April 2025

Unlocking Asset Value:

Navigating the Revaluation Model for Property, Plant, and Equipment & Intangible Assets

FOREWORD

The Capital Market Authority ("CMA") of Saudi Arabia has recently authorized listed companies to utilize the revaluation model for measuring their Property, Plant, and Equipment ("PPE"). This policy change, effective for annual periods beginning on or after 1 January 2025 onwards, signifies a departure from the traditional cost model and emphasizes CMA's dedication to enhancing transparency and regulatory oversight. By enabling companies to report assets at their fair value, the revaluation model offers a more accurate representation of the company's financial health, especially in industries where asset values are subject to significant fluctuations.

This publication explores the implications of companies transitioning from cost to the revaluation model, highlighting both the benefits and limitations associated with adopting this approach. We discuss how the adoption of the revaluation model can improve financial precision and facilitate informed decision-making while also addressing the complexities and costs associated with the aforementioned transition.

Embracing the revaluation model for PPE marks a significant progression in Saudi Arabia's financial reporting standards. As the nation strives to align with global best practices under Vision 2030, this shift is anticipated to enhance market competitiveness, foster a clear and accountable business environment, and attract foreign investment.

This publication aims to serve as a resource for entities considering transitioning to unlock the true asset value thereby enhancing the company's financial management and decision-making. As listed companies transition to the revaluation model, understanding its implications will be vital for maximizing benefits while effectively managing potential challenges.

We trust that you will find this publication informative. We welcome any discussions that provide further clarification on our perspectives. We look forward to your feedback.

Dinesh Jangid
Regional Managing Partner, Middle East

Saad M. Al-Khathlan
Managing Partner, KSA

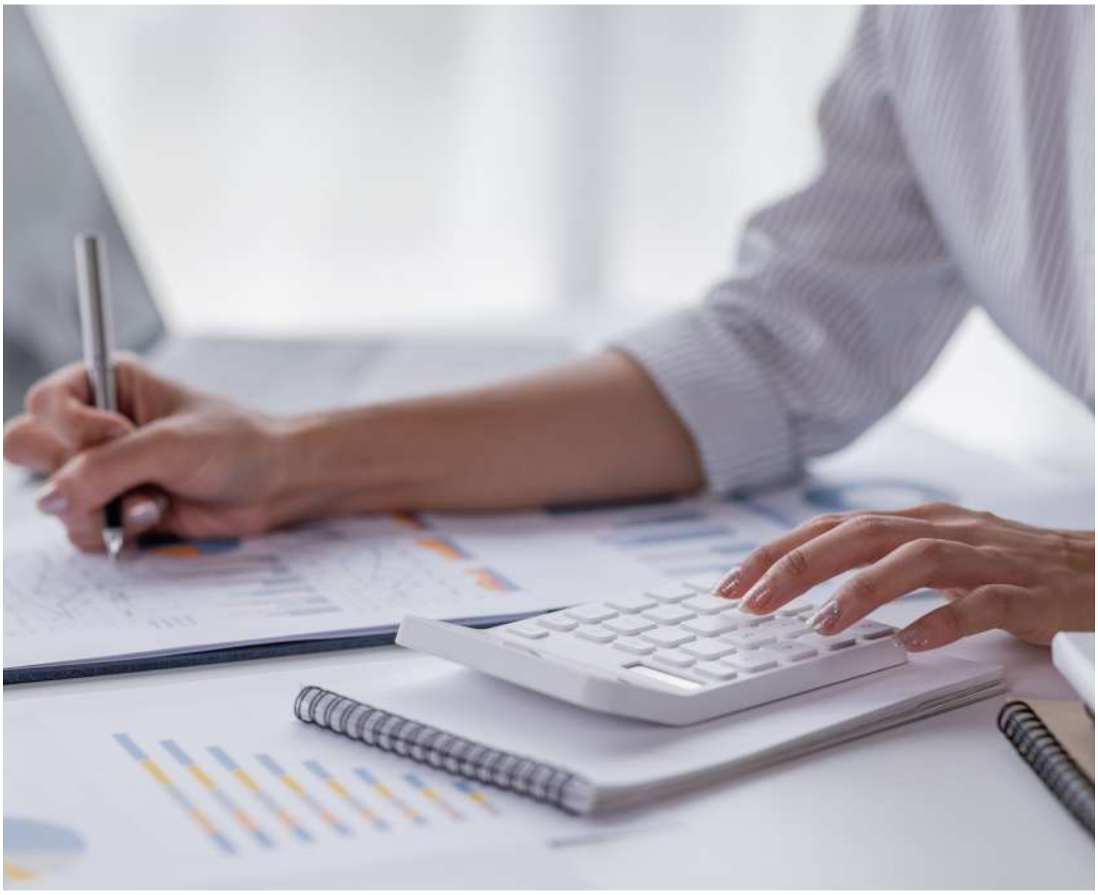
Zaid Khatri
Associate Partner, Accounting & Reporting Consulting, KSA

