TANGIBLE FIXED ASSETS FOR SME: PORTUGUESE AND SPAIN EVIDENCE

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Abstract

The problem statement of this research is the application level of IAS 16 - Property, Plant and Equipment in SMEs provide by SME in Portugal and Spain. Indeed, the purpose of the research is comparing the accounting framework of IAS 16 - Property, Plant and Equipment in SME in Portugal and Spain. Also, it considers the information disclosure, conduct annually by the SME in both countries, comparing their similarities and differences. The methodology a used descriptive, pilot and explanatory analysis with support of a literature review of the normative and legal framework applicable to SME in the two countries. In addition, it understands the accounting changes resulting from legislation compared to previous normative. Indeed, it will be made an exhaustive documentary analysis of the content of the disclosure provided in the Annual Reports made by SME, through the Annex. The findings of the research allow to analyze the disclosure made by the SME and the applicable framework and the detail information about the IAS 16 - Property, Plant and Equipment. The main conclusion is centred on the Tangible Fixed Assets represent the largest percentage of assets in SME as collateral of financial decisions. Therefore, it allows stakeholders to take strategic decisions, including new investments.

Jel Classification M41-Accounting
Key words: Tangible Fixed Assets; IAS; SME; Portugal; Spain.

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Abstract

Il problema affrontato in questa ricerca è il livello di applicazione dello IAS 16 - Immobilizzazioni materiali nelle Piccola Impresas in Portogallo e Spagna. Infatti, lo scopo del lavoro è quello di confrontare il quadro dei principi contabili IAS 16 - Immobilizzazioni materiali nelle Piccola Impresas in Portogallo e Spagna e di focalizzarsi sulla divulgazione annuale di queste informazioni, realizzata da tali imprese in entrambi i paesi, per mettere a confronto gli aspetti di somiglianza e le differenze. La metodologia utilizzata è descrittiva; si tratta di uno studio pilota e di un'analisi esplicativa realizzata con il supporto di una revisione della letteratura e del quadro normativo e giuridico applicabile alle piccola impresas nei due paesi. Il lavoro evidenzia i cambiamenti contabili derivanti dalla legislazione rispetto alla normativa precedente attraverso un'analisi documentale esaustiva del contenuto dell'informativa fornita in allegato nelle relazioni annuali da parte delle piccola impresa, esaminato in dettaglio. I risultati della ricerca mettono in evidenza il livello di informativa relativa llo IAS 16 - Immobilizzazioni materiali che rappresentano la più alta percentuale di attivi nelle piccola impresa. La divulgazioni di tali informazioni è necessaria per consentire alle parti interessate di prendere decisioni essenziali, tra cui quelle riguardanti i nuovi investimenti.

Jel Classification: M41-Accounting
Key words: Immobilizzazioni materiali; IAS; Piccola impresa; Portogallo; Spagna.

Abstract

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INTRODUCTION

The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) have been adopted by the European Commission, by Regulation (EC) Nº 1606/2002 of the European Parliament and of the Council, on July 19th (EC, 2002), which stated in Article 1st that

> "*aimed to the adoption and use of international accounting standards in the Community with a view to harmonizing the financial information presented by companies in order to ensure a high degree of transparency and comparability of financial statements and thus the efficient functioning of the Community capital market and of the internal market* ".

More, it added that the international accounting standards must be published in all official languages of the European Union, in the form of Commission Regulation in the Official Journal of the European Communities, which it turned out with the publication of Regulation (EC) n.º 1725/2003 on September 21th (EC, 2003b). Subsequently, Regulation (EC) n.º 1126/2008 on November 3th (EC, 2008a), replaced the previous Regulation (EC) n.º 1725/2003 of September 21th (EC, 2003b). With this research, the authors aim to study the application level of IAS 16 - Property, Plant and Equipment provided by SME in Portugal and Spain. Indeed, the purpose of the research is compare the accounting framework of IAS 16 - Property, Plant and Equipment in SME and considers the disclosure of this information in Portugal and Spain, comparing their similarities and differences.

The methodology used in this research is descriptive, pilot and explanatory analysis with support of a literature review of the normative and legal framework applicable to SME in the two countries. Also, it will understand the accounting changes resulting from legislation compared to previous normative. Indeed, it will be made an exhaustive documentary analysis of the content of the disclosure provided in the Annual Reports made by SME, through detailed analysis of the Annex. This research has the following cognitive learning objectives as categorized by Bloom's (1956): knowledge; comprehension; application; analysis; synthesis and evaluation.

To do so, it is conducted a comparison of the accounting framework of IAS 16 - Property, Plant and Equipment in SME in Portugal and Spain and is analyzed the disclosure of this information, conducted annually by the SME in the two countries, identifying the main points of convergence and divergence.

To achieve the stated objectives, after this introduction, the second section begins with the framework of SME, followed by the accounting framework of the European Union, in general, and Portugal and Spain, in particular. It indicates whether the scope and objectives of the subsequent measurement of of Tangible Fixed Assets (AFT). It describes how to perform the measurement after recognition and the process of revaluation of tangible fixed assets. It is made a close study to this framework in SME; there are point out the disclosures needed to be made; and, finally, it will present conclusions and limitations.

