CHARACTERISTICS OF TANGIBLE FIXED ASSETS REVALUATION

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Evaluarea se referă la acea operațiune de cuantificare, de măsurare în expresie valorică a bunurilor create, a resurselor materiale, a cheltuielilor de muncă înmagazinate în produse, activități sau servicii executate.

În sens restrâns, ***reevaluarea*** este o acțiune de corectare a valorii unor bunuri, elemente patrimoniale înregistrate în contabilitatea unei entități ce determină ***valoarea justă*** a acestora, mai puțin amortizările şi pierderile din deprecierile cumulate potrivit reglementărilor contabile actuale. Prin urmare, ***reevaluarea unui element patrimonial reprezintă acea operațiune de înlocuire a valorii contabile nete cu valoarea justă.*** Reevaluarea se caracterizează prin mai multe trăsături comune, şi anume: a) să fie făcută cu suficientă regularitate; b) elementele dintr-o clasă sau aceeaşi grupă de imobilizări trebuie reevaluate simultan, pentru a se evita **reevaluarea selectivă**; c) chiar dacă este o operațiune dificilă şi se efectuează cu profesionalism în stabilirea valorii juste, aceasta a început să se bucure, din ce în ce mai mult, de o credibilitate sporită.

Before drafting their annual financial statements, business entities must perform two very important operations and they may choose between a **valuation** of their assets and, implicitly, of their tangible fixed assets, with the determination of their **inventory value or** their **present value named cost**, and a **revaluation**, designed to determine the **fair market value** also written down in the books. Both methods are basic requirements for an accurate and true image of the assets status, of the financial position and of the performance of any business entity.

Evaluation is an operation of quantification, of measurement of the value of the goods produced, of the material resources, of the labor costs included in the products, activities or services provided. As a rule, **valuation** is carried out at the same time as the inventory of the company assets at the end of each financial year, when the balance sheet is drafted, when the **goods cost** (value in the books), adjusted with the write-downs and provisions accrued from depreciation, is set.

In modern economies, valuation is achieved by two traditional methods: a) **direct valuation method** of an object, asset, taxable possession, etc. based on facts (according to the statement of the tax payer or according to the written statement of a **third party** acquainted with the matter); b) **indirect valuation method** based on **presumption,** which allows an approximation of the value of the taxable object. Evaluation may be administrative or company (business entity) appraisal, management effectiveness assessment of assets valuation of a corporate body or individual.

In a narrow sense, **revaluation** is a correction of the value of certain goods and assets recorded in the books of an entity, in order to establish their **fair market value**, less the write-downs and losses accrued from depreciation according to the current accountancy regulations, which apply at the end of the financial year or even of several financial years (Decree of the Ministry of Public Finances no. 1752/2005 on the approval of the Accountancy Regulations compliant with the 4^{th} and 7^{th} Directives of the European Economic Communities).

Accoding to these regulations, it is considered an **alternative valuation or a subsequent valuation** and is carried out in compliance with the laws or (national and European) government regulations, its goal being the achievement of two objectives:

1) the **reorganization of the activity** of certain business entities (called companies – corporate bodies, individuals), whose status is critical;

2) the **actual adjustments of the assets** altered by economic instability: price, rate or exchange rates alterations.

The **fair market value** is set according to a valuation generally carried out by qualified professional valuators, members of a certified body, acknowledged at national and international level (Government's Decree no.1553/2003 on tangible fixed assets revaluation and fixed assets input value setting). Therefore, the **revaluation of a company asset is the operation of replacement of the net value in the books with the fair market value**. As it is a complicared operation and has a multitude of characteristics, it shall consider economic phenomena such as: 1) the evolution of inflation; 2) the use of that good; 3) its condition and 4) the price of the good or service on an **active market**.

Concretely, when carrying out a revaluation of the tangible assets of a company, the explanatory reports enclosed to the balance sheet shall include the following: 1) the items that are being revalued; 2) the method used to calculate the adjusted values; 3) the item that was altered in the income statement and in the profit and loss account.

