

# Some Issues in Reference to Revaluation, Accounting, and Reporting Used for the Purpose of Financial Reporting of the Immovable Properties/Immovable Properties Owned by the State and in the Local Areas/

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**Abstract**— *International Financial Reporting Standards, International Accounting Standards, and International Public Sector Accounting Standards clearly specify the frequency of recording fixed assets, revaluation, and post-valuation registration. Revaluation is important because it eliminates differences in the accounting and reporting of fixed assets and fair value and provides information about the fair value to external and internal users. The revaluation of fixed assets, the principles of accounting and reporting, the possibility of solving problems, and the results of real estate revaluation were studied.*

**Keywords**— *Valuation, asset, reporting, tangible assets, property, plant and equipment, physical assets.*

## I. INTRODUCTION

After Mongolia transitioned from the centralized economical system to free market economy, many state owned factories were handed over to privately owned businesses, herders, home owners and land was privatized by the commoners which was done with careful examination. Due to the change in the government system, many new moderations were obviously done to the State Property. The government organizes a census of assets on a 6 yearly basis and in 2004 and 2009, this was again re-examined and was made some changes to the accounting and financial reports. In 2016, again the counting of properties were done and the result of the national consensus made revaluation job in 2018 possible. Since 2018, the revaluation of fixed assets has not been carried out.

Financial report uses historical cost to evaluate and report the estimates of assets, debts and people's properties. In terms of activities of the specific businesses and entities, this is really important, but because of not being able to estimate this precisely, they are forced to leave out some important data. Consequently, there is a vital need for the revaluation of assets in more detail.

## II. THEORETICAL TRENDS OF ACCOUNTING OF IMMOVABLE PROPERTIES AND ITS REPORTING

The normal proceedings of entities or enterprises depend solely on the benefits and the profits made through effective use of their assets and spending. Effective use of its spending and the profits yielded are clearly visible from the financial reports. Therefore, one of the main elements of financial reports is the tangible asset and its immovable properties.

Immovable properties are defined as being immovable object, an item of property that cannot be moved without destroying or altering it – property that is fixed to the earth, such as land or a house.

The registration and reports of immovable properties are regulated by International Accounting Standard, IAS 16 (further referred to as IAS) and International Public Sector Accounting Standard, IPSAS 17 (Further referred to as IPSAS).

This is defined in the IAS “Product or service manufacturing and procurement i.e. renting to others and using it for other administrative purposes and it should be a physical asset for more than one annual financial report”.

The immovable property makes up for the most part of the assets owned by the entities and have a feature of patching itself up with gradual consumption of the initial funding for their expenditure.

In the Financial Reports of the entities, the immovable property is introduced as the noncurrent assets as in immovable physical form.

When writing a report on assets, debts and properties of the owners in the financial report, they use historical costing system. This is valuable for the businesses and enterprises, but it is impossible to evaluate it accurately, forcing them to leave out important data.

In light of this limitation, these estimates are approved by referring to the model of expenditure released by International Standards for Financial Reporting (further referred to as ISFP), IAS and IPSAS.

It is stated in IAS and IPSAS that “the future financial profits or service capabilities related to the company assets can be obtained and the fair value will surely be evaluated”.

When fair value is shown through this model, asset revaluation becomes necessary. On the aforementioned models or standards, it clearly states about how to estimate the value of the immovable property and how to record on balance sheet.

In IAS 16 article 31, it states that after having been accepted in the tangible asset registration, and if it has been revaluated, this will be noted in the reports as having been revaluated. The sum of the revaluation is the subtraction of accumulated depreciation and the accumulated value wear and tear from the fair value. This is to say, if there is no variance between account value and material amount, the fair value will be estimated at the end of the report deadline.

In IPSAS 17 articles 54 and 56, it mentions that in case, the asset value increases as a result of revaluation process, it will be written in the revaluation credit by its increased amount. However, in case, the impairment of the revaluation of the assets of similar kind is considered as cost, the growth after revaluation will be counted as revenue. As a result of the revaluation, in case, the value impairment in the asset account value, the impairment will be counted as an expenditure.