FRAMEWORK OF SMALL AND MEDIUM-SIZED ENTERPRISES

The category of small and medium enterprises (SME) is made up of enterprises which employ fewer than 250 persons and whose annual turnover does not exceed 50 million euros or an annual balance sheet total not exceeding 43 million euros.

The Decree-Law n.º 372/2007 on November 6th (MEI, 2007) created the electronic certification status of small and medium enterprises (SME). Also, it defines concepts and the criteria to be used to assess their conservation status, which correspond to the requirements under Recommendation 2003/361/EC of the European Commission on May 6th (EC, 2003a) defines business as Article 1º of Annex (MEI, 2007):

"*any entity, regardless of its legal form, engaged in an economic activity. They are in particular considered as such entities carrying on a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities*".

In the same Decree-Law n.º 372/2007 (MEI, 2007), staff and financial thresholds determining enterprise categories are as follows on the Article 2º of Annex:

"*1- The category of micro, small and medium enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or an annual balance sheet total not exceeding 43 million euros.*

2 - Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euros.

3 - Within the SME category, a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euros ."

Further, it adds the final values of enterprise size that correspond to the SME's values as a standalone plus the values of the relevant relationships with other companies (when exist), as developed in Articles 3 to 6 of Annex of Decree-Law n.º 372/2007 (MEI, 2007). Table 1 presents a summary of the characterization of SME.

Table 1 – Distribution of the Dimension of the Entrerprise

Dimension	**Number of Employees**	**Indicators**
SME	< 250	<= €M50 (sales) or <= €M 43 (Balance sheet)
Micro	< 10	<= €M 2
Small	< 50	<= €M 10
Medium	SME which aren't Micro or Small enterprises	

Source: IPAMEI (2015)

In Spain, the SME are known as "Pyme" or "PyME". A related term is "mipyme" or "MIPyME" that is the acronym for micro, small and medium enterprises, which takes into account the modalities of smaller company such as sole proprietorships. These also are the limits that define and characterize this type of entities and were introduced by Law 28015 as the *Ley de Promocion y Formalizacion de la Micro y Pequeña Empresa* (MTPE, 2003).

ACCOUNTING FRAMEWORK OF THE EUROPEAN UNION

The accounting level has been suffering significant changes since the adoption by the European Commission of the international financial reporting standards issued by the *International Accounting Standards Board* (IASB, 2015). Alexander *et* al. (2007) and Bline *et* al. (2008) analyse the evolution of accounting standards issued by the IASB.

In 2002, the European Union (EU) Parliament passed a regulation that requires consolidated and simple accounts for all companies listed in the EU to use International Financial Reporting Standards (IFRS) for fiscal years starting after 1 January 2005. This change in accounting systems will have a large impact on the information environment for EU companies (Soderstrom and Sun, 2007).

Indeed, the Regulation (EC) n.º 1606/2002 of the European Parliament and of the Council on July 19th (EC, 2002) indicate that

"*in order to contribute to a better functioning of the internal market, companies whose securities are publicly traded must apply a single set of international standards of high quality accounting, for the purposes of preparing their consolidated financial statements. In addition, it is important that standards of financial reporting applied by Community companies participating in financial markets are accepted internationally and are truly standards* *worldwide. This implies an increasing convergence of accounting standards and rules currently used internationally with the ultimate objective of achieving a single set of accounting standards worldwide.* ".

Also, this Regulation (EC) n.º 1606/2002 (EC, 2002) states that

> *"in respect of each financial year starting on or after 1st January 2005, companies governed by the law of a Member State whose securities are publicly traded must, under certain conditions, to prepare their accounts consolidated in accordance with international accounting standards.* "

It has been added that international accounting standards adopted should be fully published in all official languages of the Community, in the form of Commission Regulation in the Official Journal of the European Communities, which it turned out with the publication of Regulation (EC) n.º 1725/2003 of September 21th (EC, 2003b).

The period from 2005 to 2006 can possibly be described as one in which the largest accounting revolution in recent history occurred. This period saw the implementation of International Financial Reporting Standards (IFRS) reaching a total of over 100 countries across the globe following the European Commission (EC) issuing Regulation (EC) nº 1606/2002 in July 2002. This regulation required publicly listed firms in European Union (EU) member states to adopt IFRS for financial years beginning on or after 1 January 2005 (Sacho and Oberholster, 2008). They add:

> *"The adoption of IFRS over time resulted in the application of a common set of financial reporting standards not only in the EU but also among companies in many other countries that require or permit IFRS, including the EU, Canada, Australia and Japan"* (Sacho and Oberholster, 2008: 126).

Subsequently, Regulation (EC) n.º 1126/2008, of November 3 (EC, 2008a), binding in its entirety and directly applicable in all Member States of the European Union replaced the previous Regulation (EC) nº 1725/2003 of September 21th (EC, 2003b). Quoting the 3rd article

> "*in order to simplify Community legislation on accounting standards, it is appropriate for reasons of clarity and transparency, to incorporate in a single text the current rules laid down in Regulation (EC) No 1725/2003 and the instruments amending it.*"

This Regulation served as a basis for accounting changes in various EU countries, in general, and Portugal and Spain, particularly. The basis text was published on November 3rd. However, this legislation had repeated changes, derived largely from financial investments which led to a regulation republished in 2013 by Regulation (EC) n.º 1126/2008 of November 3rd - Consolidated version of the March 27th, 2013 (EC, 2008b), and Regulation (EC) n.º 1126 / 2008 of the Commission of November 3rd 2008 - Consolidated version of the January 1, 2014 (EC, 2008c).

