GUIDELINES ON PROPERTY, PLANT & EQUIPMENT (PPE) AND BIOLOGICAL ASSETS VALUATION FOR THE PURPOSE OF FINANCIAL REPORTING
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1. Introduction

Valuations are widely used for the purpose of financial reporting. The objective of this Application Guideline is to ensure the reliability & consistency in valuation of PPE & biological assets by providing a framework for financial reporting purposes. The requirements and implications of Sri Lanka Accounting Standards (LKASs/SLFRSs) and International Valuation Standards have been considered in the preparation of this Guideline. This is produced to clarify the aspects on PPE and biological assets valuation for the purpose of financial reporting, in order to agree on a consistent application.

2. Application

This application guideline applies for the purpose of ascertaining the value of PPE and biological assets under Sri Lanka Accounting Standards and IVS 300.

Valuations undertaken for inclusion in financial statements shall be provided to meet the requirements of the Sri Lanka Accounting Standards that are applicable and the principles contained in the General Valuation Standards except as specifically modified by a requirement of the relevant accounting standard.

3. Qualifications

3.1 Every external valuation of PPE for the entities which are not Small & medium sized entities (as defined in SLFRS for SMEs) shall be undertaken by the qualified valuers who meet the eligibility criteria of either (a), (b) or (c) given below;

(a) A corporate member of the Institute of Valuers of Sri Lanka (IVSL) who shall be:
   I. A Fellow member; or
   II. A Graduate member with 5 years of experience in such grade of membership; or

(b) A Fellow member of the Royal Institute of Chartered Surveyors of the United Kingdom (RICS).

(c) A member of RICS with 5 years of experience in such grade of membership.

3.2 Such valuers shall have sufficient & relevant experience in the valuation of particular class of assets.

3.3 Valuers are expected to follow International Valuation Standards (IVS) and the general professional practice of valuation in addition to this guideline.

3.4 External valuation by a qualified valuer does not prevent the management or the auditor from evaluating the work of such expert based on the guidance provided in SLAuS 620 Using the work of an expert and SLAuS 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures and making appropriate modifications for financial reporting.
4. **Conflict of Interest**

If the valuer has any interest pecuniary or otherwise in the entity or owns shares of the entity, he shall declare the same and obtain prior consent of the entity to proceed with the valuation.

However, every external valuation of PPE for the entities not under the definition of Small & medium sized entities (as defined in SLFRS for SMEs) shall be undertaken by the valuers who are not within the scope of Related Parties. (as defined in Paragraph 9 of LKAS 24 *Related Party Disclosures*)

5. **Relevant Date**

The relevant date of the valuation shall be the date specified by the entity. Usually, this date would be the date of the Statement of Financial Position of the entity.

6. **Basis of Valuation**

The basis of valuation is under the **fair value** concept according to the principles set out in SLFRS 13 *Fair Value Measurement* and IVS 300 *Valuations for Financial Reporting*.

7. **Scope of Work**

IVS 101 *Scope of Work* shall be referred in order to deal with matters relating to Scope of Work. (Appendix A – IVS 101)

8. **Report Contents**

In addition to the items listed under Scope of Work, the matters addressed in IVS 103 *Report Contents* shall be included in the valuation report. (Appendix B – IVS 103)

9. **Recognition & Measurement**

9.1 **Property, Plant & Equipment**

9.1.1 Recognition (Paragraph 7 of LKAS 16)

The cost of an item of property, plant and equipment shall be recognised as an asset if and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

9.1.2 Measurement at recognition (Paragraph 15 of LKAS 16)

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

9.1.3 Elements of cost (Paragraph 16 of LKAS 16)

The cost of an item of property, plant and equipment comprises:
(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

9.1.4 Measurement after recognition (Paragraph 29 of LKAS 16)

An entity shall choose either the cost model in paragraph 9.1.5 or the revaluation model in paragraph 9.1.6 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

9.1.5 Cost model (Paragraph 30 of LKAS 16)

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

9.1.6 Revaluation model (Paragraph 31 of LKAS 16)

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall 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 end of the reporting period.

9.2 Biological Assets (Sri Lanka Accounting Standard - LKAS 41)

9.2.1 An entity shall recognise a biological asset or agricultural produce when and only when:

(a) the entity controls the asset as a result of past events;

(b) it is probable that future economic benefits associated with the asset will flow to the entity; and

(c) the fair value or cost of the asset can be measured reliably.

