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The Importance of Fixed Asset Revaluations in Economic Crises Periods

Ibrahim MERT Ph.D.
Assistant Professor
Istanbul Aydin University
Beşyol Mah., İnönü Cd. No:38, 34295
Küçükçekmece-İstanbul/Turkey
Phone: +90 444 1 428
Email: ibrahimm@aydin.edu.tr

Анотація

Якби в певній країні не було економічних криз чи високих інфляційних періодів, оцінка не була б необхідною. Якщо є надзвичайна зміна "загального рівня цін", ми не можемо побачити точну картину компанії, коли дивимось на її баланс. Це означає, що хоча баланс повинен відображати "зареєстровану" позицію компанії на той момент, це не було б "реальним" відповідно до ринкових цін.

Ключові слова: переоцінка, економічна криза, інфляційні періоди, основні засоби

Аннотация

Если бы не было экономических кризисов или периодов высокой инфляции в конкретной стране, оценка не была бы необходима. Если произойдет необычное изменение «общего уровня цен», мы не сможем увидеть точную картину компании, когда смотрим на ее баланс. Это означает, что даже если баланс должен отражать «зарегистрированную» позицию компании на тот момент, она не будет «реальной» в соответствии с рыночными ценами.

Ключевые слова: переоценка, экономический кризис, инфляционные периоды, основные средства

Abstract

Basically terms, this research article evolved in response to a desire to find out something more about **Fixed Asset Revaluations in Economic Crises Periods** by analyzing the conceptual foundations of revaluation in accounting.

Revaluation of Fixed Assets meaning that assets get measured and reported in financial statements at the values which are close to the present market situation.

If there were no Economic crises or high inflationary periods in a specific country, an evaluation would not be necessary. If there is an extraordinary change in **"the general level of prices"**, we cannot see the accurate picture of the company when we look at its balance sheet. That means even though the balance sheet should reflect the "registered" position of the company at that moment, this would not be "real" according to the market prices.

Especially in the countries where **"continuous high inflation"** exists, revaluation would be very important. In these kinds of countries, other than international accounting standards, governments are taking additional measures in order to decrease the effects of the movements of the general level of prices on financial statements.

Keywords: Revaluation, Economic crisis, inflationary periods, fixed assets

Methodology

During this study, below objectives have been tried to be obtained:

• an understanding of the interpretive and critical theory of fixed asset revaluation research and its place within the broader body of fixed asset revaluation literature;

• a result from philosophical, theoretical and methodological discussions or debates;

• a conclusion from the historical and practical understandings.

Basic steps involved in this article:

1. Defining the concept of Fixed Asset Revaluation.
2. Making background research to determine what is already known about Fixed Asset Revaluation.
3. Developing a hypothesis to guide Fixed Asset Revaluation.
4. Develop a Fixed Asset Revaluation hypothesis
5. Gathering data and observations by conducting Fixed Asset Revaluation field studies or experiments.
6. Analyzing and interpreting results and data.
7. Using the analysis to support, reject, or reevaluate the Fixed Asset Revaluation.
8. Concluding the results of the Fixed Asset Revaluation.

1. Asset Terminology

2.1. Assets

An a**sset is an** economic power or source of a company. This power or source is consumed to produce Economic value or Economic strength to a company. If a company's Economic value increases, that means that **tangible** or **intangible** assets are consumed rationally so that retaining positive economic value is considered an asset. Simply stated, assets represent ownership of value that can be converted into cash (although cash itself is also considered an asset) (Sullivan, A.; Steven, M. S., 2003). The balance sheet of a firm records the monetary value of the assets owned by the firm (J. G. Siegel; N. Dauber; J. K. Shim, 2005). It is money and other valuables belonging to an individual or business (Sullivan, A.; Steven, M. S., 2003).

In other words, an asset is a balance sheet item and controlled by an Economic entity to get benefit in the future.

Generally, the most significant fixed asset in terms of value is a company's investment in property and equipment**.** These are the assets that companies commit a lot of money and when they are purchased, often referred to as a company's "**capital expenditures**". Capital expenditures represent expenditures that will provide benefits over more than one period**.** Let's say Company X's balance sheet reports accumulated capital expenditures of **$150,000**. This value represents the historical acquisition cost of many investment items that may have been purchased several years ago and possibly decades (Reitel, C., 1936).