If an asset from a certain group cannot be revalued because there is no active market, that asset or good should be recorded in the balance sheet with its cost, less the accrued value adjustments.

According to the Decree of the Ministry of Public Finances no. 1752/2005 enforceable as of January 1st, 2006, the **active market** is that space or place where business entities, individuals or corporate bodies meet as sellers and buyers, are involved in the transactions that take place there and meet all the following requirements:

a) the items sold are homogeneous;
b) there are both interested buyers and sellers, all the time;
c) the prices are known by the interested parties (the exchanging parties).

The operations related to tangible fixed assets revaluation are recorded in the books using mainly two methods:

1) **gross value method**, according to which both the gross value of tangible fixed assets and the value of the accrued depreciation are revalued simultaneously;

2) **net value method**, which consists of subtracting from the gross value in the books, the accrued depreciation and the adjustments for the actual depreciation or loss of value.

In modern economies, in specialized writings and in the business and legal practice, the revaluation standards have several common characteristics, namely:

a) it should be carried out at **regular intervals** (as a rule, at the completion of the financial year or after any major event in the life of a business entity, so that the value in the books of a tangible fixed asset should not be extremely different from its fair value on the date of the balance sheet;

b) the items belonging to the same class or group of fixed assets (land, machinery, facilities, work equipment, etc.) **shall be revalued simultaneously,** in order to avoid **discriminating revaluation** and recording in the annual financial statements of amounts that are combinations of values calculated on different dates;

c) although it is a difficult operation, fair market value setting, since it is performed with great professionalism, has begun to enjoy an **increasing reliability,** which is confirmed by the high number of disputes and the manner in which these differences, determined according to the inventory value, were settled (the meaning of the fair market value is that **it can replace the inventory value**).

To support these statements, we should mention **a first important aspect**, namely that the inventory value at the end of the year of a given good, also called initial cost (input value), remains unaltered, while once the revaluation determining the fair market value is performed, it has the power and effect of **substituting** the former. Further to this operation, a **second important aspect** may arise, namely a surplus or a deficit of the value set upon **inventory**, which does not alter the input value (in the books), however, if a revaluation is performed, it shall increase or diminish the equity capital accordingly and it shall also alter the value in the books of the tangible fixed assets it relates to, by increasing or decreasing it, as the case may be.

When an asset undergoes revaluation and is assigned a fair market value, which replaces the input value (in the books), the depreciation rules apply depending on the **new fair value.** If we consider the two methods described above and, in this situation, the accrued depreciation is used, the latter may be treated differently, until the revaluation date:

a) **the accrued depreciation is recalculated depending** on the alteration of the input value (gross value in the books) of the assets, so that their new net value in the books should be identical to the fair market value, which is advisable when the revaluation is carried out based on an index;

b) **the accrued depreciation is eliminated** from the gross value in the books of the assets; the net value obtained after value adjustments is recalculated according to the assets' revalued value (this method is used for buildings that are revalued at their market value).

Should tangible fixed assets be revalued, the difference between the value resulted from revaluation and the cost of acquisition value shall be recorded under revaluation reserves, as a distinct sub-item under **capital and reserves**. Regardless whether the value was altered or not, during the financial year, business entities should submit explanatory reports with the following information:

a) **the value of the revaluation reserve** at the beginning of the financial year;
b) **the revaluation differences transferred** at the revaluation reserve during the financial year;
c) **the amounts that were capitalized or transferred** in another manner at the revaluation reserve during the financial year, with the description of such transfer performed in compliance with the laws in effect;
d) **the value of the revaluation reserve** at the end of the financial year.

Generally speaking, the starting point of tangible fixed assets revaluation is their **overall inventory**, including the following structures: active and inactive fixed assets used in the basic and auxiliary activities, the ones in operation and the ones in reserve or preservation.

This operation is a good opportunity for their detailed analysis, in order to accurately establish their technical and economic parameters and their normal operation life. Revaluation alters chiefly the **stocks value** and secondly the **registered capital value** of the entity undergoing revaluation, and the new values (also called fair market values) must be submitted to the Trade Registry and to the General Directorate of County Public Finances.

References:

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