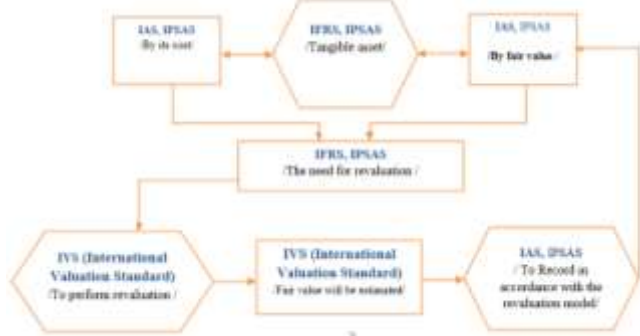
Although, in case, the above mentioned impairment is not exceeding the increased value of immovable property, as a result of the revaluation, its impairment will patch itself up by the corresponding revaluation growth.

The revaluation of the assets was regulated by the International Valuation Standard, International Financial Reporting Standard, International Public Sector Accounting Standard, and International Accounting Standard.

TABLE I. The correlation of the standards used for the revaluation of the Immovable properties

IFRS №	IPSAS №	Names
IAS 1	IPSAS 1	The presentation of the Financial reporting
IFRS 9	IPSAS 15 IPSAS 29	Financial tools: Clarification and presentation; acceptance and measurement
IFRS 13		Fair value estimation
IAS 16	IPSAS 17	Tangible asset
IAS 36	IPSAS 21 IPSAS 26	Value impairment of the assets
IAS 40	IPSAS 16	Immovable property for investment

FLOW MAP I: The correlation of the standards used for the revaluation of the Immovable properties



The frequency of the revaluation is directly dependent on the changes made into the value of the tangible assets. IFRS 16 article 32 states that “if there was a significant change in real value of the assets on a yearly basis, then it means there is a big need for performing valuation between 3 and 5 years time”. IPSAS 17 article 49 states that “when real value that has been revaluated has a big difference from the account price, there is a great need for revaluation. And the revaluation must be done in 3 to 5 years.”

The revaluation is supposed to be done under the careful supervision of external experts, in accordance with IVS and regulated by corresponding law and procedure and guideline.

The approval of procedures of the immovable properties of state and local areas should be regulated by the Minister of Finance, order # 207 and must consider the following:

- It must follow the articles about standards in IPSAS 16 “Tangible asset”, IAS17 “Tangible asset”, IPSAS 31 “Intangible assets” and IAS 38 “Intangible assets”
- When performing the valuation of value impairment the following standards must be considered: IPSAS 21 “Impairment of Assets”, IAS 36 “Impairment of Assets” IFRS 13 “Fair Value Measurement”
- Land privatization will be counted as a tangible asset but the right to land ownership and usage will be intangible asset that is; if you have the right to own and use a land, it will as described before, the intangible asset and will not be eroded.
- It also states that the tree plantation which meets the standards of IPSAS 17 “tangible asset”, IFRS 16 “Tangible asset” shall be evaluated and included in the report.

### III. THEORETICAL TRENDS OF VALUATION OF IMMOVABLE PROPERTIES

Valuation of Immovable properties is defined as a process of systematic data collection, research; and calculation & summery needed for determining asset valuation for various purposes based on effective legal and procedural standard in that area.

The valuation has many benefits and uses and has a direct correlation to financial and other markets whether it should be reflected in the financial reports, corresponding to legal measure and should be supportive of loan on mortgage and trade transactions.

The main objective of the rvaluation of properties is to create a system of valuation of properties that is accepted internationally and locally and to meet the needs of valuation market.

The valuation is conducted in connection with the purpose of valuation and the characteristics of asset in question. The valuation process is regulated by the IVS.

The main goal of the IVS is to increase the trust in customers regarding the valuation services. Therefore, when identifying the fair value in the Rvaluation of the financial reporting of the tangible assets, the following should be considered:

- Cost approach
- Market approach
- Income approach

The most appropriate trend is cost approach in which the valuation of expenditure of the immovable property is devoted

to immovable properties with non-profit specialized purposes such as hospitals, state operation buildings and etc...