(Paragraph 10 of LKAS 41)

9.2.2 A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except where the fair value cannot be measured reliably. (Paragraph 12 & 30 of LKAS 41).

9.2.3 The preparers may measure bearer biological assets (for example perennial crops such as tea, rubber and coconut etc.) using LKAS 16 - Property, Plant and Equipment. However the
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preparers who wish to fair value bearer biological assets under LKAS 41 – Agriculture may continue to do so. (Ruling on Bearer Biological Assets)

9.2.4 According to the IASB’s IFRIC update in May 2009 on IAS 41 Agriculture—Discount rate assumption used in fair value calculations; when an entity incurs an initial cost with respect to a biological asset, paragraph 24 of LKAS 41 notes that that cost may approximate fair value when little biological transformation has taken place, since the cost was incurred. In these situations the discount rate selected would be expected to result in a value that approximates that cost. This can be used to calibrate the model.

9.3 Investment Property (Sri Lanka Accounting Standard - LKAS 40)

9.3.1 Recognition (Paragraph 16 of LKAS 40)

Investment property shall be recognised as an asset when and only when:

(a) it is probable that the future economic benefits that are associated with the investment property will flow to the entity; and

(b) the cost of the investment property can be measured reliably.

9.3.2 Measurement at recognition (Paragraph 20 of LKAS 40)

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement.

9.3.3 Measurement after recognition (Paragraph 30 of LKAS 40)

With the exceptions noted in paragraphs 32A and 34 of LKAS 40, an entity shall choose as its accounting policy either the fair value model in paragraphs 33–55 of LKAS 40 or the cost model in paragraph 56 and shall apply that policy to all of its investment property.

10. Guidance provided under SLFRS 13 Fair Value Measurement

10.1 The Asset (Paragraph 11 of SLFRS 13)

(1) When measuring the fair value, an entity shall take into account the characteristics of the asset, if market participants would take those characteristics into account when pricing the asset at the measurement date;

Eg:

(a) the condition and location of the asset; and

(b) restrictions, if any on the sale or use of the asset.

(2) Whether the asset is a stand-alone asset, a group of assets or a group of assets for recognition or disclosure purposes depends on its unit of account.
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10.2 The transaction (Paragraph 11 of SLFRS 13)

(1) A fair value measurement assumes that the asset is exchanged in an orderly transaction between market participants to sell the asset at the measurement date under current market conditions.

(2) A fair value measurement assumes that the transaction to sell the asset takes place either:

   (a) in the principal market for the asset; or

   (b) in the absence of a principal market, in the most advantageous market for the asset.

(3) If there is a principal market for the asset, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

10.3 Market participants (Paragraph 22 of SLFRS 13)

An entity shall measure the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

10.4 The Price (Paragraph 24 of SLFRS 13)

(1) Fair value is the price that would be received to sell an asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

(2) The price in the principal (or most advantageous) market used to measure the fair value of the asset shall not be adjusted for transaction costs. Transaction costs shall be accounted for in accordance with other SLFRSs.

10.5 Fair Value Hierarchy (Paragraph 72-90 of SLFRS 13)

(1) Fair value that classifies valuations according to the nature of the available inputs. In summary, the three levels of the hierarchy are as follows:

   • Level 1 inputs are “quoted prices (unadjusted) in active markets for identical assets that the entity can access on the measurement date”.

   • Level 2 inputs are “inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly”.

   • Level 3 inputs are “unobservable inputs for the asset”. (Please refer Appendix C for paragraphs 86 – 90 and B36 of SLFRS 13)
(2) SLFRS 13 requires the level in the hierarchy of any asset measured at fair value to be disclosed in the financial statements. There are additional accounting requirements in relation to valuations produced using Level 3 inputs.

10.6 Valuation techniques (Paragraph 61-66)

(1) An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(2) Three widely used valuation techniques are the market approach, the cost approach and the income approach and set out in this guideline.

(3) In some cases a single valuation technique will be appropriate (eg when valuing an asset using quoted prices in an active market for identical assets). In other cases, multiple valuation techniques will be appropriate (eg that might be the case when valuing a cash-generating unit.

(4) If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price.

(5) Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary.

(6) After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (eg price for a similar asset) at the measurement date.

