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METHODOLOGICAL APPROACHES TO EVALUATION AND REVALUATION OF FIXED ASSETS IN THE CONTEXT OF IMPLEMENTING INTERNATIONAL ACCOUNTING STANDARDS

Annotation. It has been established that the issues of methodological nature are of key importance in ensuring the reproduction process of the elements of material and technical resources, among which the issues of applied significance should be emphasized, such as justification of criteria and indices which can be indicators of the reproduction process state; developing algorithm of the latter at its various stages; modeling reproduction processes at the enterprise. Considering the issues of developing objective criteria and indices for the evaluation of the reproduction process of the elements of material and technical resources at the agricultural enterprises, the first thing to be noted is an unresolved issue of fair value, which creates the situation wherein book value of fixed assets and other assets minimizes the investors' possibilities to protect their interests. This is due to the fact that accounting in Ukraine serves for tax control rather than management and investment. Evaluation of fixed assets, being the components of material and technical resources (MTR), at fair value makes it possible to characterize the reproduction process objectively, define the property status of the economic entity more precisely. However, it distorts financial result. We believe that simultaneous use of several indices for fair value measurement may lead to different fair values of the fixed asset. An agricultural enterprise is obliged to analyze the reasons for inconsistencies in

calculations and choose the most precise estimation of the fair value. Fair value of the assets must reflect variability of money flows, which are taken into consideration during price negotiation by independent, knowledgeable buyers and sellers interested in making such a deal. There is no unified approach due to the fact that most of the assets do not have market value, and their fair value estimated by the expert is conditional and fair only as of the estimation date. Nevertheless, fair value is necessary for the potential investors and indispensable to financial assets. Evaluation methods of fixed assets at their fair value require development, adjustment of evaluation model, which will make it possible to ensure equivalency of exchange between the independent parties on the active market.

Key words: evaluation, revaluation, fixed assets, agricultural enterprise, international accounting standards, national accounting standards.

Problem statement

Reproduction process is considered as a purposeful influence of various institutions, representing the management entity, and a total of production relations during production, exchange and consumption, which are characterized by repetitiveness. First of all, what is meant here is the

influence of organized social entities on the reproduction process: company's management teams, state and other institutions, as well as natural factors. On the other hand, reproduction is an objective process, though it does not mean that it cannot be influenced by organized entities and institutions. Besides, it also does not mean that there is no inverse relationship when changes in the reproduction process also influence the institutions and their interconnection with the reproduction process. This entails only proportions between factors and conditions of reproduction, but also direct implementation of this process. It is possible not only to speed up or slow down reproduction by means of and with the help of combination of various elements and structures of reproduction process organization, but also to change its architectonics by introducing certain innovations. These peculiarities are foreseen by the reproduction process in agriculture.

It should be noted that an important place in ensuring the process of reproduction of the elements of material and technical resources is allocated to the questions of methodological issues, among which the issues of applied significance should also be emphasized, particularly justification of criteria and indices which can be indicators of the reproduction process state; developing algorithm of the latter at its various stages; modeling reproduction processes at the enterprise.

Considering the issues of developing objective criteria and indices for the evaluation of the reproduction process of the elements of material and technical resources at the agricultural enterprises, the first thing to be noted is an unresolved issue of fair value, which creates the situation wherein book value of fixed assets and other assets minimizes the investors' possibilities to protect their interests. This is due to the fact that accounting in Ukraine serves for tax control rather than management and investment.

Analysis of recent research and publications

A lot of national scientists (economists) have dedicated their scientific research to theoretical and practical aspects of fixed assets accounting as well as analysis of their application, in particular O. S. Borodkin, F. F. Butynets, S. F. Holov,

M. I. Kuter, N. M. Maliuha, V. F. Palii, V. V. Sopko, Y. V. Sokolov, Z. S. Tuiakova.

Works of foreign scientists (economists) are also of large interest in the investigated field, particularly K. Anderson, A. Gilbo, J. Coldwell, E. Leote, K. Marks, G. S. Mill, and B. Needles. However, discussions on the questions of fixed assets accounting as well as their application still continue. This fact gives evidence of various approaches of scientists towards the problem being investigated, in particular towards the economic substance of fixed assets (in particular, towards the definition of the following terms: "fixed assets", "fixed funds" and "fixed capital"); initial value formation; evaluation upon which fixed assets must be listed in the balance sheet of the organization; expediency of further revaluations; documentary disclosure of fixed assets accounting; issues of their receipt, application, disposal, as well as disclosure of information about them in accounting (financial) statements.