ACCOUNTING FRAMEWORK IN PORTUGAL AND SPAIN

In Portugal, the accounting standards and financial report of the Accounting Standardisation System (ASS), approved by the Notice n.º 15655/2009, on September 7th (MFAPSG, 2009b) and the Accounting and Financial Reporting Standard published on the Accounting Standardisation System for Small Entities approved by Notice n.º 15654/2009 on September7th (MFAPSG, 2009a) were the base on this Regulation (EC, 2008a).

The Accounting Standards System (ASS or in Portuguese SNC) was established by Decree-Law n.º 158/2009 on July 13th (MFPA, 2009a), which was the subject of several compilations, as is the case of Rodrigues (2011), Almeida (2010) and Cravo *et al.* (2009), among many others. It indicates that the entities covered by the mandatory application of the ASS and in the Article 3º adds, in Article 4, that entities whose securities are admitted to trading on a regulated market should prepare their consolidated accounts in accordance with international accounting standards adopted in Article 3º of Regulation (EC) n.º 1606/2002 of the European Parliament and of the Council of July 19th. The rest has been adopting by the NCRF (MFAPSG, 2009b). The article 9º of the ASS introduces the concept of Small and Medium Entities (SME), and then they can adopt the NCRF-PE (MFAPSG, 2009a).

Law Nº 20/2010, of August 23rd (AR, 2010a) extended the concept of small entities for the implementation of the CNS, verifying a first amendment to Decree-Law Nº 158/2009 of July 13rd (AR, 2009) and the boundaries of Small Entities, adding that the mentioned paragraph 1 of Article 9º is replaced by the following:

> "*The 'accounting and financial reporting standard for small entities' (NCRF-PE), understood the Accounting Standardisation System (SNC), can only be adopted as an alternative to normative remaining entities, among those referred to in Article 3º and excluding the situations of Articles 4º and 5º, do not exceed two of the following limits, unless for legal or statutory reasons have their financial statements subject to statutory certification: a) Total balance: € 1,500,000; b) Total net sales and other income: € 3,000,000; c) Number of employees on average during the year: 50.* "

Law n.º 35/2010, of September 2nd (AR, 2010b) established a special and simplified system of accounting standards and information in force on micro-entities, regarded as

> "*the companies which on the balance sheet date do not exceed two of the three following limits: a) balance sheet total: € 500,000; b) net turnover: € 500,000; c) Average number of employees during the year: 5* ",

and will now adopt simplified accounting standards. These were subject to regulation by Decree-Law n.º 36-A/2011 of March 9th (MFPA, 2011) which approved the scheme of accounting standard for micro-entities (NCM).

In Spain, Regulation (EC) nº. 1606/2002 of *Parlamento Europeo y del Consejo*, of July 19th2002 (EC, 2008a) that is the application of international accounting standards came with the requirement of the adoption of International Standards Accounting considering that

> "*For the health of the competitiveness of capital markets in the Community, to achieve convergence of the standards used in Europe for preparing financial statements, with international accounting standards that can be used for cross-border transactions or listing anywhere in the world.* ".

This process has been transposed into the Spanish legal by Ley 16/2007, of July 4th (JE, 2007):

> *"reform and adaptation of mercantile legislation on accounting matters for international harmonization com based on the rules of the European Union"*.

But, the Royal Decree n.º 1514/2007 of November 16th (MEH, 2007a) states that

> "*The General Accounting Plan and its amendments and complementary rules, in order to develop the aspects contained in the Law.*"

The full publication of this Plan is in addition to the aforementioned law and it quotes on the article 2º (MEH, 2007a) that:

> "*The General Accounting Plan will be mandatory for all companies, regardless of their corporate legal form, individually, without prejudice to those companies that can apply the General Accounting Plan for Small and Medium Enterprises*".

Royal Decree n.º 1515/2007, of November 16th (MEH, 2007b), approved

> *"the General Accounting Plan for Small and Medium Enterprises and specific accounting criteria for micro-enterprises"*

which states on the number one of the article 2º that:

> "*They can apply this General Accounting Plan for SMEs all companies, whatever their corporate legal form, individually, that for two consecutive years together, the closing date of each at least two of the following circumstances: a) the total of asset does not exceed 2.85 million euros; b) The net amount of their annual turnover does not exceed five million seven hundred thousand euros. c) The average number of employees during the financial year does not exceed fifty.* "

Furthermore, the article 4º (MEH, 2007b) indicates that as companies that choose micro-companies specific criteria should-faze the jointly and adds:

> "*The criteria outlined in the following paragraphs of this Article may be applied by all companies having chosen to implement the Plan General Accounting for SMEs meet for two consecutive years, the closing date of each of them, at least two of the following circumstances: a) the total of asset does not exceed one million euros; b) The net amount of its annual turnover not exceeding two million; c) The average number of employees during the financial year does not exceed ten.* "

As shown by the previous framework, the limits that control the various entities differ depending on the Member State. In this regard was published Directive n.º 2013/34/EU of the European Parliament and of the Council of 26 June (EC, 2013) on the annual financial statements, consolidated financial statements and related reports of certain types of companies.