1. INTRODUCTION

Saudi Arabia's asset valuation practices have evolved significantly over the years. In 2016, CMA mandated that listed companies should apply the cost model for items of PPE and intangible assets for an initial three-year period from the date of application of the International Financial Reporting Standards ("IFRS") as endorsed by the Saudi Organization of Chartered Professional Accountants ("SOCPA") in the Kingdom of Saudi Arabia. In 2019, CMA allowed listed companies to adopt the revaluation model for real estate and investment properties effective for annual reporting periods beginning on or after 1 January 2022 onwards while retaining the cost model for PPE and intangible assets for an additional period of five years.

The recent amendment, effective from 1 January 2025, permits listed companies to apply the revaluation model to PPE, signaling a reassessment of the cost model's applicability. However, the CMA has decided to maintain the cost model for intangible assets for the next two years, citing the practical challenges in determining their fair value reliably. Intangible assets—such as patents, trademarks, and goodwill—often lack active markets, making objective valuation difficult. CMA intends to re-assess the suitability of the revaluation model for intangible assets by the end of 2026.

The adoption of the revaluation model for PPE enables companies to provide investors with a more accurate and up-to-date reflection of their financial position by reporting assets at fair value rather than historical cost. Recognition for asset revaluation helps mitigate the effects of inflation and reduces the risk of asset value understatement. However, it also necessitates regular re-appraisals and may introduce fluctuations in financial results, requiring careful management and detailed disclosures. Consequently, while the revaluation model has the potential to result in better and more accurate financial reporting, it is not without its own challenges. Also, once the revaluation model has been adopted, subsequently reverting to the cost model poses its own set of challenges. Therefore, a careful evaluation should be done based on the facts and circumstances of the individual companies before undertaking this transition.



2. REVALUATION MODEL FOR MEASURING PROPERTY, PLANT AND EQUIPMENT

The Capital Market Authority has announced that listed companies in Saudi Arabia may adopt the revaluation model for measuring PPE, effective for annual periods beginning on or after 1 January 2025 onwards. This marks a departure from the previously mandated cost model, introducing both opportunities and challenges for Saudi-listed entities. Before we delve into the specifics of the revaluation model, it is worth noting how it compares to the currently mandated cost model.

2.1 Cost vs. Revaluation Model

Basis of Comparison	Cost Model	Revaluation Model
Initial Measurement	Measured at cost, which includes the purchase price and directly attributable costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.	Similar to the cost model.
Subsequent Measurement	Carried at cost, less accumulated depreciation and impairment losses.	Carried at a revalued amount, being fair value at revaluation date less subsequent accumulated depreciation and accumulated impairment losses.
Application to Asset Class	Not applicable, as assets are recorded at cost individually.	When an item of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued. Entities cannot selectively revalue some assets within a class while leaving others at a cost.
Recognition of Revaluation Changes	Not applicable	Revaluation gains are recognized in Other Comprehensive Income (OCI) and accumulated in equity under revaluation surplus unless they offset a previous revaluation loss, in which case they are recognized in profit or loss up to the amount of the previously recorded loss. Conversely, revaluation losses are first offset against any existing revaluation surplus in OCI for that asset, with any excess recognized in profit or loss.

Basis of Comparison	Cost Model	Revaluation Model
Depreciation	Historical cost, less residual value is allocated over the asset's useful life.	The revalued amount, less residual value is allocated over the asset's useful life.
Impairment	Impairment losses are recognized in profit or loss.	Impairment losses are recognized in profit or loss unless they relate to a previously recognized revaluation surplus
Revaluation Surplus	Not applicable.	Presented in equity and may be transferred to retained earnings upon asset derecognition. However, some of the surplus may be transferred as the asset is used, with transfers reflecting the depreciation difference between the revalued amount and the original cost, without passing through profit or loss.
Frequency of Revaluation	No revaluation is performed under the cost model.	Revaluations must be conducted at a regular frequency to ensure the carrying amount remains materially consistent with fair value. If fair value fluctuates significantly, annual revaluations may be required, whereas, for stable assets, revaluations may be made every three to five years.