Research objective

The goal of the research is the development of theoretical, methodological provisions and practical guidelines regarding evaluation and revaluation of fixed assets.

Presentation of the basic material

Efficiency of fixed assets application has major influence on the enterprise performance results, namely: productive capacity, production costs, profit and financial stability. Thus, the solution to the problem of evaluation of efficiency of fixed assets application is urgent at this stage of economic development.

The goal of fixed assets analysis is state assessment and enhancement of efficiency of their application, confirmation of the necessity to invest into the enterprise technological infrastructure as well as investigation of depreciation methods with a view of ensuring the enterprise financial stability.

Therefore, analysis results may provide an answer to the question which significant ways of enhancing the efficiency of fixed assets application may help at the given stage of its activity.

Methods of economic analysis may be highlighted out of a great number of methods for the analysis of the efficiency of fixed assets application,

and they may have an impact on efficiency enhancement of the enterprise fixed assets application as well as show how to decrease the cost of production and increase labour efficiency. The given method is based on the understanding that fixed assets management is connected with the improvement in the quality of production.

Under the conditions of constant market competition, high-quality products are sold faster and are in great demand.

An economic entity, irrespective of its industry classification, owns fixed assets that characterize its material resources and define technical level of production. In other words, every enterprise that has property is trying to increase it. Efficient application of business property potential implies the result of its application [1, p. 17].

Fixed funds (assets) are the part of production assets involved in the production process for a long time, while keeping their in kind form; their value is transferred to the manufactured product gradually, by installments, considering their application [2, p. 11].

The dominant feature of defining fixed assets is the way of transfer of value on the product: gradually, during a number of production cycles, by installments, with respect to depreciation.

Fixed assets depreciation accounting is carried out at the established depreciation rates, the amount of which is included into the production cost. In the course of selling the production, accumulated depreciation is accrued in the depreciation fund intended for new capital investments. Therefore, the cost of fixed assets depreciation transferred to the authorized capital (fund) of the enterprise as part of the fixed capital while selling production performs constant circulation, changing from monetary to in kind, commodity and again monetary form. Therein lies economic substance of fixed assets [3, p. 72].

In order to manage fixed capital at all levels it is necessary to group fixed assets according to function and type classification. It allows obtaining information about all the changes related to the enterprise fixed assets.

The system of monetary indicators is used in economy. Fixed assets accounting in monetary form is used to plan extended reproduction of fixed assets, determine degree of depreciation as well as amount

of depreciation expenses. There is a differentiated system of monetary values, which is determined by target objective of measuring the value of fixed capital, for internal activities and performance measurement, for accrual of depreciation and tax calculation, for sales and rent, pledge operations.

Nowadays, the majority of agricultural enterprises carry out fixed assets revaluation. The enterprise fixed assets revaluation aims at: creating conditions for accumulation of savings, renewal of fixed assets; developing a base for property valuation during privatization; indexation of depreciation rates for complete recovery.

According to p. 30 of the International Financial Reporting Standard 16 "Fixed assets», after initial recognition as assets, an article of fixed assets must be recognized at its original cost less accumulated depreciation and impairment loss. According to p. 31, after initial recognition as assets, an article of fixed assets must be recognized at revalued cost that is its fair value as of the date of revaluation net of depreciation and impairment loss, accumulated thereafter. Revaluations shall be carried out regularly enough so as balance sheet value is not substantially different from the fair value as of reporting date [4, p. 168].

It is worth noting here that in some countries (Spain, Italy) revaluation can be carried out only in cases provided for in the legislation. In Great Britain frequency of revaluations is determined by the company itself. In France the legislation allows recording revaluation of non-current assets and investments, though recognition of profit from increase of asset value is accompanied by tax on income from the emerging revenue. In Switzerland fixed assets must be evaluated at the initial cost less depreciation without the right of current revaluation. The exception is provided by the enterprises accumulated loss of which exceeds half of its capital and obligatory reserves. In this case it is allowed to revalue property and ownership interest to current cost [5, p. 369].