2.2. Assets according to a period of consumption

Assets are grouped according to their usage types as **current** and **fixed** assets. Current assets cover inventory, while fixed assets compose such items as equipment, lands and buildings and equipment.

2.2.1. Current Assets

If it is consumed in a maximum one year period of time or in the operating cycle (whichever is longer) that is called a **current asset.** For example, cash, bank accounts, receivables, and stocks can be in a group of current assets. On the other hand, fixed assets are the assets which are consumed or considered to create benefit to the company for longer than one year period. Machinery, vehicles, furniture, buildings, and land can be counted in this category.

The meaning of the phrase of *net current assets* (another word *working capital*) *equals "the total current assets less the total current liabilities"*.

1. **Cash and Cash equivalents** — these are the most liquid assets, and they cover cash currencies, deposits in the bank, and other cash values such as checks and money orders.
2. **Short-term investments** — cover short term securities.
3. **Receivables** — expected from clients to be paid in the short term.
4. **Inventory** — these items can be consumed in a short period of time. The inventory value registered to balance sheet can be historical cost or fair market value, whichever is lower (lower of cost or market rule).
5. **Prepaid expenses** — expenses paid in advance in order to be consumed in the near future.

2.2.2. Fixed Assets or long term investments

On a balance sheet, fixed assets are the value of a company's property, equipment, and other capital assets which are expected to be consumed further than one year. The phrase of net fixed assets means **"net"** value of the long term fixed assets, and accumulated depreciation should be minus from the gross value of the long term fixed assets.

This group includes:

1. securities such as bonds, common stocks, and long-term notes
2. fixed assets which are not a function of operations (such as land)
3. special sinking a pension funds

Classification of Fixed Assets

2.2.2.1. Property and Equipment

In general, Property and equipment classification is comprised of land, buildings, furniture, fixtures, and equipment, as well as leasehold improvements, construction in progress, and capital leases**.** Most of the cost reported here will be allocated to future periods using some chosen method of depreciation.

We can break the property and equipment down as follows:

2.2.2.2. Lands

Preparation expenses should also be included in to cost of the land such as grading expenses, soil removal expenses, drainage expenses, and demolition expenses of an existing building.

2.2.2.3. Buildings

There are various methods for concluding the cost of buildings. For example, purchasing a building includes the cost of land and building. Then, the buyer should distribute the total purchasing value between the land and building so that what would be the depreciable amount of building and non-depreciable amount of land. Any additional expenditure to utilize in order to make the building usable should be added to the cost of the building as *make-ready costs*.

2.2.2.4. Furniture, Fixtures, and Equipment

Desks and chairs can be examples of furniture.

Rental vehicles, forklift trucks, and portable ladder systems can be examples of equipment.
The steel storage systems throughout the huge stores can be an example of fixtures.

2.2.2.5. Construction in Progress

During a year, a company may have several, if not more, new facilities under construction. Therefore, throughout the year, the company is required to make periodic progress payments to its general contractors. Whenever the accounts are closed at the end of every year, much of the new construction will be at varying stages of completion. If this occurs, the company must report an **"asset under construction"** in its balance sheet. At some future time, the costs associated with construction in progress will be transferred to the building account.

2.2.2.6. Lease Agreements

A lease agreement is between two or more individuals that authorize the use of a specific asset (e.g., a building) for an identified period of time. Most lease agreements are classified into two general categories**: "operating leases"** and **"capital leases**". Operating leases are often viewed as temporary rentals, with rent expense being reported in the income statement of the company needing the asset. Operating leases can be short-term relative to the entire life of the asset being rented.

2.2.2.7. Leasehold Improvements

If a company needs to modify the leased asset for any reason, the cost of the modification is termed leasehold improvements.

Leasehold improvements have a determinable period of benefit. Therefore, they are written off over the term of the lease or the life of the improvement, whichever is shorter**.** The write-off of leasehold improvements is termed amortization rather than depreciation. Amortization, similar to depreciation, is a method of cost allocation. Generally, leasehold improvements are viewed as intangible assets.