This Directive states that "the Commission Communication Think Small First - Small Business Act for Europe ", adopted in June 2008 and revised in February 2011, recognizes the key role played by small and medium enterprises (SMEs) in the Union's economy and aims to improve the overall approach to entrepreneurship and to anchor the "first Think Small" in the decision-making process, from regulation to public service. The European Council of 24 and 25 March 2011 welcomed the Commission's intention to present the "Single Market Act" with measures which create growth and jobs should be tangible results to citizens and businesses "(EC, 2013: Preamble).

It adds that the Commission's Communication "Single Market Act", adopted in April 2011 proposes to simplify the Fourth Directive n.º 78/660/EEC of July 25th - on the annual accounts of certain types societies - and the Seventh Council Directive n.º 83/349/EEC of June 13th on consolidated accounts as regards the obligations of financial information, and reduce the administrative burden, especially for SME. And even though "Europe 2020 Strategy" for smart, sustainable and aggregator growth aims to reduce administrative burdens and improve the business environment, particularly for SMEs, and promote their internationalization. The European Council of 24 and 25 March 2011 also called for reducing the overall burden of regulation, particularly for SME, both at EU level and at national level, and suggested measures to increase productivity, including the elimination of bureaucracy and improving the regulatory environment for SME"(EC, 2013: Preamble).

Thus, this Directive should ensure that the requirements for small companies are largely harmonized across the EU, based on the principle "First think small" in order to avoid administrative burden on these companies, should the Member-States be allowed to require a small number of disclosures by additional notes to the obligatory notes (EC, 2013). And points out that small, medium and large business should be defined and distinguished on the basis of the balance sheet total, the net turnover and average numbers of employees during the period, as these criteria provide objective general information on the size of the companies.

For smart, sustainable and aggregator growth this Directive (EC, 2013) aims to reduce administrative burdens and improve the business environment, particularly for SME, and promoting its internationalization, adding that micro-enterprises have limited resources to comply with demanding regulatory requirements. When there are no specific rules for micro-enterprises, apply to them the rules applicable to small businesses. These rules represent a disproportionate administrative burden for micro view of their size, and therefore relatively more costly for them than for other small businesses. Therefore, Member States should be able to exempt micro-enterprises from certain obligations applicable to small businesses that represent an excessive administrative burden for them. However, micro-enterprises should remain subject to national obligation to keep records of their business operations that reflect its financial position. In addition, investment enterprises and financial holding companies should be excluded from the benefits of simplification applicable to microenterprises.

Categories of companies defined in Directive n.º 2013/34 / EU of the European Parliament and of the Council of June 26th (EC, 2013) are shown in Table 2.

Table 2 – Characterisation of Entreprises

Type	Total	Net Sales Volume	Average number of employees
Micro companies, are companies that at the initial date of the TOTAL does not exceed at least two of the follow criteria:	€350.000	700.000	10
Small companies, are companies that at the initial date of the TOTAL does not exceed at least two of the follow criteria:	€4.000.000	€8.000000	50
Medium companies, are companies that aren't neither a small neither a micro companies and at the initial date of the TOTAL does not exceed at least two of the follow criteria:	€20.000.000	€40.000.000	250
Big Companies, are companies that at the initial date of the TOTAL exceed at least two of the follow criteria:	€20.000.000	€40.000.000	250

Source: CE (2013)

This Directive states that Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive by 20 July 2015 and that the Member States may provide that these provisions (EC, 2013: Article 53)

> "*are applied first to financial statements for the periods from January 1, 2016 or during the calendar year 2016*".

SCOPE AND OBJECTIVES OF MEASUREMENT OF SUBSEQUENT OF TANGIBLE FIXED ASSETS

The accounting changes, in force in Portugal since January 2010, brought changes in the recognition and measurement of Tangible Fixed Assets (AFT). In Portugal, the adoption of the fair value lies provided the valuation criteria. In Spain, this option was not chosen. So, Perramon and Amat (2006) and Callao *et al*. (2007) on the Framework of the Spanish accounting rules allow the adoption of the cost model for subsequent measurement of AFT. Callao *et al*. (2007: 167-12) explained that the Appendix A outlines the main differences between International Financial Reporting Standards (IFRS) and the Spanish Accounting Standards (SAS) at the level of the various areas of the Balance Sheet and Income Statement.

The International Accounting Standard 16 - Property, Plant and Equipment prescribes the procedures that an entity applies the recognition (initial and subsequent) of the AFT, aiming to the accounting treatment of tangible fixed assets, particularly in their recognition and measurement. In the subsequent measurement of AFT, the entity may choose to adopt the cost model or the revaluation model. Rodrigues *et al*. (2010: 412) warn of the implications of the adoption of each of these models, particularly with regard to "(i) measurement of the value of the period (ii) measurement of impairment losses and (iii) determining the fair value at the date of the revaluation. They add that it should discuss

> *"the impact of each of these models in financial information disclosed at the level of present and future results; the value of equity; the analysis of information from its users."*

The adoption of IAS is very important. According Fifield *et al* (2011: 33):

> "*First, the overall impact on the balance sheet of implementing IFRS for this sample of firms varied from standard to standard. The main standards which increased total equity were those associated with IAS 10 (101.66 per cent), IFRS 3 (28.65 per cent), IAS 38 (10.88 per cent) and IAS 16 (14.13 per cent). Second, these mean percentage adjustments mask a wide spread of values across the sample firms. The four largest standard deviation figures relate to IAS 19 (864.37 per cent), IAS 10 (459.54 per cent), IAS 12 (346.83*

per cent) and IAS 16 (113.69 per cent)".