It is worth noting that revaluation of fixed assets is completely voluntary. This particular conclusion is drawn from p. 16 of the Accounting Regulations (Standards) 7: "The enterprise can revalue an article of fixed assets if depreciated value of this article is distinctly different from its fair value as of the balance sheet date" [6]. According to

the recommendations of the Ministry of Finance, materiality qualifier may be set at the amount equal to 1 percent of net income (loss) of the enterprise (p. 34 of Methodological recommendations № 561 (2003), sp. 2.20.1 of Methodological recommendations № 635 (2013)) [7; 8], or at the amount equal to 10 percent deviation of depreciated value of fixed assets from their fair value (p.34 of Methodological recommendations № 561 (2003)) [7]. However, these recommendations are not mandatory, so the enterprise can ignore them and set materiality qualifier on its own.

First of all, the given operation is carried out with the help of professional appraiser. The necessity to involve an expert is clearly pointed out in part 2 of the article 7 of the Law of Ukraine “On Appraisal of Property, Property Rights and Professional Appraisal Activity in Ukraine” as of 12.07.2001 №2658-III [9]. Thus, during revaluation of fixed assets for accounting purposes property appraisal is compulsory.

According to paragraph 2 of p. 17 of the Accounting Regulations (Standards) 7, if depreciated value of the article of fixed assets equals to zero, then its revaluated depreciated value is determined by adding fair value of this article to its initial (revaluated) cost without change of the article depreciation amount. Besides, disposal value is necessarily determined for the assets that continue to be used.

Secondly, it will be necessary to make a revaluation of the whole group of fixed assets (par. 1 of p.16 of the Accounting Regulations (Standards) 7). Moreover, it will be necessary to make a revaluation regularly in the future, because according to par. 2 of p. 16 of the Accounting Regulations (Standards) 7, revaluation of fixed assets of the group, the articles of which have already been revaluated, shall thereafter be made with certain regularity in order to ensure that their depreciated value as of the balance sheet date is not significantly different from the fair value. After revaluation accrual of depreciation on such asset continues, based upon its new value subject to depreciation: revaluated value less disposal value.

Differences in the content of financial accounting elements, prepared according to IFRS provisions, and national accounting system as well as in the context of their recognition and appraisal,

are predetermined historically by the difference in final goals of financial information application. As it is known, the main users of financial reporting, made in compliance with the requirements of IFRS, are investors, other enterprises and financial institutions. Reports prepared according to the rules of national accounting system first of all interest state administrative and statistical authorities. However, these user groups have different interests and information needs. Due to the lack of beneficial owners, there is a paradoxical situation when economy has no need for objective disclosure of its real state. A great deal of prospective entity owners in agro-business seek to receive economic benefit over a short period of time, so they have no interest in presenting true information on their activity results. Therefore, transition of the country’s enterprises to accounting based upon the IFRS requirements is a compulsory condition for market transformations.

In the theory of accounting two approaches towards evaluation have been developed: unity and actuality. They ensure objectivity of evaluation of the enterprise business activity. Thus, the principle of evaluation unity presupposes uniformity of applied methods at all the enterprises and their permanency over a long time period. To ensure actuality of evaluation it is necessary to achieve objective correspondence of accounting item monetary value to the value of living and materialized labour. Solution to the assigned task is possible if there is precise measurement of asset value.

The evaluative notion “market value” and the term “fair value”, which are used in the standards of financial accounting, are generally compatible, though not always equivalent. Fair value in an accounting notion defined in the International Financial Reporting Standards (IFRS) as the sum of money that would be received to sell an asset or paid to settle the liability in the commercial transaction between the interested parties. Fair value is usually used in financial reports as an indicator of market value and nonmarket types of value. If it is possible to set market value of the asset, it will be equivalent to its fair value (p. 8.1. of General concepts and principles of evaluation).

