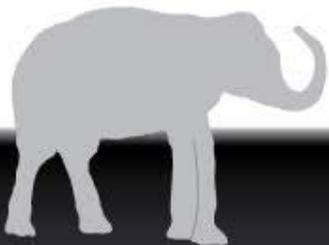


# Asset Revaluation or Impairment? Understanding the Accounting for Fixed Assets in Release 12

Brian Lewis, CPA  
Corporate Controller  
ePrentise  
blewis@ePrentise.com



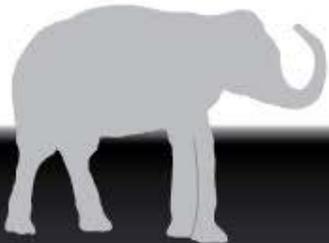
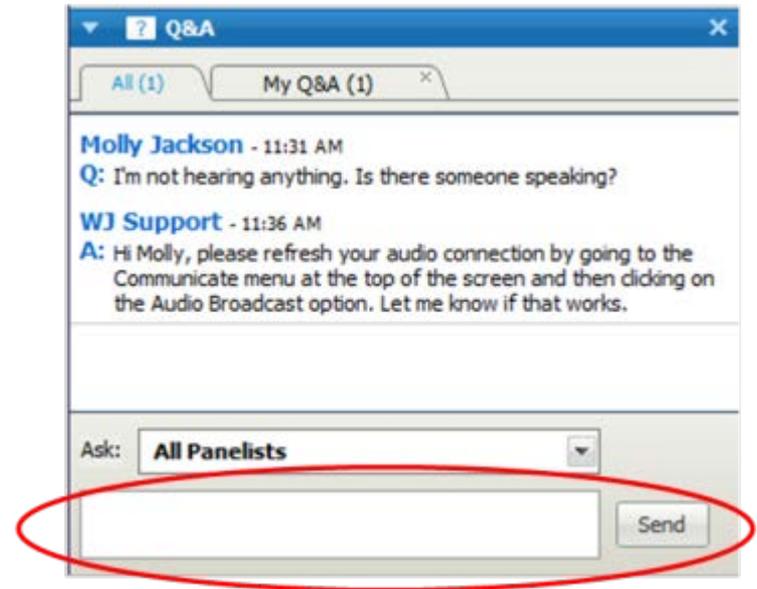
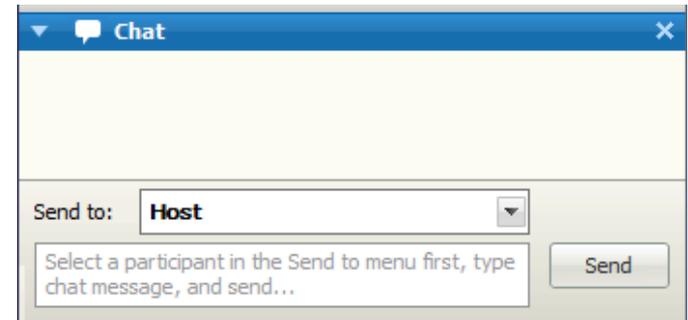
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# Webinar Mechanics



- Submit text questions.
- Q&A addressed at the end of the session. Answers will be posted within two weeks on our new LinkedIn Group, EBS Answers:  
<http://www.linkedin.com/groups/EBS-Answers-4683349/about>
- Everyone will receive an email with a link to view a recorded version of today's session.
- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.

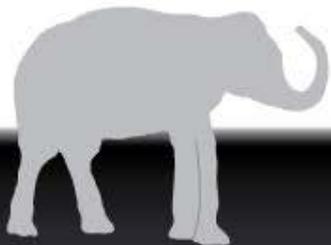


# Learning Objectives

**Objective 1:** Understand how IFRS requirements compare to U.S. GAAP requirements.

**Objective 2:** Explain fixed asset functionality in Oracle® E-Business Suite Release 12.

**Objective 3:** Identify how cost and revaluation model assets are adjusted during an acquisition or divestiture.



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# *e*prentise<sup>®</sup>: Transformation Software for E-Business Suite

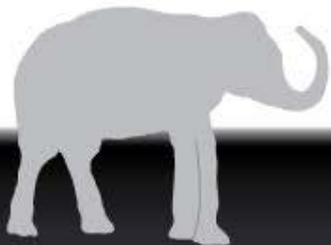
*Company Overview: Incorporated 2007 • Helene Abrams, CEO*

