|  |  |  |
| --- | --- | --- |
| **Client Name:** Cosmopolitan Industries Pvt. Ltd. (CIPL) | | |
| **Accounting period:** 01 July 2020 to 30 June 2021 | | |
| **Prepared by:** Md. Nahid Hasan Badhan | | **Date:** 19-Jul-21 |
| **Reviewed by:** Mahdi Mohammad Mehrab  **Further Reviewed By:** Humaun Ahamed  **Final Reviewed by:** Faruk Uddin Ahammed, FCA, CISA |  | **Date:** 19-Jul-21  **Date:** 19-Jul-21  **Date:** 19-Jul-21 |
| **Subject:** Revaluation Reserve process | | |

**Objective:** The objective of this memo is to document Revaluation Reserve process of the Cosmopolitan Industries Pvt. Ltd. (CIPL).

***(Following process is noted from the discussion with Central Finance Team, Epic BD)***

The revaluation is conducted by the independent third party. Agreement is done between a specific concern of Epic (here CIPL) and third-party valuer: Service agreement (or engagement letter). In service agreement, signatory authority is plant business head from CIPL/ FPA (Financial Planning and analysis) lead from CIPL. This year the revaluation has been conducted by "Jorip o Poridarshan Company Limited”.

**Selection process of choosing valuer:**

Step by step selection process is given below-

* For hiring valuer, the higher authority chooses the valuer which is similar to vendor selection process (i.e. quotation based on scope of work, negotiations).
* Qualified, independent valuer is selected.
* Based on scope of work and fee, timeline of providing the report is negotiated with the vendor.
* Then the board decides who will be the valuer.

Revaluation is performed only for Land and building. Last revaluation was in 2018. No specific policy for revaluation period or its expiry. It is done based on management’s decision when the management thinks that revaluation needs to be conducted. Proposal is done from user department---requisition is provided. Then, Board of directors decides when the revaluation is to be done (the approver).

**Detailed description of management’s decision-making procedure:**

In the year end, central finance team identify some assets that needs to be revalued based on FS. At each 3 to 4 years, Finance Department finds out the assets that are to be revalued. From Finance department the proposal is made to Head of Department of Finance. Head of Department of Finance submits it to CFO with all the justification why CIPL needs to do the revaluation. CFO approaches to Board of Directors. If BOD is satisfied, then third party is chosen from selected vendors by quotation with comparative statement (i.e. similar to procurement process).

* Procurement department chooses the vendors through quotation.
* Board chooses the Valuer.
* NDA-Nondisclosure agreement is signed between two.
* Service agreement is done between CIPL and valuer

Valuation report is the final document provided by the third party from which ledger entry is posted. No management control is here in the valuation report, third party does the revaluation based on their policy.

**Management’s control over posting journals:**

1. Posting ledger entry: When the valuation report is sent to Hongkong, IT support department prepares the ledger. The steps are as follows:

* Preparer of ledger: From Hongkong, IT support department
* Reviewer of ledger: Finance team, Hongkong
* Approver of ledger: Group CFO

1. When the report is received and the Hongkong management is satisfied with the information in the report, then ledger is posted.
2. Through revaluation, the FS becomes updated and revalue attracts the creditors. Stakeholders usually wants the most updated information on the fair market value of land or building which is the primary reason for revaluation.

**Relevant accounting standards:**

1. If property, plant, and equipment is stated at revalued amounts, certain additional disclosures are required: [IAS 16.77]

* the effective date of the revaluation
* whether an independent valuer was involved
* for each revalued class of property, the carrying amount that would have been recognized had the assets been carried under the cost model
* the revaluation surplus, including changes during the period and any restrictions on the distribution of the balance to shareholders.

*[Source:* [*https://www.iasplus.com/en/standards/ias/ias16*](https://www.iasplus.com/en/standards/ias/ias16)*]*

1. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants and the measurement date under current market conditions. Three widely used valuation techniques are: [IFRS 13:62]

* market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business)
* cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost)
* income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

*[Source:* [*https://www.iasplus.com/en/standards/ifrs/ifrs13*](https://www.iasplus.com/en/standards/ifrs/ifrs13)*]*

**Required journal entries:**

As per IAS 16-Revaluation model and as per Deloitte technical library *[Ref: A7 Property, plant and equipment-6.4-1]*

1. **When any asset revalued:**

Particular Asset (Revalued Amount-Carrying Amount)…………Dr

Revaluation Reserve …………………………………………Cr.

1. **By yearly basis excess depreciation transfer:**

Revaluation Reserve ……………………………………....Dr.

Retained Earnings………………………………………..….Cr.

**What could go wrong? :**

Amount of revaluation reserve may be understated/overstated due to inappropriate valuation of third party.

**Control points:**

1. Market acceptable valuer should be selected for the revaluation of the properties; and
2. Fair value should be assumed considering the fair market of the related asset.