This Document contains the complete accounting treatment for the revaluation of fixed assets using the revaluation method.
**Revaluation of Fixed Assets**

Revaluation of fixed assets is the process of increasing or decreasing their carrying value in case of major changes in fair market value of the fixed asset. International Financial Reporting Standards (IFRS) require fixed assets to be initially recorded at cost but they allow two models for subsequent accounting for fixed assets, namely the cost model and the revaluation model.

**When should revaluations be done**

Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. [IAS 16.31]

If an item is revalued, the entire class of assets to which that asset belongs should be revalued. [IAS 16.36]

**Accounting for the revaluation of fixed assets**

If a revaluation results in an increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it should be recognized in profit or loss. [IAS 16.39]

A decrease arising as a result of a revaluation should be recognized as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset. [IAS 16.40]

When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading revaluation surplus. The transfer to retained earnings should not be made through profit or loss. [IAS 16.41]

**Revaluation Surplus**

Upward revaluation is not considered a normal gain and is not recorded in income statement rather it is directly credited to an equity account called revaluation surplus. Revaluation surplus holds all the upward revaluations of a company's assets until those assets are disposed of.
**Depreciation under the revaluation model**

Depreciation under the revaluation model is treated in the same manner as the cost method.

The depreciable amount (cost less residual value) should be allocated on a systematic basis over the asset's useful life [IAS 16.50].

The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under IAS 8. [IAS 16.51]

The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the entity [IAS 16.60]; a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. [IAS 16.62A]

The depreciation method should be reviewed at least annually and, if the pattern of consumption of benefits has changed, the depreciation method should be changed prospectively as a change in estimate under IAS 8. [IAS 16.61] Expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset. [IAS 16.56]

Depreciation should be charged to profit or loss, unless it is included in the carrying amount of another asset [IAS 16.48].

Depreciation begins when the asset is available for use and continues until the asset is derecognized, even if it is idle. [IAS 16.55]

**Reversal of Revaluation**

If a revalued asset is subsequently valued down due to impairment, the loss is first written off against any balance available in the revaluation surplus and if the loss exceeds the revaluation surplus balance of the same asset the difference is charged to income statement as impairment loss.

---

1. Information taken from the IFRS standards published by the International account standards board (IASB).