2.2 Effects of the Revaluation Model Adoption

Adopting the revaluation model addresses limitations of historical cost accounting by ensuring asset values reflect current market conditions. Listed companies with specialized or high-value equipment stand to benefit, as well as those seeking to improve financial leverage ratios, manage asset replacement costs, or unlock value in fully depreciated assets.

Industrial companies in Saudi Arabia may find this model particularly useful, especially where assets have substantial replacement costs. Additionally, companies with low price-to-book ratios and high debt levels may leverage the model to strengthen their financial position and enhance investor confidence.

Industries where the adoption of revaluation models could prove beneficial include:

- Mining
- Energy – Entities operating fuel and drilling stations
- Utilities – Power and electricity
- Transportation and shipping
- Telecommunications
- Manufacturing, including food and beverages
- Consumer services – Operators of fitness facilities, car rentals and food chains
- Healthcare, Pharma and Biotechnology

3. REQUIREMENTS FOR USING THE REVALUATION MODEL

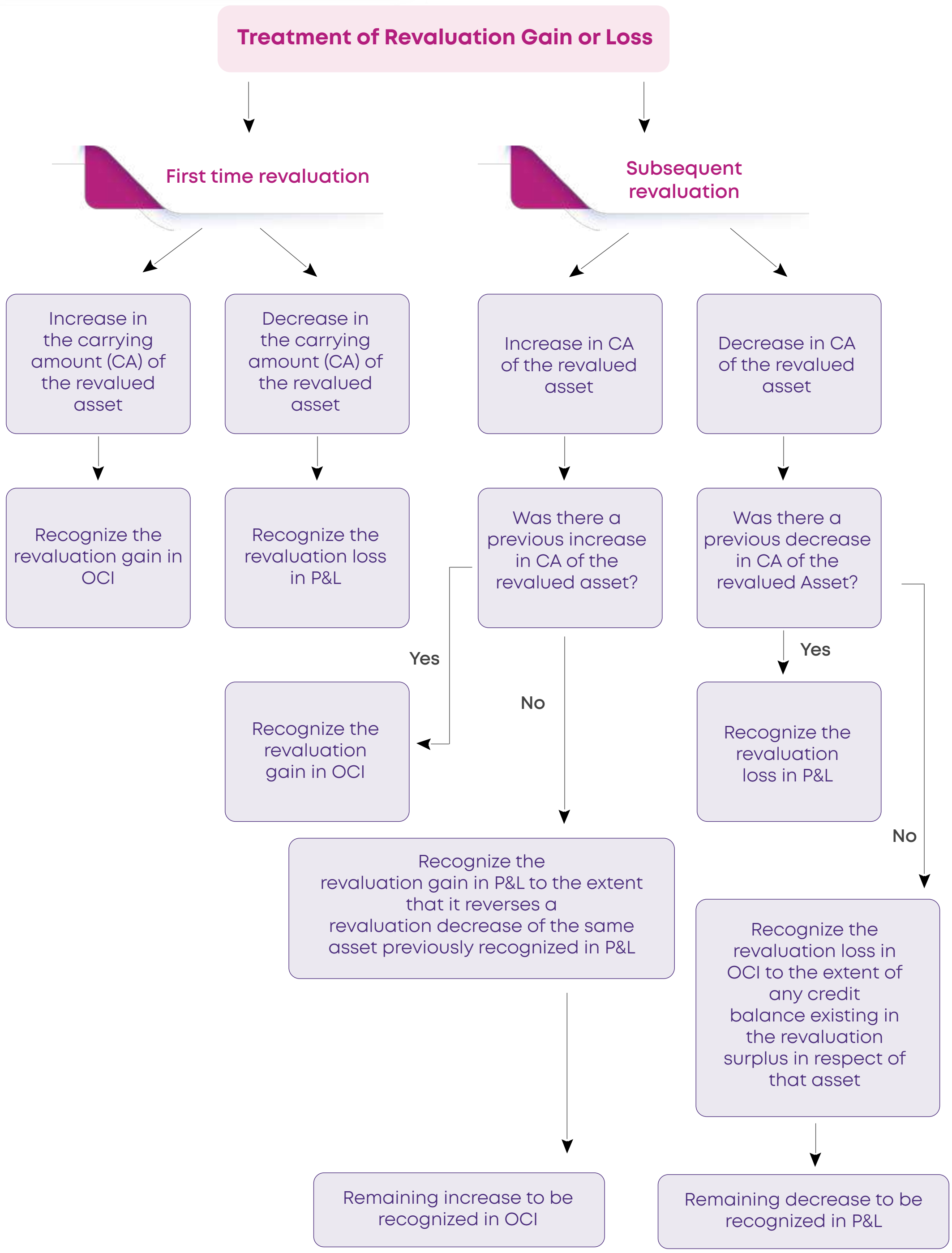
CMA has outlined specific criteria for adopting the revaluation model for measuring Property, Plant, and Equipment.

