Asset Revaluations: Motives and Choice of Items to Revalue

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ABSTRACT

This study examines the determinants of the propensity of Korean companies to revalue property, plant and equipment (PP&E). Absent tax benefits, we find that Korean companies are more likely to revalue PP&E to improve their financial position or reduce debt contracting costs than lessen political costs or signal future prospects. We also investigate the question of how companies choose the assets to revalue. Our results show that companies are more likely to elect depreciable classes of PP&E for revaluation (in addition to land) when they are highly levered, experience equity depletion, and report losses or negative operating cash flows. We also find that companies are more likely to recognize revaluation decrements in addition to increments when they are large and are revaluing depreciable classes of PP&E.

Keywords: Asset revaluations; Revaluation surplus; Property, Plant and Equipment; Revaluation of depreciable assets; Revaluation of land; Revaluation increments; Revaluation decrements