Long-lived tangible assets were affected by IFRS 1, IAS 16, IAS 41 and IAS 36 simultaneously. As such, it was one of the most significant areas of change. Included in property, plant and equipment on the balance sheet were land, vineyards, buildings, and machinery and equipment (Lapointe-Antunes and More, 2013). In this case-study Lapointe-Antunes and More (2013: 276) discussed the valuation and disclosure choices available under IFRS for long-lived tangible:

> *"Among the choices to be made were: whether to use the revaluation at fair value option available under IFRS 1; whether to use the cost or revaluation model under IAS 16; whether to depreciate asset components under IAS 16; additional disclosures required under IAS 16; the recognition and measurement of biological assets under IAS 41; and additional disclosures required under IAS 41. Impairment testing was also expected to change under IAS 36".*

Cairns *et al* (2011: 8) indicate that

> *"companies may not favour the fair value model because of its impact on their financial statements (such as volatility in the income statement; less reliability in measurement where assets are not traded in active markets) and the cost of preparing and maintaining fair value information (for example, the requirement of IAS 16 that the fair value of property be current at balance date)".*

Christensen and Nikolaev (2009) argue that historical cost is a more effective mechanism for reducing agency costs and that the few companies which use fair value appear to derive contracting benefits from this choice.

The Financial Statements were approved models, in Portugal, by Ordinance n.º 986/2009 of September 7th (MFPA, 2009b), and in Spain by Royal Decree n.º 1514/2007 of November 16th (MEH, 2007a) and Royal Decree n.º 1515/2007 of November 16th (MEH, 2007b). The adoption of the Revaluation of AFT model requires changes and disclosures in the following financial statements:

- The Balance (in spanish is *Balance*) - the value shown by the items Plant and Equipment and Surplus Revaluation and the respective Deferred tax liabilities,
- The Net Income Statement (in spanish is *Cuenta de Perdidas y Ganancias*) - the value presented by expenses / depreciation reversals and amortization and impairment of depreciable / amortizable assets (losses / reversals);
- The Changes in Equity Statement (in spanish is *Estado de Cambios en el Patrimonio Neto*) - in the revaluation surplus item of tangible fixed assets and intangible and their variations, in which disclose and justify the increases and decreases of the same year and the year above;
- the Annex (in spanish is *Memoria*), the emphasis is related with the disclosure by the notes of AFT and the Income Taxes.

Guimarães (2010) states that recognizing the importance of adopting the measurement criteria of fair value on the quality of financial information provided by companies, with emphasis on the qualitative characteristic of relevance which contributes to "its true performance."

The theme of Revaluations named until December 31, 2009, was governed in Portugal by the legislative stemming from the Official Chart of Accounts (MF, 1989), specific legislation and the Accounting Directives (DC) - in particular DC 16 Revaluation of tangible fixed assets. The revaluation of tangible fixed assets could be based on the variation of the purchasing power of money. By adopting this procedure the excess amount was objective and verifiable; objective, because it usually relied on price indices that translate general price changes or, for fiscal reasons, the "monetary devaluation coefficients" published annually by the Ministry of Finance: verifiable, because when it proceeded to its evidence, was obtained always the same amount (Mota and Lemos, 2006).

The revaluation of tangible fixed assets could also be based on fair value. In this case, the evaluators proceeded according to its own parameters of each; the amount was reached naturally subjective and hardly controllable (in the sense that each other sum data obtained using personal parameters), and only as an exception coincide with the initial reviewer.

Several authors during the term of the Official Accounting Plan (MF 1989) questioned the usefulness and objectives of Revaluations Free. This is the case of Ferreira (1993: 171) by stating that

> "personally always reacted against the free revaluations said. Someone must point caution, show fears. In fact, indiscriminate practices revaluations jeopardize the certainty of law and the basis of accounting information, and obviously alarming and significant drawbacks thereof. "

Also Machado (1998) questioned this remeasurement, stating that there has been tendencies in the companies of our country favor the remeasurement of use value of fixed assets, with the complicity of reviewers accountants, in order to submit statements of 'improved' balance sheets before financial institutions, investors and the general public. In the words of Oliver (2005), in Spain, more than revaluation, in specific assets, the law provides the value.

According Hitz (2007: 324)

> "*the cost- and transaction-based reporting model is in decline, a new market-value and event-based model on the rise, with dramatic implications for the role and properties of balance sheet measurement and accounting income. This shift in measurement paradigms is driven by the presumed decision relevance of market-based measures. Both FASB and IASB stress the capacity of market values to incorporate, in an efficient and virtually unbiased manner, market consensus expectations about future cash flows. Opponents of fair value measurement, on the other hand, criticize the questionable reliability of fair value measures, especially for model-based estimates relying on management's expectations and projections. In particular, the implementation of fair value as a balance sheet measure is the subject of intense discussion and debate*".

One limitation of this research is the difficulty to SME to find the scope and objectives of the measurement process of AFT. So, the authors aim in the future to find process to achieve this procedure in a more easy way to do it.

