المجمع العربي للمحاسبين القانونيين
Arab Society of Certified Accountants (ASCA)

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A regional professional society dedicated to the promotion of the highest accounting, auditing and ethical standards and to capacity building through the institution of globally recognized educational and examination qualification programs.

In This Issue

Abu-Ghazaleh to present Al-Sadi award to the top student of every round of ASCA exams

Mr. Talal Abu-Ghazaleh, Chairman of the Arab Society of Certified Accountants (ASCA), presented the Adel Al-Sadi Award of Distinction to ASCA student Abdul Wahhab Al-Shebani from Yemen, who obtained the top scores in the 2007 round of examinations.

A special ceremony marking this occasion was held at the Adel Al-Sadi auditorium at the Society of Commercial Institutions' Alumni in Damascus on 3/6/2008.

Abu-Ghazaleh had decided to present this award to the top student of every round of ASCA exams held annually in November, to honor the memory of Mr. Al-Sadi who was one of ASCA's founding members. The award consists of a cash prize of five thousand dollars and a certificate of distinction.

certificate of an Arab certified technical accountant (ACAT)

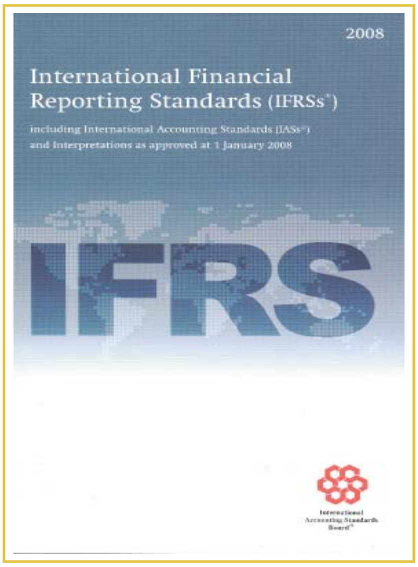
The Arab Society of Certified Accountants (ASCA) has singed a cooperative agreement with the Chartered Institute of Management Accountants (CIMA) in order to translate and issue its Certificate of Business Accounting which will also form the base for the ACAT qualification. The Certificate of Business Accounting will bare both logos of ASCA and CIMA.

It's worth noting that CIMA is a recognized accounting institution in the United Kingdom and enjoys a global presence that includes seventy thousand members and hundred thousand students.

ASCA Renew the Agreement for the translation of International Standards

The Arab Society of Certified Accountants has renewed its exclusive agreements to translate and issue the following publications:

- *International Financial Reporting Standards (IFRS) 2008 – International Accounting Standards Board (IASB).*
- *International Standards on Auditing, Assurance and Ethics Pronouncements 2008 – International Federation of Accountants (IFAC).*
- *International Public Sector Accounting Pronouncements 2008 – International Federation of Accountants (IFAC).*
- *International Financial Reporting Standards Practical Implementation Guide and Workbook- John Wiley &Sons, Inc.*



ASCA conducts workshop About ACPA

The Arab Society of Certified Accountants (ASCA) has conducted, in cooperation with Cambridge International Examination (CIE), a workshop for the ACPA exam setters and Markers. The workshop aimed at explaining the CIE code of practice for question paper setting and marking scheme in the exams validated by it.

ASCA New Training Courses are held at Talal Abu-Ghazaleh College of Business (TAG-College)

In cooperation with Talal Abu Ghazaleh College of Business (TAGCB), ASCA "Jordan" has decided to hold special training course for the purposes of training and qualification to sit for "JCPA" exams in order to obtain a license to practice the accounting profession in Jordan according to the following program:

- *Paper* 1 (*Statutes and Laws*).
- *Paper* 2 (*Accounting and Auditing*)

The course shall be on the 24 May, 2008 until the 4 of August, 2008. There will be 3 lectures every week (Saturday, Monday, and Wednesday) starting at 4:30 p.m. and finishing at 8:00 p.m. at the College venue.

ASCA also held various training courses covering different subject in accounting including the ACPA training course.

ASCA has, in addition, signed am agreement with Daar Al-Oloum Center to hold a third JCPA training course in Irbid.

New ASCA Members

Mr. Abu- Qais Hasan Mohammad Taha	**Sudanese**
Mrs. Laila Mohammad Al Refaei	**Jordanian**
Mr. Wasem Mohammad Al Sharabati	**Palestinian**

International professional News

ARNOLD SCHILDER NAMED TO LEAD IFAC'S INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

The Board of the International Federation of Accountants (IFAC) has appointed Prof. Dr. Arnold Schilder, RA, to lead the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of IFAC, beginning January 1, 2009. Prof. Schilder's appointment to a three-year term as IAASB Chair was approved by the Public Interest Oversight Board (PIOB)*, which oversees the IAASB's activities, at its meeting in Madrid, Spain last week.