(7) The valuation report and the financial statements should disclose the frequency and methods for calibration, back testing and other testing procedures of pricing models. (Illustrative examples - IE 65(b) of SLFRS 13)

(8) An entity shall apply a consistent valuation technique and a change in valuation technique or its application is appropriate, if the change results in a measurement that is equally or more representative of fair value in the circumstances.

10.6.1 Market approach

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets or a group of assets, such as a business.

10.6.2 Cost approach

The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence and subject to adequate test on profitability to reflect the value in use of the asset. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. (Paragraph B9 of SLFRS 13)

Eg: current replacement cost method / Depreciated Replacement Cost

10.6.3 Income approach

(1) The income approach converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. This reflects current market expectations about those future amounts.

(2) Those valuation techniques include, for example, present value techniques;

This captures all the following elements from the perspective of market participants at the measurement date:

a. an estimate of future cash flows for the asset being measured.

b. expectations about possible variations in the amount and timing of the cash flows (i.e. minimum explicit time period of five years) representing the uncertainty inherent in the cash flows.

c. the time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (ie a risk-free interest rate).

d. the price for bearing the uncertainty inherent in the cash flows (ie a risk premium).

e. other factors that market participants would take into account in the circumstances.

Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

a. The discount rate adjustment technique (see paragraphs B18–B22) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.

b. Method 1 of the expected present value technique (see paragraph B25) uses risk-adjusted expected cash flows and a risk-free rate.

c. Method 2 of the expected present value technique (see paragraph B26) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to
include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

10.7 **Highest and best use for non-financial assets (Paragraphs 27 – 30 of SLFRS 13)**

10.7.1 A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its [highest and best use](#) or by selling it to another market participant that would use the asset in its highest and best use by taking into account the use of the asset that is [physically possible, legally permissible](#) and [financially feasible](#), as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

10.7.2 Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity’s current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximize the value of the asset.

10.7.3 **Valuation premise for non-financial assets**

The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:

(a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets (eg a business).

(i) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets or with other assets and that those assets would be available to market participants.
(ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.

(iii) **Assumptions** about the highest and best use of a non-financial asset shall be **consistent for all the assets** (for which highest and best use is relevant) of the group of assets or the group of assets within which the asset would be used.

(b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

11. **Componentisation and Depreciation**

11.1 The main objective of this approach is to reflect more precisely the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.

11.2 **Recognition and depreciation**

11.2.1 Where the carrying amount is based on historic cost, the cost of those components that both have a significant cost in relation to the total and that have a materially different useful life shall be readily identifiable. (G16 of IVS 300)

11.2.2 Where the carrying amount is based on the fair value / revaluation of the item, an allocation will need to be made of the fair value of the item between the components.

11.2.3 Although it may be possible to determine the value attributable to a component of an item of plant or equipment if there is an active market for those components, in other cases the components will not be actively traded. The latter is normally the case with components of a building, eg buildings are rarely sold without the mechanical and electrical services needed for heating, lighting and ventilation, and the installed plant could not be sold without the building. (G17 of IVS 300)

11.2.4 Where the value of the individual components cannot be reliably determined, the value attributable to the whole is apportioned to the components. The ratio of the cost of the item to the cost of the whole may be an appropriate basis for such an apportionment. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and may having different useful life times shall be depreciated separately. (Paragraph 43 of LKAS 16)

11.3 **Derecognition (Paragraph 70 of LKAS 16)**

If under the recognition principle (in paragraph 7 of LKAS 16), an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an
entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

12. Defined Terms

**Active market** is the market in which transactions for the asset take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Biological asset** is a living animal or plant.

**Expected cash flow** is the probability-weighted average (ie mean of the distribution) of possible future cash flows.

**Investment property** is property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of business.

**Market participants** are the buyers and sellers in the principal (or most advantageous) market for the asset that have all of the following characteristics:

(a) They are independent of each other, ie they are not related parties as defined in LKAS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

(b) They are knowledgeable, having a reasonable understanding about the asset and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.

(c) They are able to enter into a transaction for the asset.

(d) They are willing to enter into a transaction for the asset, ie they are motivated but not forced or otherwise compelled to do so.