TABLE II. The Trends of valuation of Immovable properties

No	Valuation trends	Definitions	The criteria of practicality
1	Cost approach	Cost approach is based on the economic principle that the customers should not pay more for any purchase of properties, services of similar kind.	The cost approach is used mainly for determining the technical and economical basis for new buildings, evaluating the unfinished buildings, whether it is necessary to renew immovable property projects, or doing valuation on impassive asset market, evaluating the market price on buildings with no previous trade value, determining market value for immovable properties with non-profit specialized purposes such as hospitals, state operation buildings, army base and prisons and auction sale initial pricing etc
2	Market approach	Market trend compares similar assets to determine the price of particular immovable property with sufficient information. In other words, it makes analysis on assets that is comparable to determine the market price of the asset.	The usage criteria require the new information to be available and to be accurate. The comparable asset in the open market should serve a specialized purpose, non-investment oriented, transferable, and the information available should be comparable to use this trend.
3	Income approach	This is defined by net profit to be gained for future use. In other words, this trend is based on its revenue winning potential of the property.	This trend's criteria can be understood by its capability of bringing profit to the owners.

TABLE III. Valuation of Immovable properties determining its type, identifying the valuation methodology and its trends

No	The type of the property	The valuation approaches and trends to be used
<b>A</b>	<b>Property categorization</b>	Market approach Income approach • Direct capitalization • Approach to reduce the cash flow Cost approach • Replacement expenditure • Remanufacturing expenditure • Valuation of similar asset expenditure • Valuating in small parts • Approach of dissecting expenditure • Broadened normative approach
	Land	
	Building	
	Other improvements other than buildings	
	General infrastructure	
	Others	
<b>B</b>	<b>The funds that can be categorized into being an immovable property with great value</b>	Cost approach • Replacement expenditure • Remanufacturing expenditure • Valuation of similar asset expenditure • Evaluating in small parts • Approach of dissecting expenditure • Broadened normative approach
	Water supply facility	
	Garbage disposal facility	
	Electricity accumulation facility	
	Others	
<b>C</b>	<b>Properties for investment purposes</b>	Income approach • Direct capitalization • Approach to reduce the cash flow
	Properties for renting purposes	
	Properties used for big events or other activities	
	Others	

The guidelines for revaluation of the Immovable properties owned by the state and the locals were approved by the Minister for Finances on 07 August 2018 by the decree # 207

and the guidelines were formulated by means of Property valuation cost approach.

The guidelines for revaluation of the Immovable properties of the stat and locals was approved based on agreement made in 2016 order #193 and by the decree #207 by the Minister for Finances in Mongolia. The approval document stated the following:

- ✓ “In the account of the accounting record should reflect about the Valuation methodology of the Immovable property”.
- ✓ “Model Valuation Capability of the unit of construction facility”
- ✓ “Valuation Capability of the unit of engineering facility”
- ✓ “Valuation of construction facility estimation indicator by regions” “Valuation Capability of the unit of public facility”
- ✓ “Normative timeframe of immovable and movable property in conducting Property Valuation”
- ✓ “The detailed list of elements of the Building
- ✓ “Model value of 1 square meter unit of consulate buildings in foreign countries”
- ✓ “Brief report on revaluation”
- ✓ “Report of monitoring of the Revaluation on tangible asset”.

Ministerial decree 207, appendix 1 of the land valuation states that as a legal body who owns a state and local properties on Mongolian land, the land price will be estimated in relation to the purpose of which the land is used according to appendix 1, 2, 3,4,5,6 of the decree 182 of 2018.

Moreover, the indicators of using, privatizing, and owning of land are clearly depicted in the law on land.

Revaluation must be done on a regular basis, so that by using the fair value of the asset by the end of the year, there will not be a big difference in value or avoid miscalculations. If the asset is revaluated, all the relevant properties should be revaluated as well.

IV. RESEARCH WORK ON REVALUATION OF IMMOVABLE PROPERTIES USED FOR THE PURPOSE OF FINANCIAL REPORTING

The nationwide consensus of immovable properties owned by the state and the locals is done once in 4 years. The last count was done in 2016 based on the financial report of the 31st of December, 2015. In the consensus, it counted altogether 6086 legal bodies with 1128 in the state ownership and 4958 in the ownership of the locals.