## *e*prentise Can...

-  Consolidate Multiple EBS Instances
-  Change Underlying Structures and Configurations
  - Chart of Accounts, Other Flexfields
  - Inventory Organizations
  - Operating Groups, Legal Entities, Ledgers
  - Calendars
  - Costing Methods
-  Resolve Duplicates, Change Sequences, IDs
-  Separate Data

## ...So Our Customers Can:

-  Reduce Operating Costs and Increase Efficiencies
  - Shared Services
  - Data Centers
-  Adapt to Change
  - Align with New Business Initiatives
  - Mergers, Acquisitions, Divestitures
  - Pattern-Based Strategies
    - Make ERP an Adaptive Technology
-  Avoid a Reimplementation
-  Reduce Complexity and Control Risk
-  Improve Business Continuity, Service Quality and Compliance
-  Establish Data Quality Standards and a Single Source of Truth

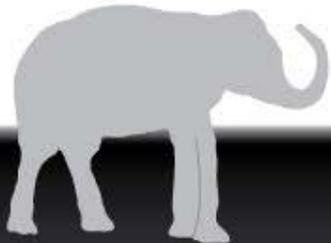


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# Agenda

-  Introduction
-  IFRS and U.S. GAAP Reporting in Oracle® E-Business Suite
-  Accounting for Fixed Assets Under IFRS and U.S. GAAP
-  Revaluation of Fixed Assets
-  Depreciation After Revaluation
-  Decline in Value
  - After a Revaluation
  - Impairment
-  EBS Considerations for the Revaluation Model
-  Revaluing Assets in a Merger/Acquisition
-  Conclusion
-  Questions

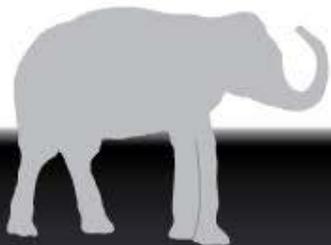


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# IFRS and U.S. GAAP Reporting in Oracle® E-Business Suite (EBS)

- 🐘 Update on IFRS: Why it is important for fixed asset reporting even if you are solely U.S. GAAP?
  - Dual-reporting requirements
  - IFRS-U.S. GAAP convergence
- 🐘 Numerous features in both 11i and R12 to accommodate extensive differences in the reporting frameworks
- 🐘 Focus will be on fixed assets accounting



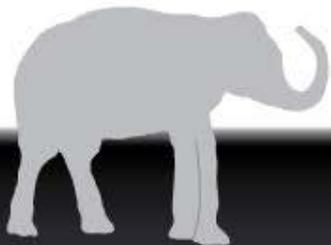
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# Overview of New Fixed Assets Functionality in R12

- 🐘 Full SLA integration
- 🐘 Enhanced mass additions
- 🐘 Mass additions auto-prepare
- 🐘 XML reporting
- 🐘 Automatic depreciation rollback
- 🐘 Enhanced energy industry enhancements
- 🐘 Retirements and revaluation enhancements

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# Accounting for Fixed Assets Under IFRS and U.S. GAAP

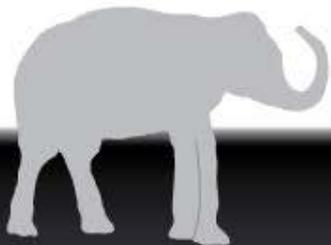
Two general models for accounting for fixed assets:

 U.S. GAAP

 IFRS:

- Cost (similar to U.S. GAAP)
- Revaluation model

 Impairment (common to both models)

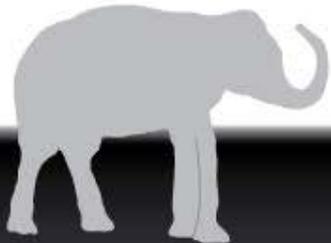


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# Comparing IFRS and U.S. GAAP for Fixed Asset Accounting

	U.S. GAAP	IFRS
<b>Depreciation</b>	Same	Same
<b>Revaluation</b>	Prohibited	Allowed/Create Revaluation Surplus
<b>Depreciation after Revaluation</b>	N/A	Allowed
<b>Impairment</b>	Direct Write Down	Write Down to Revaluation Surplus First, then Direct Write Down

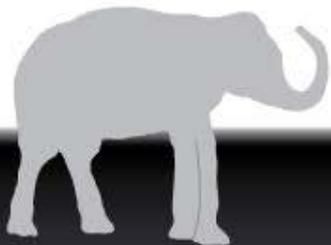


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# Why Both Models are Correct

-  U.S. GAAP is a conservative *rule-based* accounting standard that focuses on P & L (profit and loss) financials for use of *owners* of the entity (shareholders)
-  IFRS is more of a *principle-based* accounting standard that focuses on the balance sheet primarily for *creditors* of the entity