MEASUREMENT AFTER RECOGNITION

For the study of the revaluation of the AFT model and given that the framework is similar in Portugal and Spain, as they are based on the text of IAS incorporated in Regulation (EC) nº 126/2008 of 3 November (EC, 2008a), the authors opted for the Portuguese accounting framework. After the initial recognition and measurement (§§16-28 of IAS 16), each AFT class power shall be subsequently measure through:

- cost method (§§30 of IAS 16); or
- revaluation method (§§31-42 of IAS 16)

and this will be duty policy apply to an entire class of AFT.

IAS 16 permits two accounting models for the measurement of property, plant, and equipment subsequent to initial recognition. Under the cost model, property, plant, and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Under the revaluation model, property, plant, and equipment are carried at fair value at the date of revaluation less subsequent depreciation. Revaluations are to be made often enough so that the carrying amount does not significantly differ from fair value at the balance sheet date. The practice of upward asset revaluations for firms reporting in accordance with international standards appears to be common (Herrmann *et al*, 2006).

In Table 3 is shown diagrammatically the application of each of these methods.

Table 3 – Subsequently measure of AFT

Cost Model		Revalorization	
Asset (value)	Asset cost	Asset (revaluation value)	Fair value
	(-)		(-)
	Sum Depreciation		After Sum Depreciation
	(-)		(-)
	Sum Impairment Loss		After Sum Impairment Loss

Source: §§29 of IAS 16.

The recognition of AFT can be done at a revalued amount and can be measured reliably when the fair value (§§31 of IAS 16). Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. According to Costa (2010: 56):

> "*adopted the fair value should correspond to the well to date situation, which can be obtained at market value only if there is an active market or, alternatively, only at the time of transition, the present value cash flows that the asset will still provide.* "

Christensen and Nikolaev (2013: 738) add that

> "*The choice between historical cost and fair value must be stated in the accounting policy section of the annual report following the IFRS adoption and must be applied consistently going forward (analogous to revenue recognition or inventory valuation methods). A company that chooses to use fair value must revalue assets every time the book value materially differs from the market value (IAS 16 and IAS 40). A company that chooses historical cost cannot perform upward revaluations in the future. A switch between historical cost and fair value is considered a voluntary change in accounting principles and needs to be justified to auditors, lenders, equity investors, and potentially to regulators*".

The fair value of AFT could thus be determined by various criteria (§§32 and 33 of IAS 16):

- Land and buildings: based on evidence obtained in the market and through the qualified and independent evaluators services;
- Items of plant and equipment: based on the market value determined by the evaluation;
- An entity may need to estimate fair value using an approach by income or by depreciated replacement cost.

In the case of an entity proceed with upgrading of an AFT of a given class must be revalued all assets of that class (§§36 of IAS 16), to justify this need Ferreira (2010a: 15) argues that:

> "*otherwise we are distorting the value of the class as a whole, thus affecting the principle that the CNS follows regarding the comparability and true and fair view. In the same line, it appears that the revaluation of the assets of a class should be ensured simultaneously, ie avoid selective revaluation and the reporting of amounts that are a mixture of costs and values on different dates.* "

A class of tangible assets is a grouping of assets and use similar nature in an entity's operations. The §§37 of IAS 16 shows examples of separate classes:

(A) land;
(B) land and buildings;
(C) machinery;
(D) ships;
(E) aircraft;
(F) motor vehicles;
(G) furniture and fixtures; and
(H) office equipment.

The items within a class of tangible assets are, according to §§38 of IAS 16, revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values on dates different. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

According to §§34 of IAS 16, the frequency of revaluations of AFT must

- comply with some regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.
- depend upon the changes in fair values of tangible fixed assets being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required (§§34 of IAS 16).

Regarding the revaluation AFT (§§34 of IAS 16) may apply the following:

- Insignificant changes in fair value: may be revalued only every three or five years;
- Significant changes and volatile in its fair value: there will be the need for annual revaluation.

Revaluation of Tangible Fixed Assets

On the date of revaluation, according to §§35 of IAS 16, accumulated depreciation can be treated in one of two ways:

a) "*Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.*" This method is often used when an asset is revalued by means of applying an index or coefficient to determine its depreciated replacement cost:
b) "*Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.*" This method is often used for buildings, using the market value of the same.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in the carrying amount in accordance with §§39 and 40 of IAS 16. The recognition of the Revaluation of the AFT will have the following:

- If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus. However, the increase shall be recognized in profit to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit (§§39 of IAS 16).
- If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognized in profit because the §§7 of IAS 36 - Impairment of Assets indicates that in order to assess whether or not an asset is impaired are due for external sources of information and internal sources of information, detailing the (Marques (2009) and Ferreira (2010b)). However, the decrease shall be debited directly to equity under the heading of revaluation surplus to the extent of any credit balance in the revaluation surplus in respect of that asset (§§40 of IAS 16).

The use of the Revaluation included in Equity surplus with respect to an item of tangible assets assumes the same procedures as those recently witnessed in the Official Chart of Accounts, applying the provisions of §§41 of IAS 16:

- For the whole being transferred directly to retained earnings when the asset is derecognised (on disposal or withdrawal of assets - total realization) for the derecognised encompasses not only the sale, but also the exchange, destruction, destruction and other causes;
- In part, as the AFT is used by an entity, i.e. recognition by the depreciation for the year (partial realization). The amount of the surplus transferred is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of that asset.

