

MALAYSIAN VALUATION STANDARDS

STANDARD 3

VALUATIONS FOR FINANCIAL REPORTING

3.1.0. INTRODUCTION

3.1.1. ~~An important and growing use of valuations is valuations for use in financial reporting. Companies are required to show in their balance sheets the value of the properties held either for use in the business, or held as investments or as surplus to their business or investment needs. With the growing acceptance of "fair value" accounting where assets (including property assets) are required to be shown in the balance sheet at their "fair" or "market" value this area of valuations is also set to grow in importance.~~ With the adoption of "mark to market" or fair value accounting, both internationally and in Malaysia, companies and entities would increasingly require valuations of their assets at more regular intervals as under these standards, the companies or entities are required to show these assets (held for use in their business, or as investments or surplus to their requirements) in their balance sheets at their "fair value".

3.1.2. The regulatory authority on the manner in which company accounts should be prepared in Malaysia is the Malaysian Accounting Standards Board (MASB) who ~~develops and issues Financial Reporting Accounting Standards which~~ has the force of law and is mandatory for public listed companies under the Securities Commission Malaysia (SC), financial institutions under Bank Negara Malaysia (BNM) and private companies registered with the Companies Commission Malaysia (CCM). MASB has issued two (2) sets of financial reporting standards, i.e. Financial Reporting Standards (FRS) which are mandatory for public listed companies and financial institutions but optional for private companies and the Private Entity Reporting Standards (PERS) which are again optional for private companies. For example FRS 116 relates to Property, Plant and Equipment ~~and it~~ which prescribes the ~~proper~~ manner in which property, plant and ~~E~~equipment should be treated in company accounts.

~~3.1.3. The Securities Commission/Bursa Malaysia oversee the Capital Markets in Malaysia and they have regulatory authority on all publicly listed companies. The SC also has Guidelines that are required to be followed when public companies revalue their property assets — see MVS 15.~~

3.2.0 STATEMENTS OF STANDARD

3.2.1 Valuers who prepare valuations for inclusion in financial statements must have a basic understanding of accounting concepts and principles. ~~They must~~ ~~in particular~~ **valuers must have a working knowledge of how property, plant and equipment are recognized in the accounts both initially at acquisition / purchase and subsequently (i.e. whether the company or entity has adopted the Cost or Revaluation Model) and how they are carried in and its impact on the accounts of the company or business entity. Valuers shall also be familiar with the various terminologies used in those FRS.** ~~be knowledgeable as to the Standards issued by the MASB. Any deviation from the requirements of the MASB Standards must be clearly disclosed in the Valuation Report.~~

3.2.2 ~~Valuers should also be knowledgeable as to the guidelines of the Securities Commission and of Bursa Malaysia for valuations for revaluation purposes. Valuers should strictly adhere to the said guidelines.~~ **Valuers must have knowledge and understanding of the requirements of the accounting standards which are issued by MASB from time to time especially those which relate to the treatment and measurement of the assets in the accounts, more particularly FRS 116 (Property, Plant and Equipment), FRS 117 (Leases) and FRS 140 (Investment Property). Valuers shall also be familiar with other Standards which have an impact on valuations such as FRS 102 (Inventories), FRS 136 (Impairment of Assets), FRS 3 (Business Combinations) and FRS 5 (Non Current Assets held for Sale and Discontinued Operations). Where cross border valuations are concerned, Valuers shall also be knowledgeable about the standards as well as the International Valuation Standards (IVS) and other relevant standards that may be applicable in that particular state / country / jurisdiction.**

~~3.2.3 Where cross border valuations are concerned Valuers should be knowledgeable as to the International Valuation Standards and other relevant standards that may be applicable in that particular country.~~

3.2.4.3 The fundamental basis for the valuation of properties, **plant and equipment** for inclusion in financial Statements, as stated in the Malaysian Accounting Standards is “fair value” which is defined as “the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction”. For all intents and purposes and insofar as property, **plant and equipment** valuations for FRS are concerned, fair value as defined above is taken to be synonymous with “market value” as defined by the International Valuation Standards (IVS).

3.2.4 Valuers must ascertain and confirm with the company or entity the appropriate asset class to which the item of property, plant and equipment belong so that the valuation is valued in accordance with the requirements of the appropriate FRS.

3.2.5 Valuers must also state in the valuation reports their valuation methodology used in arriving at the market value of the property, plant and equipment, bearing in mind the requirements of the accounting standards which favours “market-based evidence”. Appropriate valuation approaches are to be used.

3.2.6 For ~~S~~specialised properties by virtue of the fact that they are rarely, if ever, sold in the open market i.e. there may be “no market-based evidence of fair value”, other valuation methods such as ~~may be valued on the Depreciated Replacement Cost (DRC) method may be used.~~ basis, subject to adequate profit potentiality or service potential. Although Depreciated Replacement cost is a non-market value, for the purposes of valuations for financial reporting they are treated as an acceptable fair value. Where the DRC approach is used, the figure reported should always be accompanied by a statement that the value is subject to adequate potential profitability of the business, having regard to the value of the total assets employed and the nature of the operation (for properties in the private sector) or that the value is subject to the adequate service potential of the entity from the use of the assets as a whole (for properties in the public sector). In the former, the client must decide whether the business is sufficiently profitable to be able to carry

the property in the balance sheet at the full DRC or whether a lower figure should be adopted. In the latter case, the directors or managers of the property should consider the prospect and viability of it continuing to be utilized for the existing use (adequate service potentiality).

3.3.0 EXPLANATIONS

- 3.3.1 Paragraph 32 of [the Financial Reporting Standard 116](#) or FRS 116 states that “The fair value of land and building is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.”
- 3.3.2 Paragraph 33 of [the Financial Reporting Standard 116](#) or FRS 116 states that “If there is no ~~evidence of~~ market based evidence of fair value because of the specialised nature of the [item of](#) property, plant and equipment and the items ~~are~~ [is](#) rarely sold, except as part of a continuing business, and entity may need to estimate fair value using an income or a depreciated replacement cost approach.”
- 3.3.3 The International Valuation Standards [Council](#) ~~Committee~~ has valuation standards that are developed to enable valuers worldwide to harmonise principles and practices particularly with regard to valuations for financial reporting, thus ensuring that financial reporting standards have a harmonised basis. Valuers are required to acquire an in-depth knowledge of the International Valuation Standards, in particular ~~Valuation for Financial Reporting – IVA1~~ [the International Valuations Application 1 – Valuation for financial reporting](#). Any deviation from the requirements of those standards must also be clearly disclosed in the Valuation Report.