- PPE must be evaluated by a minimum of two evaluators
- The lowest value will be taken when preparing the annual financial statements and when using the revaluation model for the first time
- The evaluators must be appointed by a decision of the company's Board of Directors and after the recommendation of its Audit Committee
- Appointed evaluators must hold fellowship membership from the Saudi Authority for Accredited Valuers
- The Audit Committee in listed companies must monitor the valuation process and its results, reporting any observations to the Board of Directors
- Interim and annual financial statements must include a disclosure of reconciliations concerning differences in assets, net assets, net income, and comprehensive income between the revaluation model and the cost model
- The results of the valuation process must be disclosed at least 30 days before the beginning of the first annual period in which the model is applied
- This disclosure must include relevant items, policies, and any significant gains or losses arising from changes in revaluation

This approach requires rigorous adherence to valuation principles, regular updates, and explicit disclosures. While the revaluation model enhances financial statement relevance by aligning asset values with market conditions, its adoption remains selective due to its implementation complexities, the costs of frequent valuations, and potential volatility in reported equity.

4. IMPACT ON THE COMPANY'S FINANCIAL STATEMENTS

4.1. Treatment of revaluation gain or loss:



The revaluation surplus included in equity in respect of an item of Property, Plant, and Equipment may be transferred directly to retained earnings when the asset is derecognized. However, some of the surplus may be transferred as the asset is used, with transfers reflecting the depreciation difference between the revalued amount and the original cost, without passing through profit or loss.

4.2. Case Study: Company ABC – Transition to Revaluation Model

Company ABC, engaged in manufacturing automotive equipment, purchased an asset on 1 January 20X4 for SAR 1,000,000. The asset has a useful life of 10 years, implying a straight-line depreciation of SAR 100,000 per year. Currently effective requirements, it has applied the cost model but opted for the revaluation model as permitted by the CMA, effective 1 January 20X5. The asset was revalued to SAR 1,200,000 on 1 January 20X5, resulting in a revaluation gain. The asset was further revalued to SAR 900,000 on 1 January 20X6, leading to a revaluation loss. The asset was sold on 31 December 20X6 for SAR 850,000, leading to derecognition.

Accounting treatment:

A. Journal entries:

Event	Date	Account	Debit (SAR)	Credit (SAR)
Purchase of asset	01-Jan-20X4	Property, Plant, & Equipment	1,000,000	
		Cash / Bank		1,000,000
Depreciation for 20X4 (Cost Model)	31-Dec-20X4	Depreciation Expense	100,000	
		Accumulated Depreciation		100,000
Elimination of accumulated depreciation on revaluation	01-Jan-20X5	Accumulated Depreciation	100,000	
		Depreciation Expense		100,000
Revaluation gain (Fair value = 1,200,000)	01-Jan-20X5	Property, Plant & Equipment	300,000	
		Revaluation Surplus (OCI)		300,000
Depreciation for 20X5 (New revalued amount)	31-Dec-20X5	Depreciation Expense	133,333	
		Accumulated Depreciation		133,333
Elimination of accumulated depreciation on revaluation	01-Jan-20X6	Accumulated Depreciation	133,333	
		Depreciation Expense		133,333
Revaluation loss (Fair value reduced to 900,000)	01-Jan-20X6	Revaluation Surplus (OCI)	166,667	
		Property, Plant, & Equipment		166,667
Depreciation for 20X6 (New revalued amount)	31-Dec-20X6	Depreciation Expense	112,500	
		Accumulated Depreciation		112,500