The depreciation of the AFT is calculated based on useful life. According to Correia and Gonçalves (2010) concept of life, is understood to be the period during which the entity expects the asset is available for use or the number of units produced expected to arise on assets (expected utility). However, the concept is based on an estimate, which leads us to affirm that the measurement of systematic depreciation of the asset is a priori influenced by several factors, of course, the entity's experience with similar assets and, again, the judgment of the coach information, factors that increase the subjectivity of the accounting model.

In the opinion of Guimarães (2010: 16-17) "the phrase" when the elements or rights that originated them are sold, exercised, terminated, liquidated or also where it appears the use in the case of tangible and intangible fixed assets " It concerns the verification of the "realization principle", which is contemplated in item 2.4 of the Accounting Directive 16 "Tangible Fixed Asset Revaluation" and, with the SNC, the NCRF 6 - Intangible Assets and NCRF 7 - AFT, in the paragraphs relating to the measurement after recognition, and more particularly the parts relating to the revaluation model. "

The §§41 of IAS 16 also adds that revaluation surplus transfers to retained earnings are not made through profit or loss, but rather through the increase in equity items. With regard to Small Enterprises, it appears that the Revaluation of AFT said in NCRF-PE has some differences from what is prescribed in NCRF 7 (refer again to the NCRF 7 is based on IAS 16). Thus, §§6.1 of the NCRF-PE refers to the accounting policy or policies apply to a particular item is that throughout the chapter that specifically address the underlying transaction, other event or condition. And §§ 7.8 adds an entity shall apply paragraph the cost model 7.9. Only in cases where there are significant differences between the carrying amount according to the cost model and the fair value of the assets, an entity may alternatively use the revaluation model in paragraph 07.10 as its accounting policy and shall apply that policy to an entire class of tangible fixed assets.

In the opinion of Rodrigues *et al* (2010: 433)

> "*access to the revaluation model in NCRF-PE is more restrictive compared to the general model. Once fulfilled that requirement, if a SME adopt the model of the revaluation of the NCRF-PE, the accounting treatment of the transactions examined in this case is similar in the context of SME, including with regard to deferred taxes (cf. §§7:10 of NCRF-PE). Also parts of the SME for information disclosure requirements are lower than in the general model.* "

Regarding micro-entities can only be adopted the cost model as regards the accounting standard for micro-entities, which indicates that "*An item of plant and equipment that qualifies for recognition as an asset shall be initially measured at cost and subsequently at cost less any accumulated depreciation*"(MFPA, 2011: §§7.6).

One limitation of this research is the difficulty to SME to find the measurement after the recognition process of Property, Plant and Equipment. So, the authors aim in the future to find process to achieve this procedure in a more easy way to do it.

THE AFT AND ASSETS AND LIABILITIES FOR DEFERRED TAXES

The §§42 of IAS 16 states that the effects on income taxes, if any, resulting from the revaluation of tangible fixed assets are recognized and disclosed in accordance with IAS 12 - Income Taxes, which aims to prescribe the accounting treatment for income taxes.

It should be noted also that §§16.1 of the NCRF-PE provides that the accounting treatment of income taxes is done generally through the recognition and measurement of current taxes, which it needs the recognition of deferred taxes. However, the SME adopted the revaluation model will have to adopt IFRS 25 in its entirety (as defined in §§7:10 of the NCRF-PE).

The IAS 12 requires an entity to adopt a similar treatment for the tax consequences of transactions and other events. Thus, if the transactions and other events are recognized in income, its tax effect also should be. The same applies if recognition is done in Equity.

The article 15 of Decree n.º 25/2009 of September 14th (MFPA, 2009c), is on the depreciation of revalued assets. In paragraph 1 shall relate to the requirements of acceptance as expenses of revalued assets depreciation under tax law. Paragraph 2 indicates the portion of depreciation that is not accepted as expenditure.

Excess depreciation resulting from the future application of the revaluation model is not tax deductible. Excess depreciation obtained through revaluations under fiscal nature of diplomas was also not accepted in full as an expense.

The §§20 of IAS 12 refers to assets carried at fair value, which expressly states that the difference generated by the revaluation is a temporary difference and gives rise to the asset or deferred tax liability:

> "*The IFRS permit or require certain assets to be carried at fair value or to be revalued (see, for example, IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets, IAS 39 Financial Instruments: Recognition and Measurement and IAS 40 properties Investment). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, the tax base of the asset is adjusted and no temporary difference arises. In other jurisdictions, the revaluation or restatement of an asset does not affect taxable profit in the period of the revaluation or restatement and, consequently, the tax base of the asset is not adjusted. However, the future recovery of the carrying amount will result in a taxable flow of economic benefits to the entity and the amount that will be deductible for tax purposes will differ from the amount of those economic benefits.*
>
> *The difference between the carrying amount of a revalued asset and its tax base is a temporary difference and gives rise to a liability or deferred tax asset. This is true even if:*
> *a) The entity does not intend to dispose of the asset. In such cases, the revalued carrying amount of the asset will be recovered through use and this will generate taxable income which exceeds the depreciation that will be allowable for tax purposes in future periods; or*
> *b) Tax on capital gains is deferred if the proceeds of the disposal of assets are invested in similar assets. In such cases, the tax will ultimately become payable on sale or use of the similar assets.* "