2.2.2.8. Long-Term Investments

Long-term investments, discussed along with their short-term counterpart, are recorded when a company invests in another company's debt or equity. If management intends to hold these investments beyond one year, these investments must be categorized under the heading long-term investments. Occasionally management reclassifies long-term investments as market conditions change from one period to the next.

2.3. Assets according to physical appearance

Assets are grouped according to their physical appearance into two as **tangible** and **intangible** assets.

2.3.1. Tangible Assets

Tangible assets are the assets of accompanying with their physical substance, which means these can be touched and seen (For example; currencies, buildings, inventories, lands, machinery, vehicles and, equipment).

Assets can be divided as tangible and intangible assets. Tangible assets contain various subclasses, including current assets and fixed assets (Downes, J.; Goodman, J. E., 2003). [3]

2.3.2. Intangible Assets

Intangible assets don't have a physical appearance to be observed. They are **nonphysical values and rights** which give to the company power in order to utilize as advantageous in the competition of the market. Intangible assets can be listed as copyrights, trademarks, patents, goodwill, and computer programs.

These assets are amortized to expense generally over 5 to 40 years with the exception of goodwill. Goodwill creates its worth thorough as a famous brand name, good customer connections, human resources quality, and patents or technology. Goodwill generally occurs when a company is sold by calculating the difference between purchasing value and the book value of the bought company.

2.4. Assets in the Balance Sheet

In accounting, assets can be found out by adding **"equity"** to **"liabilities"**.
The balance sheet equation between assets, liabilities, and owner's equity:

Assets = Liabilities + Owners' Equity

One of the most used definitions for **asset**s is the definition of the **International Accounting Standard Board** (IASB). The following is a quotation from the **International Financial Reporting Standards** (IFRS): "An asset is a resource controlled by the enterprise as a result of past activities and from which future economic benefits are supposed to flow to the enterprise."(IASB.org, IFRS).

In a company's balance sheet's certain divisions are required by **Generally Accepted Accounting Principles** (GAAP), which vary from country to country (Kieso, D., 1996).

2.5. Depreciation

Depreciation is the expense generated by using an asset or consuming the economic life of an asset. The calculation of depreciation is the cost of the asset minus the salvage value of that asset. There are different methods of calculation of depreciation over the useful economic life of the asset. Any method of depreciation is under the decision of the management of an entity.

2.6. Amortization

While **depreciation is used for tangible assets**, amortization is used for the consumption of **intangible assets**.

Amortization expense is the deduction of expenses from the cost of intangible assets over a specific period of time (usually over the life of intangible assets such as a patent or copyright).

2.7. Fixed Asset Disclosures

As all other disclosures, fixed asset disclosures are also vitally important to be mentioned as footnotes of balance sheets. These disclosures can inform the readers about the ages and usefulness of the fixed assets possessed by the company. This mention may help the readers to estimate the average ages of the fixed assets of the company.

We have three methods for estimating the average age of the fixed assets:

1. **The average age of fixed assets** = total of accumulated depreciation /total of current depreciation expenses = **XYZ years**
2. **Relative age of fixed assets** = total of accumulated depreciation / total investment value = **percentage of the age of fixed assets**
3. **Average depreciable life of fixed assets** = total investment value / total depreciation expenses of fixed assets

Finding out of the estimated average age fixed assets may help readers for:
***** Understanding if the company's assets old enough or not and it is necessary to make the future investment or more maintenance cost for the fixed assets. This vital information should be disclosed to the balance sheet in order to define future profits more clearly.
* Reveal whether a company is losing its competitive advantage compared to another company that has invested heavily in new technology.

3. Revaluation of Fixed Assets

Asset revaluation is a process of determining the current worth of a company's investment or balance sheet items.

Valuations, reevaluations, and impairment adjustments are closely related events in asset management and in the context of the accounting standards relating to ***the 'measurement of asset carrying values after recognition'***. Valuations do not change the carrying value of an asset in any way. The valuation of an asset at any time is an assessment of its worth usually by experienced professionals against some prescribed criterion. There are many different reasons and assessment criteria that give rise to asset valuation. Examples are 'current market value', 'fair value', 'economic value', 'insurance replacement cost', 'recoverable value', 'value in current use' etc.