*This consensus comprised of the following:*

- 42,700 buildings of 9,869.3 billion tugrik worth and there were 20,711 buildings not used because of being rundown but are still in use which were worth 345,6 billion tugriks.
- 2676, 4 billion tugrik worth 106,808.94 km paved road, 7220,6 billion tugrik worth 836 bridges which were 29,099.5 meters long.
- 88.5 billion tugrik work 8,721 wells were counted and 874 which accounts for 10%, are not used.
- There are other buildings and construction work worth 2,565.3 billion tugriks which are not finished.
- Parking space, pedestrian road, trees and bushes, playgrounds etc were not valued and we estimated the value of those and came up with the result of 27,734 facilities which were worth 689,558.6 million tugriks.
- 9,676 units land of 118473.9 hectare land ownership were granted to the locals and to the state owned enterprises. Out of this 110 unit land certifications were not authenticated and 4,967 unit lands were not recorded in the state consensus.

TABLE IV. The summary of the State and locals owned property /billion. tugrik/

Ownership	Capitals altogether	From this:		The sum of debts	State owned fund	State ownership net sum
		Resolving fund	Unresolving fund			
By the state	25,687.5	8,424.3	17,263.3	12,428.7	13,258.8	12,425.4
By the locals	4,387.4	460.0	3,927.4	495.4	3,892.1	3,839.3
<b>Sum</b>	<b>30,075</b>	<b>8,884.3</b>	<b>21,190.7</b>	<b>12,924.1</b>	<b>17,150.9</b>	<b>16,264.6</b>

Mongolian government approved a decree 193 in 2016 with orders to estimate the State and ownership of the locals by the national consensus. In accordance with the decree about valuation of land –utilization and ownership rights and revaluation of the state and ownership by the locals recorded in the financial reports were done in 2018 by the decree A-1/3550 on 13 December 2017.

TABLE V. Statistics of the State and local ownership entities

№	Indicators	Previous year and Feb 2018	Beginning of the year and Feb 2019 /by increased sum/
1	Factory which is state owned entity estimation	90	78
2	Factory which is local owned entity estimation	381	363
3	State organization, offices and factories	4687	4784

For the purpose of State and ownership by the locals immovable property financial report and when performing

revaluation in accordance with the methodology the following legal documentations will be upheld.

TABLE VI. Legal study on Immovable property revaluation

№	Laws	Approved date	Management
1	Constitution of Mongolia	16 Jan 1992	It covers social, political, economical and moral issues of the society.
2	Law on Asset Valuation	21 Jan 2010	It regulates all the activities related to Property Valuation.
3	Law on land	07 June 2002	The objective of the law is give land for ownership and utilization to the citizens and entities alike and regulates the activities in relation to it.
4	Law on accounting	19 June 2015	It is used to highlight the accounting principles, its management and legal environment. Moreover, it regulates and monitors legal activities of conducting accounting work, writing financial reports and monitoring of accounting activities.
5	Law on building construction	5 Feb 2016	This law regulates activities related to conducting construction work, manufacturing construction materials, doing construction work, and ensuring its consistency.
6	Law on State and locals ownership	27 May 1996	Passing and approving a law related to the rights of state and local properties, executive organizational absolute power, legal body who owns a state property and its rights of the owner and to implement policies in connection with State property and to identify organizational rules and procedures.
7	Law on company	6 Oct 2011	This law regulates the activities of company establishment and makes changes to it, company management, organization, monitoring system, market share and company annulment.
8	Decree 207 Minister of Finance	7 Aug 2018	It regulates activities related to Revaluation methodology.
9	Real estate building, space estimation methodology	24 Dec 2009	<b>MNS6058:2009 Standard:</b> It is related to identifying real estate building's internal spacing and estimation methodology.

In order to do this research work, we worked on 13 State owned organizations and their accounting activities and revaluation reports.