Nowadays, the development of accounting practice in Ukraine aims at the highest possible

approximation towards the requirements of international financial reporting standards, which implies not only implementation of audit functions, but also renewal, extension and priority of informational and analytical functions of accounting. Fixed assets are one of the most important objects of accounting, and their accounting procedure at the international scale is governed by IFRS (IAS) 16 "Fixed assets".

Although accounting provides a source of information for economic analysis and managerial decision-making, the notion of "fixed assets" in accounting and in the economy are not the same. As scientists reasonably claim, one and the same object may be recognized as a fixed asset and as the other asset or inactive at all, though formally it belongs to the objects of fixed assets and is treated by practicing accountants as a fixed asset [10]. This fact often results in inaccuracies in the definition of depreciation, and thus, overstatement or understatement of production cost.

A necessary condition for fixed assets accounting is a unified principle of their evaluation at all the enterprises regardless of the form of property ownership. Realistic evaluation of fixed assets is a key factor in organizing their accounting and analysis as well as in preparation of accounting statements of the economic entity.

According to paragraph 3 sp. 39.2.1.8 sp. 39.2.1 p. 39.2 of the Article 39 of the Tax Code, if in the course of business transaction it is compulsory to make an evaluation, then the value of the appraisal object will be the grounds for proving that these operations comply with the "arm's-length principle" for tax purposes [11].

Article 3 of the Law of Ukraine "On Appraisal of Property, Property Rights and Professional Appraisal Activity in Ukraine" as of 12.07.2001 No. 2658-III defines that appraisal of property and property rights is a process of determining their value on the date of evaluation procedure, established by normative and legal acts indicated in Article 9 of this Law, and is the result of the practical activity of the subject of the assessment activity [12].

According to regulatory documents, evaluation is the process of determining monetary

value of property and enterprise liabilities for their disclosure in the financial accounting and reporting. According to IFRS, evaluation is the process of determining monetary amounts upon which the elements of financial accounting must be reflected in the balance sheet and the statement of income and expenses.

According to IFRS 16, assets are included into the balance at their fair value on the grounds of the following rules: fair value of land and buildings is usually determined by the evidence based on market data; the approach towards the process of evaluation that is carried out by professionally trained appraisers. Fair value of production, machinery and equipment is usually their market value determined by means of evaluation (IFRS 16, p. 32).

"If due to the special-purpose nature of the objects of fixed assets or property, they are sold not otherwise than as part of operating business, and there are no certificates of the fair value of such objects based on market data, then the organization may need to determine their fair value applying income approach or approach based on depreciated replacement costs" (IFRS 16, p. 33) [13].

Taking into consideration the above listed peculiarities, International Valuation standards define the following methods of assets evaluation for financial accounting: all unspecialized property must be evaluated based upon market value; specialized property is evaluated based upon DRC (depreciated replacement costs). Depreciated replacement costs of asset reproduction or replacement net physical depreciation and inherent forms of aging and optimization.

However, if an asset is classified as specialized, it does not automatically lead to the conclusion that its evaluation must be carried out on the basis of depreciated replacement costs. Even if an asset turns out to be specialized, in certain instances it may be possible to evaluate specialized property employing an approach based upon market comparisons or capitalization of income [14].

It is necessary to point out that the norms of IAS 16 and Accounting Regulations (Standards) 7 foresee evaluation of fixed assets at their fair value along with their actual value. The given type of

evaluation is required in order to determine the actual value of the enterprise assets. Accounting standards provide the following fair value measurements:

– in IAS 16 fair value is defined as the amount of money that would be received to exchange an asset or settle indebtedness in the transaction between knowledgeable, concerned and independent parties (§ 6);

– in Accounting Regulations (Standard) 7 fair value is defined as the amount of money that would be received to exchange an asset or settle liabilities as a result of transaction between knowledgeable, concerned and independent parties (p. 4).

Appendix for Accounting Regulations (Standard) 19 defines that fair value for fixed assets is the following: for buildings, land and machinery – their market value. If there is no information on market value – replacement value (current production cost of acquisition) less the amount of depreciation as of the evaluation date [15].