Valuations can be applied as individual entries or by mass data import at any time, without a corresponding revaluation transaction being applied to the asset. The first valuation for any asset is its acquisition value. During a normal asset life-cycle, there could be any number of valuations. Another explanation for the process of determining the current worth of an asset or company. There are many techniques that can be used to determine value, some are subjective, and others are objective.

For example, an analyst valuing a company may look at the company's management, the composition of its capital structure, the prospect of future earnings, and the market value of assets (active.com).

3.1. The Importance of Fixed Asset Revaluation

The principles of fixed asset revaluation are very important. Revaluation principles of fixed assets affect the whole company. The prices are paid for commodities, such as food, clothing, shelter, fuel, power, and transportation are influenced by revaluation. The prices that the consumers pay for gas, power, and transportation are directly determined by the valuation of the fixed property involved. This is evident because the prices are entitled to a fair return on the company's capital invested after paying all operating costs.

Since the depreciation of plant property and equipment constitutes an operating cost, the rates charged for these commodities are directly tied up with the values placed upon the fixed assets. The engineer naturally must play an important part in placing the valuation on properly and equipment for rate-making purposes.

The engineer's services in valuation are indispensable for sale or purchase of property or defining the insured amount for insurance policy (Reitel, C. 1936).

3.2. Market Value

The current quoted value of the company. It is also known as "market price".

Market value is clearly different from the book value because the market value considers the values that not registered to the accounting.

The term **"market value added"** means an estimation that reveals the difference between the market value of the company and the owner's capital contributed to the company.

Formulation is:

Market Value Added (MVA)= Market Value of the company – Invested Capital of the company

A higher MVA implies that the company has produced Economic value for its owners. A negative result from this formula indicates that the value of a company is less than the value of the contributed capital by the owners. That means that the higher the MVA, the better it is for the owners or the shareholders.

3.3. Book Value

The **book value** (**carrying value)** is the balance value of an asset in a balance sheet. For fixed assets, the book value is calculated by subtracting the accumulated depreciation or accumulated amortization or impairment cost from the original cost of the asset. Traditionally, a company's book value is its total assets minus intangible assets and liabilities (Hermanson, Roger H.; Edwards, J.D.; Salmonson, R. F., 1987). However, in practice, depending on the source of the calculation, book value may variably include goodwill, intangible assets, or both (Cottle, S.; Murray, R.F.; Block, R.E., 1988). When intangible assets and goodwill are explicitly excluded, the metric is often specified to be "tangible book value".

Book value is known as **"net book value"** (NBV) or **"net asset value"** as it is called in the UK.

The book value can be calculated by taking the cost of an asset minus the accumulated depreciation.

The net asset value of a company can be calculated by taking total assets minus intangible assets (patents, goodwill) and liabilities.

Finally, book value is the accounting value of a company, and there are two main usage purposes:

a. Book value is the total worth of the assets, and the owners or shareholders may get if that company would be liquidated.

b. Book value can be compared with the market value, and the difference may indicate whether the stock price of the company is underpriced or overpriced.

3.4. Salvage Value

The salvage value is the estimated value of an asset at the end of its Economic life. The salvage value is estimated in order to define the depreciable value of the assets.

For example, on a straight-line basis, if an asset costs **$5,000** and has a salvage value of **$1,000** and its useful economic life is five years, its depreciable value is **$4,000**, and depreciation cost would be **$800** (**$5,000 Lei-1,000)/5 years**) each year.

There is also a term *residual value*. It looks like the salvage value, but it is the estimated value of the asset at the end of the lease agreement. How much a fixed asset is worth at the end of its lease, or at the end of its useful life (Groppelli, A.A. 2000).

3.5. Historical Cost

In accounting, **historical cost** is the original Economic value of an economic item (IFRS). In historical cost applications, the value of assets and liabilities are shown at the value of acquisition as if there is not any change since the date of purchasing. For this reason, the balances of the assets and liabilities are different from their **"true"** values. The group of property, plant, and equipment is recorded at a cost under the historical cost basis (IFRS - IAS16).