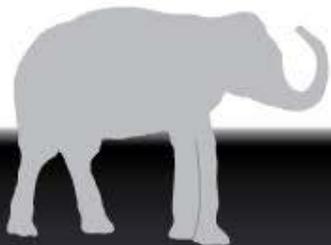


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# Revaluation of Fixed Assets

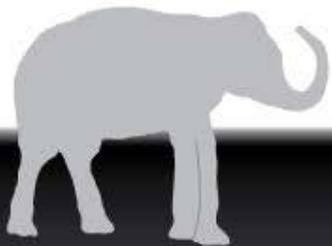
Revaluation of a company's assets takes into account inflation or changes in fair value since the assets were purchased or acquired. There must be persuasive evidence to revalue.



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# Poll Question

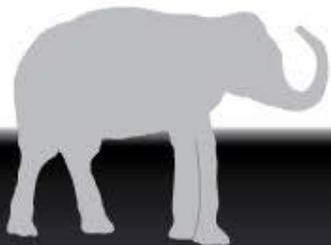


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# Revaluation for a Single or a Few Asset(s)

*Typically real property that has appreciated in value.*

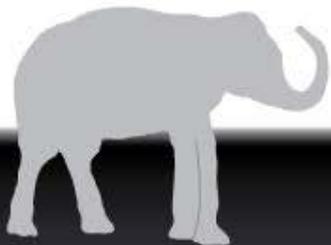


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# Example of a Single Asset Revaluation

Consider the example of Acme Ltd. used in the cost model. Assume that on December 31, 2010, the company intends to switch to a revaluation model and carries out a revaluation exercise which estimates the fair value of the building to be \$190,000 (again, at December 31, 2010). The carrying amount at the date is \$170,000 and revalued amount is \$190,000, so an upward adjustment of \$20,000 is required for the building account.



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# Revaluation Event – Building Rises Significantly in Value

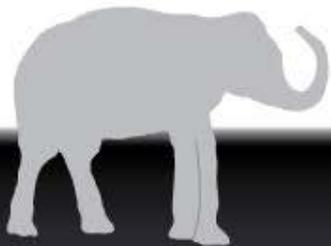
In the case of Acme Ltd:

- 🐘 Will switch to a revaluation model on December 31, 2010
- 🐘 The carrying amount at the date is \$170,000
- 🐘 The revalued amount is \$190,000
- 🐘 An upward adjustment of \$20,000 is required for the building account:

<b>Building</b>	<b>20,000</b>	
<b>Revaluation Surplus</b>		<b>20,000</b>

# Accounting Effect of Revaluation

- 🐘 Upward revaluation is not considered a normal gain and is not recorded on the 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



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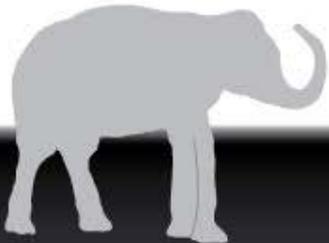


# Depreciation after Revaluation

The depreciation in periods after revaluation is based on the revalued amount.

In the case of Acme Ltd:

- Will switch to a revaluation model on December 31, 2010
- The carrying amount at the date is \$170,000
- The revalued amount is \$190,000
- An upward adjustment of \$20,000 is required for the building account
- Depreciation for 2011 was the new carrying amount divided by the remaining useful life, or  $\$190,000/17$  which equals \$11,176

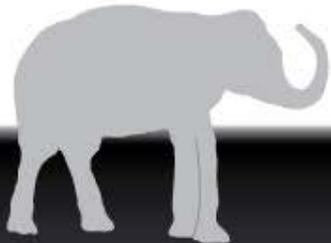


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# Decline in Value

- 🐘 Suppose on December 31, 2012, Acme Ltd. revalues the building again to find out that the fair value should be \$160,000
  - The carrying amount as of December 31, 2012, is \$190,000 minus two years depreciation of \$22,352, which amounts to \$167,648
- 🐘 The carrying amount exceeds the fair value by \$7,648, so the account balance should be reduced by that amount
  - We already have a balance of \$20,000 in the revaluation surplus account related to the same building, so no impairment loss will go to the income statement



# Journal Entry for a Decline in Value with a Prior Revaluation Surplus

In the case of Acme Ltd.:

- 🐘 Revalues the building again on December 31, 2012 - fair value should be \$160,000
- 🐘 The carrying amount is \$190,000 minus two years depreciation of \$22,352, which amounts to \$167,648
- 🐘 The carrying amount exceeds the fair value by \$7,648
- 🐘 Already has a balance of \$20,000 in the revaluation surplus, so no impairment loss will go to the income statement