**Market Value for Existing Use (MVEU)** is the estimated amount for which the land should exchange, with vacant possession, based on continuation of its existing use, between a willing buyer and willing seller in an arm’s-length transaction after proper marketing wherein the parties had acted knowledgeable, prudently, and without compulsion. In the context of DRC methodology, the Market Value for the Existing Use of land is applied in developing one part of the DRC model. The reported DRC estimate should nonetheless reflect the Market Value of the land component based on its highest and best use. (International Valuation Guidance Note No. 08)

**Most advantageous market** is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs.
Observable inputs are the inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset.

Principal market is the market with the greatest volume and level of activity for the asset.

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Small and medium-sized entities are entities that:

(a) do not have public accountability, and

(b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

An entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Following are the examples for entities which will be considered having the public accountability for this purpose;

- Companies licensed under the Banking Act, No. 30 of 1988
- Companies authorised under the Control of Insurance Act, No. 25 of 1962, to carry on insurance business
- Companies carrying on leasing business
- Factoring companies
- Companies registered under the Finance Companies Act, No. 78 of 1988
- Companies licensed, under the Securities and Exchange Commission Act, No 36 of 1987, to operate unit trust
- Fund Management Companies
- Companies licensed under the Securities and Exchange Commission Act, No 36 of 1987, to
carry on business as stock brokers or stock dealers

- Companies licensed under the Securities and Exchange Commission Act, No. 36 of 1987 to operate a Stock Exchange

- Companies listed in a Stock Exchange licensed under the Securities and Exchange Commission Act, No 36 of 19870

- Public corporation engaged in the sale of goods or the provision of services.

**Transaction costs** are the costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset that are directly attributable to the disposal of the asset and meet both of the following criteria:

(a) They result directly from and are essential to that transaction.

(b) They would not have been incurred by the entity had the decision to sell the asset not been made (similar to costs to sell, as defined in SLFRS 5).

**Unit of account** is the level at which an asset is aggregated or disaggregated in a Sri Lanka Accounting Standards for recognition purposes.

**Value in use** is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.
Appendix A
IVS 101 - Scope of Work

General Principle
1. There are many different types and levels of valuation advice that may be provided. IVS are
designed to apply to a wide spectrum of valuation assignments. A valuation must be
appropriate for its intended purpose and it is also important that the recipient understands what
is to be provided and any limitations on the use of the valuation. A scope of work sets out the
agreed purpose of the valuation, the extent of investigation, procedures that will be adopted,
asumptions that will be made and the limitations that will apply. The scope of work may be
prepared at the outset or during the progress of the valuation assignment but before the
valuation and report are finalised.

Requirements
2. A scope of work shall be prepared and confirmed in writing that addresses the matters set out
below. For certain asset classes or applications there may be variations from this standard or
additional matter to be included or considered in preparing the scope of work. These are found
in the relevant Asset Standard or Valuation Application.

(a) Identification and status of the valuer
   A statement confirming:
   (i) the identity of the valuer. The valuer may be an individual or firm;
   (ii) that the valuer is in a position to provide an objective and unbiased valuation;
   (iii) whether the valuer has any material connection or involvement with the subject of the
        valuation or the party commissioning the valuation;
   (iv) that the valuer is competent to undertake the valuation. If the valuer needs to seek
        material assistance from others in relation to any aspect of the assignment, the nature
        of such assistance and the extent of reliance shall be agreed and recorded.

(b) Identification of the client and any other intended users
   Confirmation of those for whom the valuation is being produced is important when
determining the form and content of the valuation report to ensure that it contains
information relevant to their needs. Any restriction on those who may rely upon the
valuation shall be agreed and recorded.

(c) Purpose of the valuation
   The purpose for which the valuation is being prepared shall be clearly stated, eg the
valuation is required for loan security, to support a share transfer or to support an issue of
shares. The purpose of the valuation will determine the basis of value.
   It is important that valuations are not used out of context or for purposes for which they are
not intended.

(d) Identification of the asset or liability to be valued
   Clarification may be needed to distinguish between an asset and an interest in or right of use
of that asset. If the valuation is of an asset that is utilised in conjunction with other assets, it
will be necessary to clarify whether those assets are included in the valuation, excluded but assumed to be available or excluded and assumed not to be available (see IVS Framework paras 24 and 25).