Prof. Schilder is currently Executive Director of De Nederlandsche Bank NV, the prudential supervisor of financial institutions in the Netherlands. He is a member of the Basel Committee on Banking Supervision and served as Chairman of its Accounting Task Force from 1999 to 2006.

ARTICLES

Revaluation of Plant and Equipment under International Standards: An Improvement or Failure?

by Edward J. Gress - Professor of Accounting - Director, TAG Center for Business Research - Canisius College Buffalo, New York

Management and users of financial statements have complained for many years about the adherence to historical cost in the valuation of property, plant, and equipment. In a period of rising prices, a balance sheet showing assets at their depreciated cost fails to show the current value of assets and the current value of the stockholders' investment. Accountants defended their position by insisting on verifiable, objective evidence in recording changes in assets. The claim that accountants made was that any departure from historical cost was both impractical and inexpedient.

In addition to claiming that a balance sheet did not report current values, critics also objected to adherence to historical cost in the computation of depreciation and hence income. The claim made is that depreciation based on historical costs fails to match costs with revenues in a period of rising prices and thus reports inflated profits. Inflated profits do not provide guidance to management to distinguish between the amount that can be severed from the business and thus be made available for dividends and the amount that needs to be retained in the business in order to maintain productive capacity at its existing level.

Traditional Solution

The solution to replacing assets at higher prices was addressed many years ago by the American Institute of Certified Public Accountants in the following pronouncement:

- When prices have risen appreciably since original investment in plant and facilities were made, a ***substantial portion*** of net income as currently reported must be reinvested in the business in order to maintain assets at the same level of productivity at the end of a year as at the beginning.

- Stockholders, employees, and the general public should be informed that a business must be able to retain out of profits amounts sufficient to replace productive facilities at current prices if it is to stay in business.[1]

Other than stating that current profits cannot all be made available for dividends, the above statement does not provide any guidance for the calculation of the ***substantial portion of net income*** that has to be retained in the business to maintain the productive capacity of the enterprise. Furthermore, the above quotation states that net income as currently reported is not really net income since a substantial portion has to be retained to maintain the productive capacity of the business enterprise.

It is hard to believe that with the technology developed since the issuance of the above statement, there has been no advance in generally accepted accounting procedures relative to the valuation of plant assets and the measurement of income until the issuance of International Accounting Standard No. 16. IAS 16 addresses the issue of the valuation of property, plant and equipment but falls short of providing a comprehensive solution to the maintenance of productive capacity. This paper attempts to demonstrate the failure of IAS 16 with respect to this latter issue.

Major Provisions of IAS 16

[1] American Institute of Certified Public Accountants, Accounting Research Bulletin 43, Chapter 9, June 1953. Emphasis added.

Table 1 provides the data that will be used in the illustration. Table 2 shows the calculation of the annual depreciation that will be necessary to replace assets at higher prices and also shows the book value of the asset at the end of each year. Table 3 shows a comparative income statement and cash flows during the illustration period of 5 years, and Table 4 shows a beginning balance sheet and balance sheets at the end of each year covered by the illustration period.

Table 1
Data for Illustration

Cost of depreciable asset: $10,000
Annual increase in fair value: 10% compounded annually

Resulting fair values:

End of Year 1	$11,000
End of Year 2	$12,100
End of Year 3	$13,310
End of Year 4	$14,641
End of Year 5	$16,105

Useful life: 5 years
Operating income before depreciation: $10,000 per year for all years

Other assumptions:
- No income tax
- All income to be distributed in dividends
- All operations on a cash basis
- No investments made in any year
- All cash is held idle

Beginning Balance Sheet:

Machine	$10,000	Capital Stock	$10,000

Table 2
Schedule of Depreciation

	End of Year				
	1	**2**	**3**	**4**	**5**
Revalued asset amount at end of year – 10% greater than end of previous year)	$11,000	$12,100	$13,310	$14,641	$16,105
Accumulated Depreciation Percentage, end of year	20%	40%	60%	80%	100%
Accumulated Depreciation at the end of the year	$2,200	$4,840	$7,986	$11,713	$16,105
Depreciation Expense for current year	$2,200	$2,640	$3,146	$3,727	$4,392
Book Value of Machine	$8,800	$7,260	$5,324	$2,928	$-0-