Evaluation after initial recognition depends on the way of asset acquisition by the organization. In case of purchase, fixed assets are recognized at their initial cost that includes: purchase price including duties on import and non-recoverable tax on purchases net of purchase discounts and repayments; any expenses associated with asset delivery to its location area or bringing it into condition ensuring its functioning in a way determined by the organization management; initial valuation of disassembly expenses, relocation of the fixed assets object and restoration of natural resources of its location, an obligation that the organization undertakes either at the moment of acquisition of the given object or following its operation within a certain time period for the purposes unrelated to the production of stock during this period.

Deferred expenses for disassembly of the object of fixed assets and restoration of natural resources must be assessed and discounted for a period of operation life of the object.

Evaluation of fixed assets at their fair value makes it possible to characterize property status of the economic entity more precisely, though it slightly distorts financial result. Therefore, both assessment at actual value and assessment at fair value correspond to the actual state of business at the

enterprise: adjusting one figure of accounting statements, they automatically distort the other one.

We support the view of scientists who believe that the objective characteristic feature of fair value is current value on the active market for analogous property, which has an analogous location and state or is an object of analogous leasing or other agreements [16].

If there is no information about current prices on the active market for such property, the company may consider other sources of information, which include: current prices on the active market for the property that is of different nature, state or location (or that is a subject of leasing or other agreements), adjusting these data to the existing differences; prices under the transactions with analogous property on less active market, with adjustments that must reflect all the economic changes on or after the date of such transactions; discounted estimated cash flows prediction of which is based upon reliable estimates of prospective cash flows evidenced by the conditions of current leasing or other agreements, or, if possible, other external evidence, using discount rate, reflecting current market estimates of uncertainties connected with size and time of these cash flows.

Therefore, application of comparative approach while estimating fair value of assets is preferred in IFRS. Peculiarities of its application for different types of property are recorder in International Valuation standards (IVS).

Both IAS and IFRS 16 standards recognize that there are certain categories of assets for which, taking into account their specialized pattern of use, there is no comparative market data. This fact generates a need to apply income approach or approach based on depreciated replacement costs (DRC) towards evaluation of these assets.

It should be noted that one of the principles inherent in the IFRS Conception is the principle of prudence, according to which making decisions under uncertainty should not lead to overstatement of assets, meaning that under the same degree of reliability of various fair value measurements, the application of the principle of prudence involves selecting the lowest possible value.

Enterprises always face a difficult problem of choosing a revaluation method. In the context of transition to market economy enterprises may be

interested to increase the value of fixed assets while they are being revaluated, because the bigger fixed assets value is, the higher loan limit is. If we consider the issue of fixed assets evaluation in terms of state interests, the state, particularly during the process of privatization, is interested in actual value of funds, which can be obtained only by applying market-based approach towards evaluation.

V. Y. Vankevych points out that there are three main approaches for overcoming the effect of inflation on the value of fixed assets in countries with advanced market economy. The first one lies in the fact that fixed assets evaluation is carried out in monetary units of the same buying capacity. This approach is based on considering the fixed assets to be investable funds taking into account buying capacity of the monetary unit. The second approach is based on revaluation of property into the current value at the prices of analogues as of the moment of revaluation at the sales prices. The third approach is based on the fact that the value of fixed assets lies not in the asset value of the available buildings and equipment, but in the ability to produce competitive and profitable production. Thus, market value of fixed assets depends on profit margin [17, p. 40].

A lot of researchers believe that replacement value of one and the same object which is being revaluated is defined not by the actual monetary depreciation, but by the selected revaluation method. That is why they suggest adjusting revaluation coefficient considering not only monetary depreciation [18, p. 42–50]. Against this background, authors suggest various methods for fixed assets revaluation improving. For example, V. Y. Vankevych for the purpose of this drawback elimination suggests adjusting the coefficient for fixed assets revaluation considering economic life of objects too.

From our point of view, it is not enough to use only the object's effective life in the use for proper fixed assets revaluation. It is also necessary to take into consideration useful life of the fixed asset object.

O. V. Yefimova in her researches suggests the procedure of adjusting revaluation coefficient taking into account the degree of accrued depreciation.