<b>Revaluation Surplus</b>	<b>7,648</b>	
<b>Building Account</b>		<b>7,648</b>

# Impairment – When the Value Declines More than the Revaluation Surplus

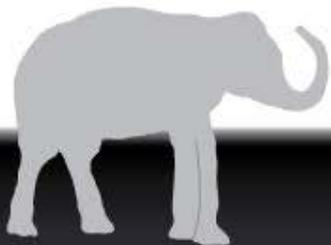
- Had the fair value been \$140,000, the excess of the carrying amount over fair value would have been \$27,648
- In that situation, the following journal entry would have been required:

<b>Revaluation Surplus</b>	<b>20,000</b>		
<b>Impairment Losses</b>	<b>7,648</b>		
<b>Building</b>		<b>20,000</b>	
<b>Accumulated Impairment Losses</b>		<b>7,648</b>	
<b>Gain in Value of Building</b>		<b>300,000</b>	
<b>Revaluation Surplus</b>		<b>20,000</b>	

*Note: Under U.S. GAAP, assets are not revalued except in business combinations (mergers).*

# Revaluation in EBS

In EBS, you can revalue all categories in a fixed asset book (mass revaluation) all assets in a category, or just individual assets.



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# Setting Up Revaluation Rules

File Edit View Folder Tools Window Help

Book Controls

Book **US GAP** Class **Corporate**

Description **US GAP REPORTING BOOK**

Associated Corporate Book **US GAP**

Calendar Accounting Rules Natural Accounts Journal Categories

Capital Gain Threshold Years  Months

Allow Amortized Changes  Allow Mass Changes

Create Intercompany Balancing Entries  Allow Cost Sign Changes

UK Local Authority Accounting

**Allow Revaluations**

Revalue Accumulated Depreciation  Revalue YTD Depreciation

Retire Revaluation Reserve  Amortize Revaluation Reserve

Revalue Fully Reserved Assets (B)  Maximum Revaluations

Life Extension Factor  Life Extension Ceiling

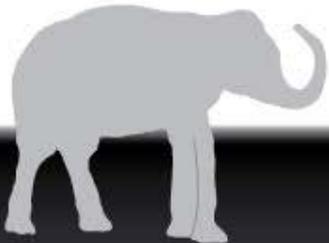
**Allow Group Depreciation**

Allow CIP Members in Group Assets (J)

Allow CIP Depreciation in Group Assets (K)

Allow Member Asset Tracking (Q)

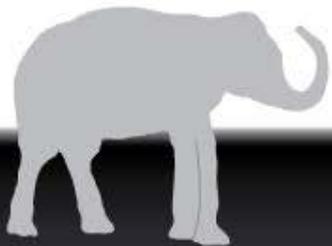
Allow Intercompany Member Asset Assignments (X)



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# Poll Question

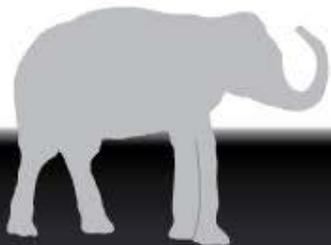


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# The Mass Revaluation Process Includes the Following Steps:

-  Create Mass Revaluation Definition
-  Preview Revaluation
-  Run Revaluation
-  Optionally Review Revaluation



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# Mass Revaluations Screen

File Edit View Folder Tools Window Help

Mass Revaluations

Book  Mass Transaction Number   
Comments  Revaluation Date **05-AUG-2012**  
Status **New**

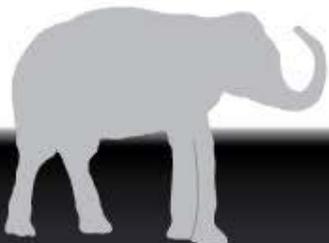
**Rules**

Revalue Fully Reserved Assets  Life Extension Factor  Maximum Revaluations   
 Revalue CIP Assets  Life Extension Ceiling

**Rates**

Category	Asset Number	Rate %	Rules Overridden
			<input type="checkbox"/>

Description

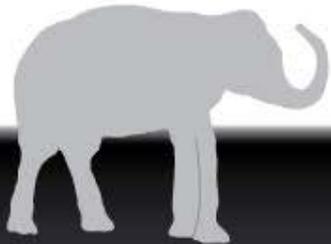


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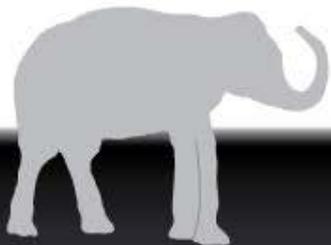
# To Revalue All Assets in a Category

