

Motives for Reporting Fixed Assets at Revalued Amount: Evidence from a Developing Economy

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Abstract

The purpose of this study is to examine firms' motives for reporting fixed assets at revalued amount. The study analysed 30 manufacturing firms listed in Colombo Stock Exchange (CSE) for a period of two years from 2012 to 2013, employing Mann–Whitney U test and bivariate and multivariate logistic regression. It is found that manufacturing firms tend to report their property, plant and equipment (PP&E) at revalued amount, when land and building dominates their fixed assets, and firms whose PP&E is dominated by plant and machinery are inclined towards reporting fixed assets at historical cost. However, all such other factors investigated as firm size, carrying amount of PP&E (*ppe*), intensity of PP&E (*ippe*), returns on total assets (*roa*) and return on equity (*roe*) fail to explain the accounting choice between cost and revaluation models. The probability for a revaluation to occur, on the other hand, is found to be significantly and positively associated to financial leverage, indicating that highly levered manufacturing firms tend to revalue their assets, may be with the expectation of creating possibilities for additional borrowing. Further, no other variables investigated associate with the probability for a revaluation to occur, though prior researches support such association. Findings reveal that fixed assets revaluation motives may be characterized by the nature of fixed assets and their market dynamics characterized by the nature of economy in which firms operate. Findings also suggest that fair value accounting is relevant to manufacturers with high levels of land and building within their asset structure. Fixed assets revaluation motives may differ across countries which should accordingly be valued by financial analyst and investors. Future research should focus on value relevance of revaluation decision of firms in developing countries. Revaluation decisions should be analysed as first-time revaluation and frequency of subsequent revaluations. This is the first study in Sri Lanka reporting the evidence for fixed asset revaluation motives.

Keywords [Revaluation](#), [fixed assets](#), [motives](#), [fair value](#), [property](#), [plant and equipment](#), [Sri Lanka](#)

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