It should be emphasized that the application of such a method for revaluation of new buildings and constructions will overrate their market value to

a great extent. And since passive part of funds takes a large percentage in the business property, the value of fixed assets will be overestimated.

It should be noted that IAS 16 gives an enterprise the right to choose one out of two fixed assets pricing models for accounting recognition: production cost model or revaluation model.

The first one assumes that after fixed asset recognition it should be measured at production cost less any accumulated depreciation and impairment loss (§ 30 IAS 16 "Fixed assets").

On the other hand, revaluation model measures the fixed assets object at fair value that can be reliably measured and recognized at revaluated cost. According to IAS 16, revaluated cost is fair value of fixed assets as of the date of revaluation less any further accumulated depreciation and further accumulated impairment loss.

It is stated in Accounting Regulations (Standard) 7 that the enterprise can revalue fixed assets object, which is to say that the standard specifies only one model.

The procedure of recording revaluation of accumulated depreciation of the object during its revaluation differs fundamentally from the existing one. IAS 16 suggests two methods of accumulated depreciation revaluation: the amount of accumulated depreciation is recounted proportionally to the change of gross asset value; depreciation amount is excluded from the gross asset value.

In Accounting Regulations (Standard) 7 there is no second method: only the first (proportional) method of adjusting accumulated depreciation is meant to be used. After adoption of the Tax Code of Ukraine, certain amendments have been introduced into the Accounting Regulations (Standard) 7. In particular, it has been allowed to use "indexation" of fixed assets value depending on the official inflation rate.

The above-noted norm deals only with taxation and is not applied in IFRS. As it is known, IFRS 16 "Fixed assets" allows using two models for fixed assets recognition: cost model (at historical cost) and revaluation model. Cost model is a traditional value model used for fixed assets accounting within all national accounting systems.

Choosing the second value model, fixed assets must be recognized at a revaluated amount, being its fair value at the date of revaluation. Revaluations shall be made with sufficient regularity to ensure that the carrying amount of the object at any specific time does not differ too much from its fair value. This value model has logical justification that can be found in the Basis for conclusions on the IFRS 16 standard.

It is evident that yearly inflation rate in advanced countries is insignificant, so its influence on the asset value may be neglected. However, as far as fixed assets with long useful life are concerned, the impact of inflation accrues being influenced by the time of their utilization. Reflection of such fixed assets at their historical cost shall result in (and actually results in) the fact that the balance will be “a collection of heterogeneous values”. Regular revaluation of fixed assets with long useful life will make it possible to reduce their balance sheet value to a common denominator, and therefore, the disclosure of assets in financial reporting is thought to be more accurate.

Revaluation model of fixed assets objects comes down to comparison of their balance sheet value to fair value. In actual practice, fair value is usually the market value of the asset.

At the same time, according to IAS 16, fair value is the sum of money that would be received to sell an asset or paid to transfer the liability in an ordinary transaction as of the evaluation date, referring to specialized IFRS 13 “Fair value measurement”.

International auditors point to the fact that IAS 16 in this case does not assume obligations to invite professional appraisers: “The Standard does not call for professional evaluation made by an independent organization, or for involving professional appraiser for such goals, though in actual practice, those who draft financial reporting often make use of professional services on evaluation.”

Another important point to be pointed out is that the chosen evaluation model should be applied for the whole class of assets. Thus, if an object of fixed assets is being revaluated, then the whole group of relevant asset must be revaluated (§ 36 IAS 16).

Thus, fixed assets revaluation may influence the information on the economic entity financial state disclosed in financial statements. Consequently, the choice of procedure (model, according to IFRS) of fixed assets evaluation accounting after their recognition is an important constituent of the enterprise accounting policy. In this context, a group is a set of assets of the same content and nature of application in the transactions of the organization (structures, equipment, motor vehicles, furniture, construction in progress, etc.).

If revaluation model has been chosen in accounting policy, then the fixed assets recognized in the enterprise accounting and belonging to certain class of the first or second order of the Plan of accounts for bookkeeping shall be accounted at revaluated cost equal to their fair value as of the revaluation date net of depreciation and impairment loss.