- 🐘 Navigate to the Mass Revaluations window
- 🐘 Enter the book for which you want to revalue assets
- 🐘 Enter a description for the revaluation definition
  - *Important: Note the mass transaction number*
- 🐘 Specify revaluation rule
- 🐘 Enter the category you want to revalue
- 🐘 Enter the revaluation percentage rate to revalue your assets
- 🐘 Enter either a positive or negative number



# To Revalue All Assets in a Category

- 🐘 Override default revaluation rules if necessary
- 🐘 Choose *Preview*
  - *Note: You must preview before EBS will let you proceed*
- 🐘 If, after previewing, you need to make changes, edit the revaluation rule or percentage
- 🐘 Find the revaluation definition using the Mass Transaction Number
- 🐘 Choose *Run*
  - Oracle Assets begins a concurrent process to perform the revaluation
- 🐘 Review the log file after the request completes



# To Revalue an Individual Asset

Enter the asset number you wish to revalue instead of a category.

Status **New** [ ]

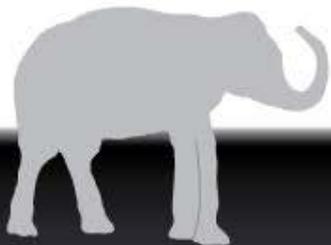
**Rules**

Revalue Fully Reserved Assets      Life Extension Factor [ ]      Maximum Revaluations [ ]

Revalue CIP Assets      Life Extension Ceiling [ ]

**Rates**

Category	Asset Number	Rate %	Rules Overridden
			<input type="checkbox"/>
			<input type="checkbox"/>
			<input type="checkbox"/>

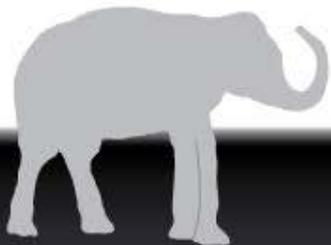


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# Revaluing Assets in a Merger/Acquisition

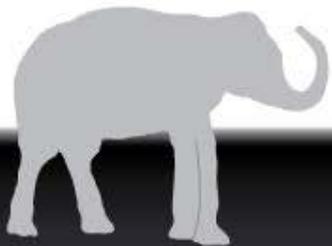
Under Financial Accounting Standard 141(R) and IFRS 3, Business Combinations, acquired companies are required to revalue their assets to fair value at date of acquisition.



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# Poll Question



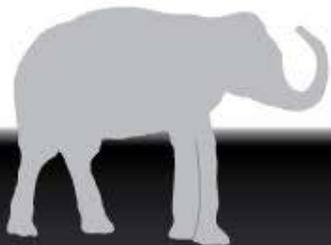
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# Oracle Mass Revaluation (OMR)

OMR functionality will not work for these types of revaluations for the following reasons:

-  The date placed in-service must be changed to date of the business combination – OMR does not support this
-  OMR mass and category revaluation will not accommodate netting accumulated depreciation or loading multiple, non-percentage driven fair value restatements
-  Individual asset revaluation is impractical for large numbers of assets and also does not accommodate netting accumulated depreciation or resetting the date placed in service

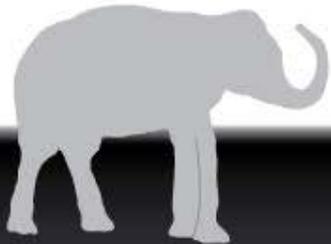


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# Conclusion

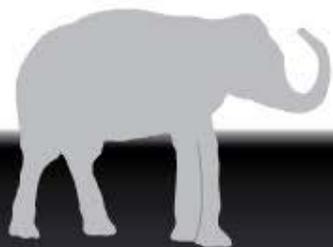
- 🐘 Addressing fixed assets in both the U.S. GAAP and IFRS accounting models has become easier in R12
- 🐘 The flexibility of the accounting rule setup allows requirements in different legislative, geographic or industry contexts within a single instance
- 🐘 The mass additions and automatic preparation processes can be used to convert data from legacy systems following an acquisition or consolidation
- 🐘 Reporting is flexible with prepopulated or customizable templates



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# Questions?



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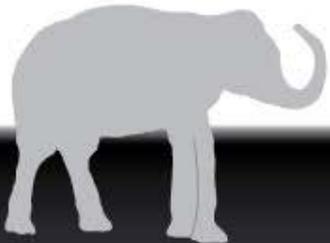


# Thank You!

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