Even though its inaccurate results because of deviation from "true" value, historical cost is still used in accounting applications. In the usage of it, there are some corrections to the applications of historical cost by adding or subtracting according to the rules and regulations. The accounting applications are on the road to the fair value or market value instead of utilizing historical cost for the main, important, or essential assets and liabilities.

Advantages of historical cost accounting

* Historical cost values of assets and liabilities are straightforward
* Historical cost values of assets and liabilities are not recorded gains and losses until their elimination from the company
* Historical cost accounting is still very common in most accounting applications

Disadvantages of historical cost accounting

* Historical cost values of assets and liabilities do not refer to the true value of the company
* Historical cost values of assets and liabilities do not register the opportunity costs for the usage of old or very old assets such as buildings
* Historical cost accounts do not measure the loss of value of monetary assets as a result of inflation (PriceWaterHouseCoopers, 2006). (Technical Summary: IAS 2) (Kapnick, H., 1976).

3.6. Methods of Revaluation of Fixed Assets

According to IFRS, it is acceptable, but not a condition, restating the values of property, plant, and equipment to fair value (IFRS - IAS16). 'Fair value' is the value of an asset or liability for which the asset or liability can be revalued in an arm's length transaction method. This policy can be applied to all assets or liabilities of a specific group. For this reason, this application can be used for companies' assets and liabilities in order to bring their values on fair levels. The revaluation applications must be performed according to the rules and regulations in order to ensure that the book value (carrying value) is not different from the market value of the assets and liabilities over the years. A surplus at the end of the revaluation calculation must be recorded as revaluation reserves or funds, not as any type of income.

The methodologies of revaluation of assets or liabilities:

3.6.1. Indexation

According to this application, defined indices are used to apply to the cost of the assets or liabilities to reach the current value of the assets or liabilities. The indices are declared by the statistical offices of the countries.

3.6.2. Current Market Value

According to this method, the values of fixed assets or liabilities are estimated by using recent prices of the assets and liabilities in the applications of the real and recent market. In this system, in order to obtain the current market value (CMV), companies should get services from the experts, brokers, agencies, technicians, suppliers or licensed appraisers according to the assets or liabilities.

Comparisons for assets and liabilities for most similar types can be observed for sale, new or used, can produce an estimated value.

Below formula also can be utilized for estimating CMV:

CMV of an 'n' years old asset = (CMV of new an asset/useful life of an asset)*(useful life of an asset –n).

3.6.3. Appraisal Method

According to the appraisal method, experts are in charged to find out by detailed examination of the fair market value of an asset. This application is essential, for example, in the case of selling the company or defining an insurance policy. In the case of insurance policies, an appraisal provides that the assets are not over or underinsured.

Below items should be taken account for determining the value of a company's asset:

a) Purchasing date of the asset.
b) Usage hours of an asset in a day.
c) Type of asset. (It is a general purpose asset or a special purpose asset).
d) Repairs and maintenance programs of the asset.
e) Availability of spare parts of assets.
f) Estimated future demand for the product that is produced by the asset.
g) In case the asset is a part of a complex bigger asset, the life of the latter one is vital.
h) Taking other factors to have the fair value of the assets

3.7. Important Points for Fixed Asset Revaluation

The increase or decrease in the value of assets due to revaluation is credited to 'revaluation reserves or funds', and it cannot be distributed as dividends. Revaluation reserves or funds are treated as a capital reserve of the company.