As far as the decision on choosing the pricing model is made regarding the class of fixed assets in general, then according to IAS 16 (International Accounting Standard), if a separate fixed asset is being revaluated, then the whole class of fixed assets to which that separate asset belongs shall be revaluated. As it is noted in IAS 16, revaluation of objects within one class of fixed assets must be carried out simultaneously in order to avoid selective asset revaluation or including the amounts reflecting expenses and values inconsistent in time into financial statements.

It should be noted that the international standard IAS 16 is consistent with IAS principles, and defines fair value of the fixed asset as the amount of money that would be received to exchange an asset in the transaction between knowledgeable, concerned and independent parties. The Standard determines that revaluations shall be carried out regularly enough so as to avoid substantial difference of the balance sheet value from the one measured by using the fair value as of reporting date. It should be noted that IAS 16 mentions only “sufficient regularity”, though does not determine clear periodicity of revaluation. Revaluation intervals are chosen according to accountant’s professional views.

Periodicity of revaluations should depend on changes in the fair value of fixed assets. If fair value

of revaluated asset differs fundamentally from its balance sheet value, then the additional revaluation is required. Fair value of certain fixed assets may be the subject of sizeable and random fluctuations, so they require annual revaluation. Such frequent revaluations are not required for the fixed assets the fair value of which has been subject to minor alterations. The necessity to revalue such objects may arise once every 3–5 years.

The International Standard 16 makes it possible to revalue fixed assets using two methods: index method and method of making depreciation allowances.

According to the index method, the amount of accumulated depreciation is transferred proportionally to the change of the asset gross carrying amount. This method is often applied when the asset is revaluated with the help of index in order to determine its value being its depreciated replacement costs.

The method of making depreciation allowances involves allowance of all the accumulated depreciation. The obtained asset value is revaluated to make it equal to the fair value. This method is mainly used to revalue buildings.

It should be noted that IFRS 29 “Financial Reporting in Hyperinflationary Economies”

recommends using fixed assets indexation based upon price index. Assets and liabilities are periodically reassessed taking into account the alterations in the monetary unit buying capacity. Furthermore, IFRS recommends using one price index which should take into account the change of the general purchasing capacity of money in order to compare reported data of different enterprises. When using adjustments for changes in the general price index, non-current assets are recognized at their acquisition cost, and afterwards it is adjusted with the help of the above mentioned index [19].

Price index may be defined by various methods (Fig. 1). The easiest method is revaluation of non-current assets and organization supplies in compliance with changes of hryvnia rates against more stable currency (or a set of the most stable currencies). The advantages of this method are simplicity of use, absence of difficult calculations, and applicability without supporting information. However, it cannot provide accurate results because currency ratio of hryvnia (dollar or euro) does not correspond to their real purchasing power. This leads to inaccuracy of the obtained evaluation due to matching of non-current assets value to hryvnia’s or any other currency exchange rate.

