

**Q&A
CNC
14/002**

QUESTIONS / ANSWERS:
**REVALUATION OF
FIXED TANGIBLE ASSETS**

Question:

Can the "revaluation model" or "revalued cost model" provided for by the accounting directives¹ and by international financial reporting standards (IFRS)² be applied to the measurement of fixed tangible assets under Luxembourg accounting law (DCL)³?

Keywords: Revaluation, revalued cost, property, plant and equipment, IAS 16, art. 52 LRCS, art. 54 LRCS, section 7bis LRCS, art. 64sexies LRCS, fair value, historical cost, art. 72bis LRCS, art. 341bis LSC

Answer:

The answer to this question depends on the accounting regime adopted by the undertaking.

1. The revaluation model under LUX GAAP: not available

The revaluation model for fixed tangible assets is not available to undertakings preparing their annual and/or consolidated accounts under the LUX GAAP regime. In fact, even though the legislator has provided for the possibility – within Article 54 LRCS⁴ – of authorising or imposing the revaluation of fixed assets by undertakings, the application of this model remains to this day subject to the prior adoption of a Grand Ducal regulation.

In the absence of such a Grand Ducal regulation, only the historical cost model provided for in Article 52 LRCS is available under LUX GAAP for the measurement of fixed tangible assets.

¹ Article 33(1) of the Fourth Council Directive of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC) allows Member States to authorise or require all or some of the companies under their jurisdiction to revalue fixed tangible assets.

Article 7 of the "new" Accounting Directive 2013/34/EU provides – in a similar manner as to the old 4th Directive – for an "alternative measurement basis of fixed assets at revalued amounts".

² International accounting standard IAS 16 "Property, Plant and Equipment", as adopted by the European Union, provides for the application of the "revaluation model" to property, plant and equipment as an alternative to the "cost model".

³ See: Q&A CNC 14/001 "Luxembourg accounting law for undertakings: 3 distinct regimes" (formerly Q&A 01/2014).

⁴ Article 54 of the LRCS provides that: "A Grand Ducal regulation may, by way of derogation from Article 52, permit or require in respect of all undertakings or certain classes of undertakings, the alternative measurement basis of fixed assets at a revalued amount". To date, no Grand-Ducal regulation has been issued in implementation of Article 54 of LRCS.

Q&A CNC 14/002	<u>QUESTIONS / ANSWERS:</u> REVALUATION OF FIXED TANGIBLE ASSETS
---	--

2. The revaluation model under LUX GAAP – FV: model not available

The revaluation model for property, plant and equipment⁵ is not available for undertakings preparing their annual and/or consolidated accounts under LUX GAAP – FV. It should be noted that the fair value model should not be confused with the revaluation model⁶ and therefore the fair value option is not available for property, plant and equipment⁷.

It must therefore be concluded that only the historical cost model is available under LUX GAAP – FV for the measurement of property, plant and equipment, as section 7bis does not provide any options to depart from the general rules (article 52 LRCS: historical cost) on this point.

3. The revaluation model under IFRS – EU: model available

For Luxembourg undertakings preparing their annual accounts (art. 72bis LRCS) and/or their consolidated accounts (art. 341bis LSC) in accordance with IFRS – EU, the revaluation model for the valuation of property, plant and equipment is available. IAS 16 "Property, Plant and Equipment", as adopted by the European Union, provides for two models for measuring property, plant and equipment: the cost model and the revaluation model.

Luxembourg undertakings applying IFRS – EU may therefore use the revaluation model – as permitted by IAS 16 – to measure property, plant and equipment.

⁵ This does not apply to "investment property", i.e. property (land and/or buildings) held to earn rental income and/or capital gains.

⁶ The revaluation model is a measurement model that differs from the fair value model in a number of respects. For example, there is a difference in terms of measurement frequency: the fair value model requires at least an annual measurement, whereas the revaluation model does not. Furthermore, the revaluation model differs from the fair value model in that the revalued cost is subject to depreciation (for depreciable fixed assets) between two revaluations, which is not the case in the fair value model, where only the change in fair value generated during the period is recognised. Lastly, the difference is sometimes due to the classification of changes in value: in the case of investment property (IAS 40), the fair value difference is taken to the profit and loss account, whereas in the case of property, plant and equipment (IAS 16), the revaluation surplus is taken directly to reserves.

⁷ Article 64sexies of LRCS provides that: "By way of derogation from Article 52, undertakings may also measure specified categories of assets other than financial instruments at amounts determined by reference to their fair value, provided that their measurement at fair value is authorised under the international accounting standards (...)". However, IFRS does not allow property, plant and equipment to be measured at fair value, since IAS 16 "Property, Plant and Equipment" provides only for two models, namely the cost model and the revaluation model.

Q&A CNC 14/002	<u>QUESTIONS / ANSWERS:</u> REVALUATION OF FIXED TANGIBLE ASSETS
-----------------------------------	---

Disclaimer

This document – provided as a courtesy – is an unofficial translation of the French original document entitled “Réévaluation des immobilisations corporelles”. In case of discrepancy in interpretation, the French version shall prevail.

The “questions and answers” published by the “Commission des normes comptables (CNC)” (Accounting Standards Board):

- are of a general nature and do not refer to the specific situation of any natural or legal person;
- are intended to contribute to the development of accounting doctrine in accordance with Article 73(b) of the amended Law of 19 December 2002 on the trade and companies register, as well as on the bookkeeping and annual accounts of undertakings;
- only represent the opinion of the GIE CNC on a number of doctrinal and interpretative issues.

The administrative or management bodies of undertakings remain responsible in accordance with general law for any decisions taken based on this document.