(e) Basis of value
The valuation basis must be appropriate for the purpose. The source of the definition of any basis of value used shall be cited or the basis explained. The valuation bases recognised by IVS are defined and discussed in the IVS Framework, but other bases may be used. It may also be necessary to clarify the currency in which the valuation will be reported.

(f) Valuation date
The valuation date is defined in IVS as the date on which the opinion of value applies. This may be different from the date on which the valuation report is to be issued or the date on which investigations are to be undertaken or completed.

(g) Extent of investigation
Any limitations or restrictions on the inspection, inquiry and analysis for the purpose of the valuation shall be set out in the scope of work. If relevant information is not available because the conditions of the assignment restrict the investigation, if the assignment is accepted, then these restrictions and any necessary assumptions or special assumptions shall be recorded in the scope of work.

(h) Nature and source of the information to be relied upon
The nature and source of any relevant information that is to be relied upon without specific verification during the valuation process shall be agreed and recorded.

(i) Assumptions and special assumptions
All assumptions and any special assumptions that are to be made in the conduct and reporting of the valuation shall be recorded. Assumptions are matters that are reasonable to accept as fact in the context of the valuation assignment without specific investigation or verification. They are matters that, once stated, are to be accepted in understanding the valuation.

A special assumption is an assumption that either assumes facts that differ from the actual facts existing at the valuation date or that would not be made by a typical market participant in a transaction on the valuation date.

Special assumptions are often used to illustrate the effect of changed circumstances on value. Examples of special assumptions include:

- that a proposed building had actually been completed on the valuation date,
- that a specific contract was in existence on the valuation date which had not actually been completed,
- that a financial instrument is valued using a yield curve that is different from that which would be used by a market participant.

Only assumptions and special assumptions that are reasonable and relevant having regard to the purpose for which the valuation is required shall be made.
(j) Restrictions on use, distribution or publication
Where it is necessary or desirable to restrict the use of the valuation or those relying upon it, this shall be recorded. If matters are identified that are likely to cause the valuation to be qualified, this shall also be recorded.

(k) Confirmation that the valuation will be undertaken in accordance with the IVS
While confirmation of conformity with IVS is required, there may be occasions where the purpose of the valuation requires a departure from IVS. Any such departure shall be identified together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.

(l) Description of report
Confirmation of the format of the report to be provided shall be agreed and recorded. Reference shall be made to any of the report contents specified in IVS 103 Reporting that are to be excluded.

Changes to Scope of Work
3. Some of the above matters may not be capable of determination until the assignment is in progress, or changes to the scope may become necessary during the course of the assignment, eg additional information may become available or a matter emerge that requires further investigation. The scope of work requirements can be contained in a single document issued at the outset or in a series of documents prepared throughout the course of the assignment providing all matters are recorded before the assignment is completed and the valuation report is issued.
Appendix B

IVS 103 – Reporting

General Principle

1. The final step in the valuation process is communicating the value to the commissioning party and any other intended users. It is essential that the valuation report communicates the information necessary for proper understanding of the valuation. A valuation report shall not be ambiguous or misleading and shall provide the intended reader with a clear understanding of the valuation provided.

2. To provide comparability, relevance and credibility, the valuation report shall set out a clear and accurate description of the scope of the assignment, its purpose and intended use, confirmation of the basis of value used and disclosure of any assumptions, special assumptions, material uncertainty or limiting conditions that directly affect the valuation.

3. This standard applies to all valuation reports whether printed on paper or transmitted electronically. For certain asset classes or applications there may be variations from this standard or additional requirements to be reported upon. These are found in the relevant Asset or Valuation Application.

Report Contents

4. The purpose of the valuation, the complexity of the asset being valued and the users’ requirements will determine the level of detail appropriate to the valuation report. The format of the report and any exclusion from the content requirements of this standard should have been agreed and recorded in the scope of work.

5. All valuation reports shall include reference to the matters listed below. Items (a) to (k) in this list relate to matters that should be recorded in the scope of work (see IVS 101 Scope of Work). It is recommended that the scope of work be referred to in the report.

(a) Identification and status of the valuer

The valuer can be an individual or a firm. A statement confirming that the valuer is in a position to provide an objective and unbiased valuation and is competent to undertake the valuation shall be included.

The report shall include the signature of the individual or firm responsible for the valuation.

If the valuer has obtained material assistance from others in relation to any aspect of the assignment, the nature of such assistance and the extent of reliance shall be referenced in the report.