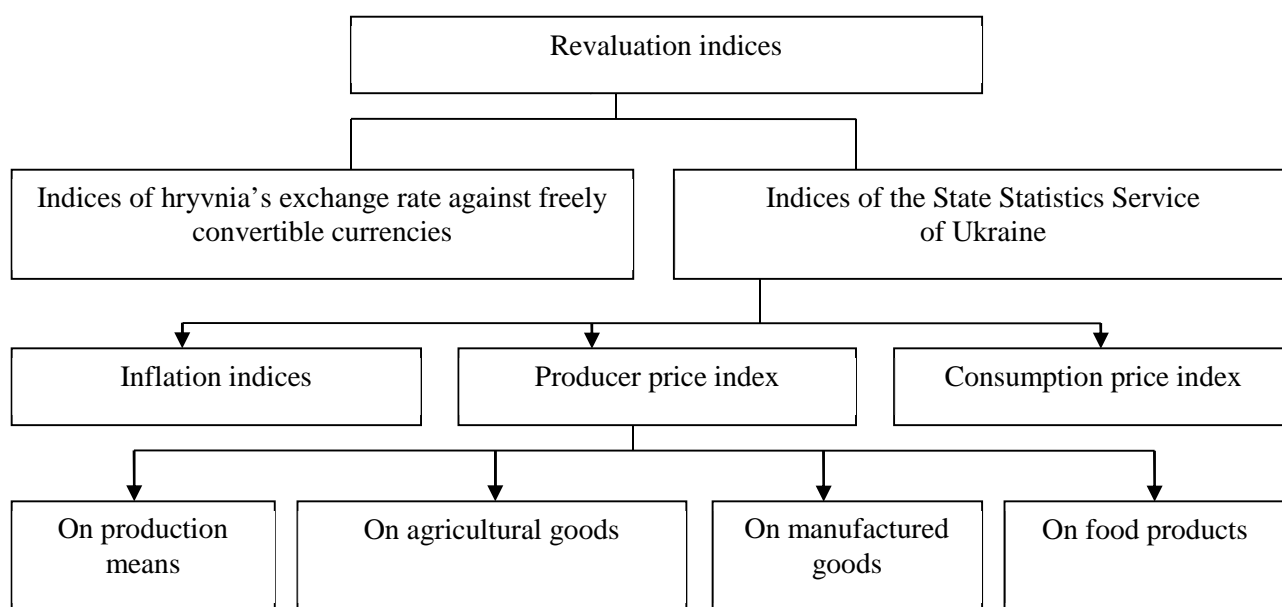


Fig. 1. Classification of property revaluation indices

Source: Author's development.

Therefore, adjustment of non-current assets value may be carried out using direct method when revaluation of initial cost allows identifying different degree of changes in the value of non-current assets as a result of their value change in certain currency or group of currencies.

Certain regulations of IAS 16 standard concern the issues of depreciation accounting of fixed assets that are regularly revaluated. According to the Standard, after revaluation of the object of fixed assets, its depreciation amount may be either revaluated proportionally to the change of the fixed asset balance sheet value or written off to decrease of initial cost, and as a result, the amount of depreciated value is transferred to the revaluated amount of fixed asset.

IFRS novelty is the fact that nowadays, the enterprises are allowed to use fair value less accumulated depreciation and impairment loss as revaluated value only if fair value may be assessed "with sufficient reliability level". According to IAS 16, fixed assets on the balance sheet are recognized at balance (accounting) value less the amount of accumulated depreciation and accumulated impairment loss, which forms if the book value of an asset exceeds its replacement value. The anticipated recovery amount according to the IAS 36 standard is the largest of two values: discounted value and net sales price of asset. According to the requirements of IAS 36 standard "Impairment of assets", an enterprise is obliged to check impairment of their assets regularly and determine impairment loss [20].

Conclusion

Evaluation of fixed assets, being the components of material and technical resources (MTR), at fair value makes it possible to characterize the reproduction process objectively, define the property status of the economic entity more precisely. However, it distorts financial result.

We believe that simultaneous use of several indices for fair value measurement may lead to different fair values of the fixed asset. An agricultural enterprise is obliged to analyze the reasons for inconsistencies in calculations and choose the most precise estimation of the fair value. Fair value of the assets must reflect variability of money flows, which are taken into consideration

during price negotiation by independent, knowledgeable buyers and sellers interested in making such a deal. There is no unified approach due to the fact that most of the assets do not have market value, and their fair value estimated by the expert is conditional and fair only as of the estimation date. Nevertheless, fair value is necessary for the potential investors and indispensable to financial assets.

Evaluation methods of fixed assets at their fair value require development, adjustment of evaluation model, which will make it possible to ensure equivalency of exchange between the independent parties on the active market.

We believe that after the enterprise has adopted IFRS, an "impairment test" may be applied to the assets recognized at revaluated fair value if the enterprise has reasons to believe that the value of its assets reported in the IFRS balance sheet does not correspond to the value of these assets estimated by applying the method of cash flow discounting. This means that fair value of the enterprise assets does not correspond to the cash flows generated in the context of this particular enterprise activity.

The study of international accounting norms and rules as well as principles of fixed assets reporting is necessary in order to make the reporting of national enterprises understandable to foreign companies, because fixed assets are one of the most complex accounting items. Therefore, it is important to study international approaches towards fixed assets accounting and consider the possibility of their application in national accounting for the purpose of the most optimal application in the practical activity of the Ukrainian agricultural enterprises.

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