A. Journal entries (continued) :

Event	Date	Account	Debit (SAR)	Credit (SAR)
Sale of an asset at SAR 850,000	31-Dec-20X6	Cash / Bank	850,000	
		Accumulated Depreciation	112,500	
		Property, Plant, & Equipment		900,000
		Gain on Sale of Asset (P&L)		62,500
Transfer revaluation surplus to retained earnings upon sale	31-Dec-20X6	Revaluation Surplus (OCI)	133,333	
		Retained Earnings		133,333

B. Summary of Calculations:

1. **Depreciation (Cost Model - 20X4):** 1,000,000 ÷ 10 = SAR 100,000
2. **Revaluation Gain (20X5):** 1,200,000 (new fair value) - 900,000 (carrying value) = SAR 300,000
3. **Depreciation (New Value - 20X5):** 1,200,000 ÷ 9 = SAR 133,333
4. **Revaluation Loss (20X6):** 1,066,667 (carrying value) - 900,000 (new fair value) = SAR 166,667
5. **Depreciation (New Value - 20X6):** 900,000 ÷ 8 = SAR 112,500
6. **Carrying Amount Before Sale:** 900,000 - 112,500 = SAR 787,500
7. **Gain on Sale:** 850,000 (sale proceeds) - 787,500 (net book value) = SAR 62,500

5. CHALLENGES AND CONSIDERATIONS

Valuation Costs: CMA has mandated that at least two independent evaluators assess the fair value of PPE, with each holding fellowship status from the Saudi Authority for Accredited Valuers. Engaging these professionals will increase compliance costs.

Governance Oversight: The audit committee oversees the valuation process and reports key observations to the Board of Directors. Whilst strengthened governance ensures the accuracy and credibility of revaluation assessments, challenges may arise in aligning valuations with CMA and SOCPA requirements, particularly in ensuring consistency in valuation methodologies and addressing subjectivity in fair value assessments.

First-Time Adoption: Transitioning to the revaluation model can be complex and time-consuming. Companies must establish robust valuation, depreciation, and financial reporting policies to ensure smooth adoption.

Enhanced Disclosure Requirements: Listed entities must provide reconciliations detailing differences in asset values, net assets, net income, and comprehensive income when comparing the revaluation model to the cost model. These disclosures promote openness and enable stakeholders to assess the financial impact of revaluation. For a detailed explanation, refer to the "Disclosure requirements – Revaluation of PPE" section.

6. WHY THE COST MODEL FOR INTANGIBLES?

CMA's decision to maintain the cost model for intangible assets through 2026 stems from the inherent challenges in reliably determining their fair value. Unlike tangible assets, intangibles—such as patents, trademarks, and goodwill—often lack active markets, making objective valuation difficult.

By the end of 2026, the CMA will reassess whether the cost model remains appropriate, ensuring regulatory oversight and comprehensive financial disclosures for listed entities.

Revaluation Model – Advantages for Intangible Assets

1. Recognition of Internally Generated Intangible Assets – This enables fair value recognition where an active market exists, benefiting R&D companies and tech-driven firms.

2. Avoids Understatement of Asset Value – This method reflects the true worth of intangible assets, enhancing financial statement accuracy. It also ensures better reflection of market conditions as assets are valued at fair market prices, making financial reports more relevant.

Revaluation Model – Challenges for Intangible Assets

1. Measurement Complexity – Many intangible assets lack an active market, making fair value estimation difficult.

2. High Valuation Costs- External valuation experts may be required, increasing compliance and operational expenses.

3. Impairment Risk – Revalued assets must be tested annually, leading to potential write-downs affecting profitability.

7. DISCLOSURE REQUIREMENTS – REVALUATION OF PPE

Listed companies adopting the revaluation model must provide the following additional disclosures in their financial statements:

1. Statement of the fact that the revaluation model is being used as a measurement basis for certain asset classes

2. Inclusion of increases or decreases resulting from revaluations in the reconciliation of the carrying amount at the beginning and end of the period

3. Disclosures as per Fair Value Measurement standard for PPE stated at revalued amounts and additionally, the below disclosures:

   - effective date of the revaluation
   - whether an independent valuer was involved
   - for each revalued class of property, plant, and equipment, the carrying amount that would have been recognized had the assets been carried under the cost model
   - the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders

Illustrative disclosures
Company ABC is engaged in the manufacturing business. The Company has chosen to measure the machinery held for its own use at fair value using the revaluation model. The following are the illustrative disclosures required to be made in ABC's financial statements:

Extract from Material Accounting Policy Information
Machinery held for own use is stated at fair value at the Balance Sheet date. Depreciation is recognized on a straight-line basis over the estimated useful life. On disposal, the related revaluation reserve is transferred to retained earnings.

