferring the revaluation surplus of fixed assets has to be mentioned in the entity's accounting policies. It is the entity that also has to decide upon the selection of a certain method.

It is to mention that, according to the provisions of art.20, let. z9 of the Fiscal Code, both the revenue from the revaluation of fixed assets and other assets, and the revenue from the resumption of losses from the depreciation of fixed assets and other assets, represent a non taxable income.

The analytical record of the revaluation surplus for tangible and intangible assets is done on types and objects of revaluated fixed assets.

At the end of the period, the balance of the account 343 „Other elements of own equity", sub account „Revaluation surplus of fixed assets" is included in chapter 3 „Own equity", row 380 „Other elements of own equity" of the Balance sheet and in the row 171 „Differences from revaluation" of the Changes in equity statement.

IV. Conclusions

The objective of this research was to present the necessity of performing the subsequent evaluation, based on the revaluation model as established in the International Financial Reporting Standards versus the method of book value established in the National Accounting Standards, aiming that the information from financial statements would genuinely reflect the value of the entity's fixed assets. In this context we support the opinion of Professor A. Nederita revaluation model for entities that hold a dominant position in different sectors and branches of national economy. Subsequently, the research presents the recognition and recording process of the revaluation surplus of fixed assets, which differs according to the **revaluation method used. The latter depends on how the accumulated amortization is handled** (being stipulated in the entity's accounting policies), **on the revaluation result and if the revaluated fixed asset was previously revaluated through surplus or depreciation**, which differs for each individual case. A particular approach is also used for discounting the revaluation surplus of fixed assets when they leave the patrimony: that can be transferred directly in the reported result when the asset is derecognized or a part of the surplus can be transferred during the time when the asset is used by the entity. In this respect, it is easier to apply method of discounting the surplus when the asset leaves the patrimony, because the exact date when the fixed asset was derecognized is not known and this method it is easier in calculations and

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records. But the decision of applying a certain variant depends on the entity and the pursued interest. The complexity of the researched topic was determined by the international accounting regulations for entities applying both the NAS, as well as for those applying IFRS. And, applying the recommendations related to the execution of fixed assets revaluation will ensure comparability of financial statements information nationally and internationally.

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