(b) Identification of the client and any other intended users

The party commissioning the valuation shall be identified together with any other parties whom it is intended may rely on the valuation (see also (j) below).

(c) Purpose of the valuation
The purpose of the valuation shall be clearly stated.

(d) Identification of the asset or liability to be valued

Clarification may be needed to distinguish between an asset and an interest in or right of use of that asset.

If the valuation is of an asset that is utilised in conjunction with other assets, it will be necessary to clarify whether those assets are included in the valuation, excluded but assumed to be available or excluded and assumed not to be available (see IVS Framework paras 24 and 25).

(e) Basis of value

This shall be appropriate for the purpose. The source of the definition of any basis of value used shall be cited or the basis explained. Some common valuation bases are defined and discussed in the IVS Framework.

(f) Valuation date

The valuation date is defined in IVS as the date on which the opinion of value applies. This may be different from the date on which the valuation report is issued or the date on which investigations are to be undertaken or completed. Where relevant, these dates shall be clearly distinguished in the report.

(g) Extent of investigation

The extent of the investigations undertaken, including the limitations on those investigations set out in the scope of work, shall be disclosed in the report.

(h) Nature and source of the information relied upon

The nature and source of any relevant information relied upon in the valuation process without specific verification by the valuer shall be disclosed.

(i) Assumptions and special assumptions

All assumptions and any special assumptions made shall be clearly stated.

(j) Restrictions on use, distribution or publication

Where it is necessary or desirable to restrict the use of the valuation or those relying upon it, this shall be stated.

(k) Confirmation that the valuation has been undertaken in accordance with the IVS

While confirmation of conformity with IVS is required, there may be occasions where the purpose of the valuation requires a departure from the IVS. Any such departure shall be identified, together with justification for that departure. A departure would not be justified if it results in a valuation that is misleading.

(l) Valuation approach and reasoning
To understand the valuation figure in context, the report shall make reference to the approach or approaches adopted, the key inputs used and the principal reasons for the conclusions reached.

This requirement does not apply if it has been specifically agreed and recorded in the scope of work that a valuation report shall be provided without reasons or other supporting information.

(m) Amount of the valuation or valuations

This shall be expressed in the applicable currency.

(n) Date of the valuation report

The date on which the report is issued shall be included. This may be different from the valuation date (see (f) above).
Guidelines on Valuation of Property Plant and Equipment and Biological Assets for Financial Reporting Purposes

Appendix C
Level 3 inputs (paragraphs 86 – 90 and B36 of SLFRS 13)

86 Level 3 inputs are unobservable inputs for the asset or liability.

87 Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

88 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability.

For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (eg when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs B37–B47).

89 An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (eg an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into IFRS 13 account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

90 Paragraph B36 describes the use of Level 3 inputs for particular assets and liabilities.

B36 Examples of Level 3 inputs for particular assets and liabilities include the following:

(a) Long-dated currency swap. A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.

(b) Three-year option on exchange-traded shares. A Level 3 input would be historical volatility, ie the volatility for the shares derived from the shares' historical prices. Historical volatility
typically does not represent current market participants’ expectations about future volatility, even if it is the only information available to price an option.

(c) Interest rate swap. A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.

(d) Decommissioning liability assumed in a business combination. A Level 3 input would be a current estimate using the entity’s own data about the future cash outflows to be paid to fulfill the obligation (including market participants’ expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, eg a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity’s credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.

(e) Cash-generating unit. A Level 3 input would be a financial forecast (eg of cash flows or profit or loss) developed using the entity’s own data if there is no reasonably available information that indicates that market participants would use different assumptions.
Disclaimer

Where there is conflict between a recommendation contained in these Guidelines and the requirements of any applicable laws or regulations or accounting standards, the latter requirements should take precedence.

The Institute of Chartered Accountants of Sri Lanka can neither accept any responsibility or liability whatsoever (whether in respect of negligence or otherwise) to any party as a result of anything contained in or omitted from the Guidelines nor for the consequences of reliance or otherwise on the provisions of these Guidelines.

References:

- The Institute of Chartered Accountants of Sri Lanka (2013), Sri Lanka Accounting Standards
- The International Valuation Council (2011), International Valuation Standards
Sub-committee on Determination of Fair Value for Accounting Purposes

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