Table 3
Comparative Income Statement and Cash Flows
For 5 years

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Income before depreciation – constant all years	$10,000	$10,000	$10,000	$10,000	$10,000
Depreciation – per Table 2	2,200	2,640	3,146	3,727	4,392
Net Income	$7,800	$7,360	$6,854	$6,273	$5,608
Dividends	$7,800	$7,360	$6,854	$6,273	$5,608
Increase in cash balance	$2,200	$2,640	$3,146	$3,727	$4,393
Cumulative cash at the end of the year	**$2,200**	**$4,840**	**$7,986**	**$11,713**	**$16,105**

Table 4
Comparative Balance Sheets

Beg. of Year 1	Machinery	$10,000	Capital Stock	$10,000
End of Year 1	Cash Machine*	$2,200 8,800	Capital Stock Revaluation Surplus	$10,000 1,000
End of Year 2	Cash Machine*	$ 4,840 7,260	Capital Stock Revaluation Surplus	$10,000 2,100
End of Year 3	Cash Machine*	$ 7,986 5,324	Capital Stock Revaluation Surplus	$10,000 3,310
End of Year 4	Cash Machine*	$11,713 2,928	Capital Stock Revaluation Surplus	$10,000 4,641
End of Year 5	Cash Machine*	$16,105 -0-	Capital Stock Revaluation Surplus	$10,000 6,105

* The machine is reported at its book value at the end of each year.

The above illustration shows that a profitable entity that revalues its depreciable property, plant and equipment annually and calculates depreciation in accordance with the method illustrated in Table 2 will be able to retain in the business resources equal to the revalued amount of those assets. The resources retained in the business are equal to the current value or the replacement cost of the asset being depreciated. The regular revaluation of assets and the recognition of depreciation on the basis of revalued amounts will allow the entity to continue to replace assets at higher prices and therefore continue to operate as a going concern.

It can be argued that an entity can adhere to historical cost and at the same time accumulate resources greater than the historical cost of the depreciable asset. This can be done through the profitable investment of the periodic increase in working capital (cash) equal to the annual depreciation charge. This working capital (cash) can grow to an amount greater than the depreciation charged over the life of the asset. However, such action is an investment decision and not related to the replacement of assets.

Failure of IAS 16

The above discussion and the illustration are based on the assumption that the resulting credit, Revaluation Surplus as called in IAS 16, from the regular revaluation of property, plant and equipment remains permanently in the stockholders' equity of the entity. If an amount equal to the Revaluation Surplus is distributed in dividends, the company will reduce the resources available to replace assets at higher prices.

It is very unfortunate that IAS 16 allows the transfer of the Revaluation Surplus to Retained Earnings on an annual basis or when the asset is sold or retired from use thus making it available for dividends. IAS 16 states:

> The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. … Transfers from revaluation surplus to retained earnings are not made through profit or loss.[5]

The transfer of the revaluation surplus to retained earnings negates the advantages derived from basing depreciation on revalued amounts. The transfer from revaluation surplus to retained earnings whether made directly or via the income statement, which is not allowed by IAS 16, produces amounts available for dividend distributions. Distribution of these amounts will reduce the resources that are required to be held to maintain productive capacity.

Survey of Practitioners

Fourteen auditing offices in a number of Arab countries were selected to answer a questionnaire on whether their offices have clients that revalue their property, plant and equipment as allowed by IAS 16 and whether, if such revaluation is done, they approve of transferring the revaluation surplus to income or directly to retained earnings.

Responses were received from eight offices, producing a response rate of 57%. A response from a Saudi Arabian office indicated that international standards are not applicable in Saudi Arabia but that office provided responses to the other questions in the questionnaire.

The following are the results obtained with respect to the application of the provisions of IAS 16:

1. Fifty percent of the respondents have clients who apply the provisions of IAS 16.
2. Only one to three percent of the clients report property, plant and equipment at fair value with the vast majority depending on historical cost due to the difficulties in obtaining fair value.
3. The auditing offices satisfy themselves as to the reliability of the fair value they report based on reports of independent appraisers or real estate brokers.

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[5] Ibid., Paragraph 41.

With respect to the disposition of the revaluation surplus that results from writing up assets to fair value, the respondent provided the following information:

1. All respondents approve the transfer of the revaluation surplus to retained earnings upon the disposition of the revalued asset. The Saudi Arabian office indicated that their office does not approve this transfer only because IAS 16 does not apply in that country.
2. Two thirds of the respondents prefer the gradual transfer of the revaluation surplus to retained earnings with only one third preferring the transfer in total upon the disposition of the asset.
3. Not a single respondent advocated the retention of the Revaluation Surplus.

Concluding Remarks

IAS 16 has contributed to an improvement in the measurement of property, plant and equipment and in the reporting of depreciation on the income statement. IAS 16 however fails in providing guidance for the maintenance of productive capacity. The writer is also amazed by the unanimous response of practicing accounts to transfer the revaluation surplus to retained earnings.