2. The increase of depreciation expense because of the revaluation of assets is debited to revaluation reserves or funds and the usual depreciation expense recorded in the Profit and Loss account of the company.
3. Even though there are several other methods such as indexation and referring to current market values to apply revaluation, the most convenient one is the appraisal method. On the other hand, whichever method is used, the other ones can be utilized as cross-check in order to provide that the final figures are acceptable and fair.
4. If an asset is revalued and then sold in loss, the part of the loss that is because of revaluation should be recorded to the Revaluation Reserves or Funds as a debt.
5. After revaluation, the value of change on each class of assets would be revealed in the balance sheet. In the same way, the change would be shown in the place of the original cost of the asset.
6. Lands and buildings are revaluated commonly because of their economic life much longer comparing the other fixed assets. On the other hand, plant and machinery, vehicles, furniture, equipment, etc. are revalued whenever revaluation is necessary.
7. Revaluation should be applied to book value and accumulated depreciation, not to the net book value. Additionally, the revaluation fund exceeds the recoverable value of that fixed asset.
8. Revaluation can be both direction, upward or downward (impairment). Since the upward revaluation differences are recorded to the revaluation reserves or funds, downward revaluation differences are directly registered to the Profit and Loss account.
9. If there is an upward difference for a fixed asset that had a revaluation difference of downward and has been previously recorded as an expense to the profit and loss account, the equal amount of the revaluation should be recorded to the profit and loss amount as an expense.

4. Revaluation in Economic Crisis

The concept of value is different from the concept of price. Price is a term used to pay as the amount of supply or demand for the goods or services. In this context, price is a value indicating the relative goods or services for a particular buyer or seller. The actual data may not define the present potential price for the goods or services. In that case, the values seem in the registration will not represent the real value of the things.

Fixed asset valuation is the process that has to be preceded by considering many objective factors such as the quality, utility, environment, usage conditions. In valuation, several methods can be used as well as cost price, sales price. Valuation procedures in the developed western countries are made by professional experts. In general, to reach the correct valuation results, the value judgments of expert and his experience, impartiality, and discretion are important skills. For an accurate result at the end of the valuation process of fixed assets, valuation techniques, having sufficient and proper information about the fixed assets and implemented legal regulations are also playing an important role. The issues discussed here, the most important conclusion on asset valuation is an objective expert, without being under any influence, without considering his own and clients' individual interests. These are very important.

In **high inflation countries**, trade, economic, social, and political issues by many of the factors are also creating major problems on the balance sheets of commercial enterprises. **Continues high inflation**, if it is not prevented or taken measures, affects the reality of the balance sheets of the companies persistently. Financial statements do not reflect reality; especially the unfair taxation has led to many adversities.

As it is well known, a **continues high inflation environment**, and price movements provide negative effects on the financial statements of the companies and for reaching the actual values protection measures are organized. They can be divided into two groups.
1. General (radical) measures first (inflation accounting methods),
2. Other (partial) measures (Accelerated depreciation methods, depreciation period shortening, accruals, LIFO method, renovation fund, increased costs of funds, the investment incentives in the indexing, profit tax exemptions.)

4.2. Revaluation Could Make the Necessary Corrections on Balance Sheets?

Experienced no increase in inflation or income growth in the overall level of prices is over, the economy experienced low inflation rates do not arise in the need of the revaluation. Fixed assets account group of companies active in the economic cost of assets purchased in that year, fully amortized to expense through depreciation not written, the inflation environment, leads to unfair taxation.

The continuously inflationary environment depreciates over the economic cost of the assets of companies and that will renew their fixed assets to raise funds that do not allow. This situation called "inflation tax" and it will result in the informal economy to become the most important reason.

Continuous and high inflation experienced in a country where all items of financial statements to correct for inflation, instead of just some of the economic value of assets in order to reduce the impact of inflation has some applications. What is undoubtedly the most effective funding cost increases, and (revaluation) increased funding for the applications.

4.3. Additional Effects of Economic Crises on Balance Sheets

Although high inflation in many companies has grown and managed to stay alive. Under this relative success of the informal economic activity and certain tax incentives and state aid (subsidies) are protected by a significant margin.

Many businesses in the economic crisis have led to the closure or downsizing. At the end of the economic crisis, significant exchange rate differences arising from the financing costs and interest expenses on the balance sheet equity capital of enterprises (-) value of the companies that are downloaded, and this has become impossible for them to continue their activities.

4.4. Revaluation Results should be Close to Market Equivalent Value

It must be known that the correction of inflation effect on the balance sheet is not an easy task.

In this way;
- Balance Sheet will show their true value.
- Inflation accounting difficulties in calculating the correction will be eliminated.