This IAS indicates also the procedures to be carried out on items credited or debited directly to equity (§§55-60).The authors present below the paragraphs specifically related to the Revaluation:

> "*§§61 - Current tax and deferred tax that relates to items that are recognized in the same or a different period:*
> *(A) In other comprehensive income, shall be recognized in other comprehensive income (see paragraph 62);*
> *(B) Directly in equity, shall be recognized directly in equity (see paragraph 62A).*
> *§§62 - The International Financial Reporting Standards require or permit certain items to be recognized in other comprehensive income. Examples of such items are:*
> *(A) a change in carrying amount arising from the revaluation of tangible fixed assets (see IAS 16);*
> *(...)*
> *§§64 - IAS 16 does not specify whether an entity should transfer each year the surplus (reserve) upgrading to retained earnings an amount equal to the difference between the depreciation or amortization on a revalued asset and the depreciation or amortization based on the cost of active. If an entity makes such a transfer, the amount transferred is net of any related deferred tax. Similar considerations apply to transfers made on disposal of an item of tangible fixed assets.*
> *§§65 - When an asset is revalued for tax purposes and that revaluation is related to an accounting revaluation of an earlier period, or to one that is expected to be carried out in a future period, the tax effects of both the revaluation of active either the tax base adjustment are credited or charged to equity in the periods in which they occur.* "

Also, another limitation of this research is the difficulty to SME to find the process to measurement and make the formal recognition of AFT, Assets and Liabilities. So, the authors aim in the future to find process to achieve this procedure in a more easy way to do it.

DISCLOSURES

The accounting information should be disclosed, which means make known other important information relevant to the users / users of the financial statements so that they can have access to knowledge of the real situation of the entities. The disclosures must be included in the notes to the financial statements and may consist of explanatory text or supplementary schedules to better understand the balance sheet and income statement. IAS 16 described in §§73-77 which should be disclosed in relation to revaluation of AFT. Referred to §§73 to the financial statements shall disclose, among others, the following:

> *"(A) the measurement bases used for determining the gross carrying amount;*
>
> *(…)*
>
> *(E) A reconciliation of the carrying amount at the beginning and end of the period showing additions, the revaluations, disposals, assets classified as held for sale, amortization, impairment losses and their reversals and other changes. "*

The §§77 of IAS 16 adds that if the items of tangible fixed assets are stated at revalued amounts, the following shall be disclosed:

> *"(A) The effective date of the revaluation;*
>
> *(B) He was involved an independent appraiser;*
>
> *(C) The methods and significant assumptions applied in estimating the fair value of the items;*
>
> *(D) The extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on a non-base relationship between the parties or were estimated using other valuation techniques; and*
>
> *(E) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders. "*

IAS 4 - Accounting policies, changes in accounting estimates and errors indicated in §§34, an entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, unless it is impracticable to estimate that effect.

Also, the most important limitation of this research is the difficulty to find SME that makes the disclosure of AFT, Assets and Liabilities. So, the authors aim in the future to find process to achieve this procedure in a more easy way to do it.

CONCLUSION

In this research, the authors analyse the level of disclosure provided by the SME in Portugal and Spain in particular IAS 16 - Property, Plant and Equipment. Actually, it starts to fit the legislation of both countries and the EU.

Then, there was the respective accounting framework, based on the framework of listed companies with securities admitted to trading and ending in the frame of SME. Then it is presented a detailed study of IAS 16, in particular in relation to subsequent measurement. For IAS 16 paved the way for the possibility, in the subsequent measurement of the AFT, if you choose between the Cost Model and Revaluation Model. Indeed, despite less frequent, it deepened the adoption of the Revaluation Model, which states that the recognition of AFT can be carried at a revalued amount can be measured reliably when the fair value or the method of replacement cost.

In this model, by upgrading can be increased or decreased. And it can be done in two ways: by restating (via an index or coefficient) or by elimination, differing only by how the process is developed and recorded, allowing to withdraw the following conclusions:

1. Where the fair value does not materially differ from the carrying amount does not clears revaluation surplus, continuing to be the carrying amount the basis for determining spending on depreciation for the year.
2. Where the fair value materially differs from the carrying amount must be at:
   a) Revaluation Model for Restatement: establish a coefficient of revaluation, which results from the quotient between the fair value and the carrying amount, and that applies to either the cost or the accumulated depreciation. After applying this coefficient, the value of the carrying amount is equal to fair value.
   b) Revaluation Model for Elimination cancel the balance on the Accumulated Depreciation of AFT and AFT reset the account the amount attributed to the fair value.

As noted in Spain, in 2008, Accounting General Plan, also for SME, it opted for the failure to adopt the revaluation of Tangible Fixed Assets model, unlike adopted in Portugal with the NCRF (particularly in NCRF 7 AFT) which was developed from IAS 16. However, it appears that the non-disclosure of accounting information in SME including the Annex, it did not allow knowing in detail the weight of the AFT in the structure of such bodies, which leads to a limitation of this investigation.

In this theme, the authors analyse the subsequent measurement of AFT because as it has been seen in the disclosure analysis, the AFT represents one of the most important balance sheet entities, whether large enterprises or SME. In forthcoming, this theme it will be address to be further development.

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