We have identified some issues in reference to ownership by the local and their tangible asset i.e. immovable property accounting, reporting and presentation. The following issues were identified:

- Different buildings were recorded under one building
- One building is recorded in different parts separately.
- Area improvement i.e. fencing, pedestrian pavements, squares and green facilities are not fully recorded.

- Engineering power grid and they are not thoroughly well recorded and in some cases, there are no registrations at all.
  - Account values in the balance sheets are far lower than fair value – it takes a long time when doing revaluation.
  - Land ownership rights are ordered to the organizations name, but they are not recorded in the balance sheet.
- For instance: when replacing the old fencing with new ones, they are not able to subtract the old fencing value and as such there are many issues in accounting.

We have chosen one of the local ownership properties as an example to illustrate the situation clearly.

Before doing revaluation on locally owned properties of “A” organization, there were some issues in terms of accounting:

1. Although, there was a decree permitting that organization a land ownership and utilization rights of three different lands in 2003 and in 2013 on part of land, the registration was not noted in financial report.
2. Account values in the balance sheets are far lower than fair value – it takes a long time when doing revaluation.
3. Value impairment caused by the state of tangible asset and its utilization was not noted. /Revaluation was possible to be done/
4. Although, the land utilization contract was terminated, the asset for its operation was not revaluated and was not recorded.

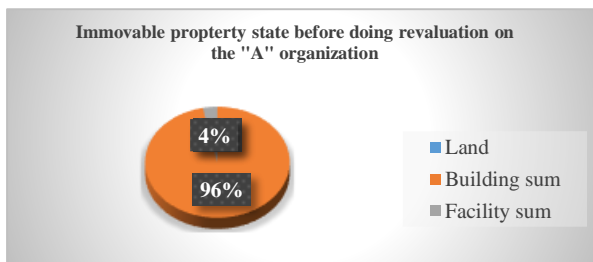


Chart. 1

In accordance with the Ministerial decree 207 of approving valuation methodology on 07 Aug 2018, when conducting revaluation of the different areas, such as land, building and facility the total sum of fair value has an growth of 0.67% from the account of organizational immovable property.



Chart. 2

If you examine the percentage growth, the following were revealed:

1. The lands which were recorded in four different parts were evaluated in the balance sheet and were re-recorded in different regions in relation to the decree under the name of the organization and it accounts for the 8% of the immovable property.
2. Seven buildings out of 9 buildings recorded in the balance sheet shows an growth in the fair value than the account value and the remaining two buildings show decline. As a result of the revaluation, fair value has increased from the account value by 61%.
3. Two facilities out of the three facilities recorded under the name of organizations the utilization term has been terminated, but still remained in operation. The revaluation was done in accordance with the valuation methodology and revealed two of the facilities were able to continue for the coming four year time and to have fair value. As a consequence of the revaluation, fair value shows an growth in 42% from the account value.

After having a revaluation done on the “A” organization, total asset sum has increased by 57% compared to before the revaluation

#### V. CONCLUSION AND SUGGESTIONS

Although, our State Organizations are following the IFRS, IAS and SMEs’ standards to write up their accounting reports, there are many complicated issues regarding removal from the account of immovable property, retirement of assets, asset sales and exchange, deposition and transferring ownership due to prolonging the revaluation of the assets process as indicated in the standard.

The issues are:

1. Each structure should be recorded separately.
2. One building should be recorded separately.
3. Area improvement i.e. fencing, sidewalks, squares and green facilities are not fully recorded.
4. Engineering power grid and they are not thoroughly well recorded and in some cases, there are no registrations at all.
5. Account values in the balance sheets are far lower than fair value – it takes a long time when doing revaluation.
6. Although, the land ownership contract has been terminated, the assets are still in use /it was possible to do a revaluation/
7. Land ownership rights are decreed under the organization’s name, but they are not recorded in the balance sheet.

By doing revaluation on above mentioned issues, they can easily be avoided. I am proposing the following suggestions:

- Make amendments to the Law on Accounting stating that the revaluation on State and Private organizations’ properties should be done every 3 to 5 years.
- The management and accountants must include the revaluation be done in accordance with the standards and understand its significance.

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