4.5. Financial Reporting in Hyperinflationary Periods

IFRS requires a separate method of accounting in currencies deemed to be hyperinflationary (IFRS - IAS29). The characteristics of hyperinflation include its wealth in non-monetary assets stable for foreign currencies. This can be considered if the cumulative inflation figure reaches or exceeds 100% in three years, for example, in Romania.

4.5.1. Inflation Effects on Businesses

Continuous increases in the general level of prices make negative effects in the economic institutions. It is clear that in a long period of time, these effects would make it difficult for future investment decisions based on the financial statements, which are under the pressure of the continues high inflation.

Inflationary days, on the other hand, would demolish companies' financial positions and create financial difficulties. While increasing the necessity of working capital, inflation would forces companies to utilize more outsource liquidity in order to balance the lack of working capital and investment. It is clear that high inflation would create more expensive external sources, and this would make companies hesitate to take the decisions of investment (Kaygusuz, Y. S.; Dokur, S., 2004).

The effects of inflation on companies are as follows;

Effects on Capital: Continues inflationary economic environment would melt the capital of companies. The melting of the capital would increase the demand to increase the capital of the company. Of course, the shareholders may support this need. If not, it should be recovered by external sources, and this would increase the cost of resources.

Effects on Profit, Dividend, and Taxes: It can be estimated that the profit relived at the end of the year would not reflect the real performance of the company. Artificially increased fictitious profit because of inflation would be much more than the real or actual profit of the entity. Because of this fictitious profit, the company would face two situations: the first one is that it needs to distribute more dividends to its shareholders, and the second, it has to pay more taxes to the state. That means that the inflationary situation would present a fictitious profit and that would create fictitious dividend and fictitious tax liability.

Impacts on Long-Term Plans and Decisions of the Company: Of course, companies are established for a long period of time. In order to stay such a long years in competitive working conditions, they have to have not only daily procedures but also long term plans. The vicious circle of the continues high inflationary working conditions would present risky and uncertain futures as far as long-term plans are concerned. They would hesitate to talk about the future because the inflated business environment prevents companies from taking investment decisions. The resources for investment may face with the problems of finding equity leads the enterprises to foreign resources to realize the planned investments. As a result, the problems in finding resources either delay the completion of investments or cancel it at all. The fact that profits are greater than their real value, this known fact can lead owners to take reserved decisions. Reserved decisions would cause the company to lose market share.

Effects on Production Decisions: Continues high inflation would force the company to adopt the higher purchasing prices for the materials that are used in its production. Higher purchasing prices would submit a higher production costs. That means the company should be able to reflect the change rate of purchasing prices to the sales prices.

4.6. Application Models for Fixed Asset Revaluation

Tangible fixed assets of enterprises are an important portion of total assets. Therefore, tangible assets that create issues, depreciation of tangible fixed assets, and accounting procedures must be emphasized from revaluation.

After evaluation of tangible fixed assets can maintain accounting procedures by watching the two policies:

a) Cost Model
b) Revaluation Model

It must be applied by choosing one of these two models. However, the selected method not just applied to an asset, it should be applied to the entire class. For example, revaluation intended to apply cannot be preceded only for a truck but for all group of the trucks should be subject to revaluation. Models can be analyzed as follows.

Conclusion

The starting of the concept of **Fixed Asset Revaluation** has meant a change from classical principles of the accounting system based on **reliability**. This creates advantages for the readers of the financial reports, mainly the Balance Sheet.

Revaluation in accounting is more relevant than historical cost because it provides updated information consistent with the market situation, which is more important than historical values.

On the other hand, revaluation has to be based on systematical approaches, and the results should be correct according to the market situation. If the revaluation performed is not based on governmental rules and regulations, in that case, there may be unreliable results, and that may be subject to managerial manipulations.

Summarizing the advantages and disadvantages of **Fixed Asset Revaluation**, it is possible to say that revaluation measurement continues to be a very good tool for financial reports. In case of necessity, it helps the companies to show their fixed assets with the correct values in balance sheets. On the other hand, as repetition, the method should be trustable. The user communities need to become more comfortable with the results of the revaluation models.

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