Extract from PPE note
Changes in Property, Plant, and Equipment:

Machinery for own use		
Opening Balance	**Current Year Figures**	**Previous Year Figures**
Additions	XX	XX
Transfers	XX	XX
Depreciation	XX	XX
Impairments	XX	XX
Reversals of Impairments	XX	XX
Revaluation gains / (losses)	XX	XX
Disposals	XX	XX
Exchange rate differences	XX	XX
Closing Balance	XX	XX
	XX	XX
Cost Price	XX	XX
Accumulated Depreciation	XX	XX
Accumulated Impairment	XX	XX
Accumulated Revaluation Surplus	XX	XX
Net Carrying Value	XX	XX

Extract from Capital and Reserves Note
Nature and purpose of reserves:
Revaluation reserve: The revaluation reserve relates to the revaluation of property, plant and equipment.

Extract from Fair Value Measurement note
In respect of fair value used for Machinery:

Fair Value Hierarchy

Breakdown of total gains / (losses) in respect of fair values

Valuation techniques and significant observable inputs

8. TRANSITION TO DIFFERENT MODELS

Transition from cost model to revaluation model –Prospective effect

If an entity changes its accounting policy from the cost to the fair value model of accounting for property, plant, and equipment, then the effect of the change is recognized as a revaluation. The opening equity balance is not adjusted, and comparatives are not restated.

Transition from revaluation model to cost model – Retrospective effect

When an entity changes its accounting policy from the fair value to the cost model of accounting for property, plant, and equipment, all previous revaluations, including subsequent depreciation charges, are reversed. In this case, the usual procedures for a change in accounting policy apply - i.e. the effect of the change is calculated retrospectively, and the adjustment is generally recognized by adjusting the opening balance of retained earnings for the earliest prior period presented and restating comparative amounts presented.

9. MAKING THE RIGHT CHOICE

The decision to adopt the revaluation model requires careful consideration of the costs and benefits, and consequently, management should:

- **Assess the impact:** Conduct a comprehensive analysis of the financial statement implications, ensuring that the decision reflects the underlying economic reality.
- **Engage experts:** Consult qualified valuation professionals and accounting experts in line with the criteria outlined by the CMA for qualified valuers as previously discussed.
- **Develop policies:** Establish clear policies and procedures for implementing and monitoring the revaluation model, ensuring that the acquire-to-retire policy is updated to define aspects such as frequency, timing, and treatment for respective asset classes.
- **Communicate transparently:** Clearly disclose the impact of the revaluation model to stakeholders, aligning with relevant accounting standard disclosure requirements.

Adopting the revaluation model presents both opportunities and complexities. Accurately assessing asset values while managing fluctuating market conditions, system updates, and evolving compliance requirements can strain internal resources. Challenges such as integrating fair value assessments into existing ERP systems, reconciling financial statement impacts, and ensuring alignment across global reporting frameworks require a structured approach. With our deep expertise in SOCPA and international accounting standards, we offer end-to-end support streamlining valuation processes, enhancing system capabilities, and strengthening governance controls. Our tailored approach ensures seamless execution, minimizing disruption while unlocking the benefits of precise financial insights. Partner with us to navigate this transition effectively, confidently achieving compliance and operational efficiency.

A TEAM THAT
YOU CAN TRUST TO DELIVER

Jamil Khatri
Co-Founder & CEO
jamilkhatri@uniqus.com

Sandip Khetan
Co-Founder, Global Head of ARC
sandip.khetan@uniqus.com

Anu Chaudhary
Partner, Global Head of ESG
anuchaudhary@uniqus.com

Dinesh Jangid
Regional Managing Partner, ME
dj@uniqus.com

Saad M. Al-Khathlan
Managing Partner, KSA
saadalkhathlan@uniqus.com

Nagaraj Uchil
Partner, ARC
nu@uniqus.com

Zaid Khatri
Associate Partner, ARC
zaidkhatri@uniqus.com

Shahrukh Kapadia
Associate Partner, ARC
shahrukhkapadia@uniqus.com

Rayan Al Karawi
Advisor, KSA
rayan@uniqus.com

To know more about us, please visit www.uniqus.com