**Tutorial IFRS 13**

EX1-A company owns an asset that is sold in two different but similarly volume markets and each market offers a different price for the asset. The company has entered into transactions in both markets and can obtain prices for the asset in both markets on the measurement date. There is no principal market for the asset. The asset had the following price:

|  |  |  |
| --- | --- | --- |
|  | Market (A) | Market (B) |
| Price | 27 | 25 |
| Transportation costs | (3) | (2) |
|  | 24 | 23 |
| Transaction costs | (3) | (1) |
| **Net estimated value** | **21** | **22** |

**Required**: Identify the most profitable market, and determine the value at which the asset will be measured.

**Solution 1:**

Since the primary market for the asset does not exist, the most profitable (best) market is determined through which the fair value of the asset can be determined. This is the market that maximizes the amount that will be received when selling the asset after taking into account the transaction costs and transportation costs, which is market (B), where the net price of the asset **is 22.**

Although transaction costs have been taken into account when determining the most profitable (best) market, the price used as a measure of the fair value of the asset is not adjusted for transaction costs but only for transportation costs. Therefore, the fair value of the asset **is 23** ( 25-2)

EX2- Suppose in the previous exercise that Market A is the principal market for the asset, i.e. the market with the most active and transactional volume for the asset.

**Required**: Determine the fair value of the asset.

**Solution2 :**

The fair value of the asset = **24** dinars, the price is not adjusted by transportation costs, i.e. they are not deducted from the price**.**

EX3- **Application to Non-financial Assets**

Company X acquired land in a business combination, and the land is currently being developed for industrial purposes as a factory site. The current use of the land is assumed to be the best and highest use unless the market or other factors indicate a different use. The adjacent sites have recently been developed for residential use as residential tower sites. The company has determined that the land currently used as a factory site can be developed as a residential tower site because market participants will consider the ability to develop the site for residential purposes when pricing the land.

**Required**: Explain how the land is valued by the best and highest use of the land.

**Solution3**:

The best and highest use of land will be determined by comparing each of the following :

1. The value of the land when it is currently being developed for industrial purposes (i.e. the land will be used alongside other assets such as a factory or with other assets).
2. The value of the land as a vacant site for residential purposes, taking into account the costs of demolition of the factory and other costs necessary to convert the land to a vacant site (i.e. the land will be used by market participants on an independent basis

The best and highest use of the land will be determined based on the highest of these values. In cases involving property valuation, the best and most highest use will take into account factors relating to the operations of the plant including its assets and liabilities..