

SREERAM COACHING POINT

ACCOUNTING STANDARD - 10

Accounting for FIXED ASSETS

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044 2814 2616 / 3296 4602

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What are Fixed Assets ?

Asset which is held with intention of being used for the purpose of producing or providing goods and service and not held for sale in the normal course of business.

Example: Land, building, plant etc.

Whether an expense is to be capitalised or not as Fixed Asset depends upon “Materiality”

Treatment of Machinery Spares

Machinery spares are usually charged to the profit and loss statement as and when consumed. However, if such spares can be used only in connection with an item of fixed asset and their use is expected to be irregular, it may be appropriate to allocate the total cost on a systematic basis over a period not exceeding the useful life of the principal item.

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COMPONENTS OF COST

Purchase Cost
(+) Import Duty
+ Non Refundable Taxes or levies
+ Directly Attributable cost
(-) Trade Discount
(-) Rebates

Administration and General OH → Generally Exclude

Specifically Incurred → Include

Expenses on startup,
Test Run, experimental production – Capitalise

Expenses after Commercial Production – Don't Capitalise

Self Constructed Fixed Assets

Cost = Directly related + Attributable – Internal profits (if any)

Purchase of Fixed Assets may be made by paying cash, issuing shares, through hire purchase, exchange, joint venture, several assets at consolidated price and by way of grant

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When fixed assets are purchased by Cash, record at purchase price

When fixed asset are purchased by through Issue of Shares or other Securities, Record at the fair market value of the Asset or Securities issued whichever is more clearly evident

When fixed assets are purchased In Exchange for another Asset, record at the Fair market value of the consideration given or asset acquired whichever more clearly evident. Alternatively, record at the asset acquired at “Net Book Value of the asset given up and adjustment is made for any balancing receipt or payment of cash or other consideration”

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When fixed Assets acquired on Hire Purchase, record at cash value

When assets owned jointly with others, Extent of share in such assets, and proportion in the original cost, accumulated depreciation and written down value are stated in the balance sheet.

When Assets are acquired by way of Government Grant, refer AS 12

When several assets are purchased for Consolidated Price, Consideration is apportioned to the various assets on fair basis as determined by competent valuers

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Other Areas

Addition or Extension to an Existing Asset

The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is usually added to its gross book value. Any addition or extension, which has a separate identity and is capable of being used after the existing asset is disposed of, is accounted for separately.

Subsequent Repairs

Whether subsequent expenditure related to fixed asset to be added to the gross book value or charged to the profit and loss statement. Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity.

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Revaluation of Fixed Assets

First Time

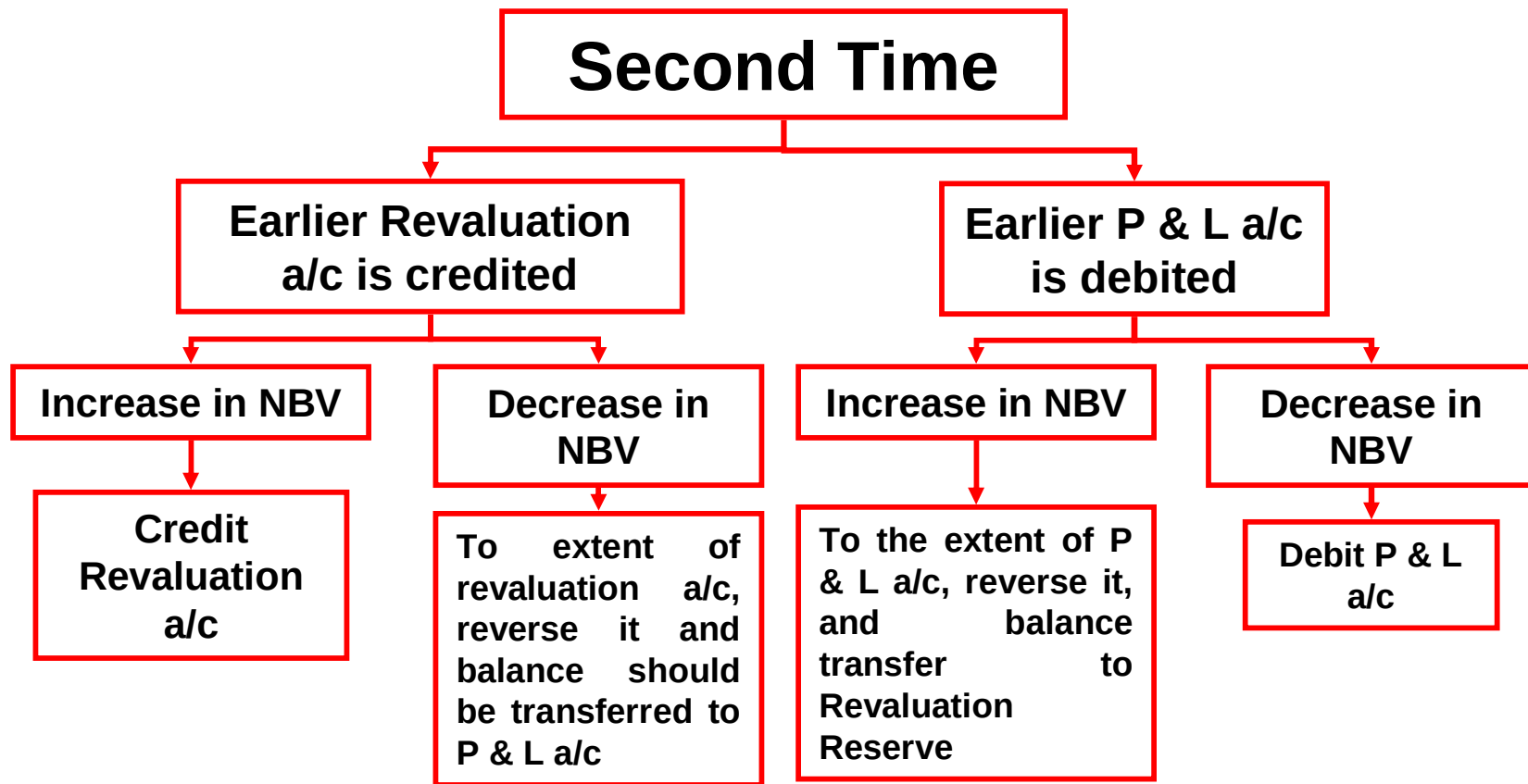
Increase in NBV

Credit RR a/c

Decrease in NBV

Debit P & L a/c

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Disposal of Fixed Asset

Generally, gain or losses arising on disposal are recognised in P & L a/c

If an asset was previously revalued and increase in revaluation was credited to Revaluation Reserve [RR]

Difference between net disposal proceeds and the net book value is normally charged or credited to P & L statement except that, to the extent such a loss RR and which has not been subsequently reserved or utilised, it is charged directly to that account. The amount standing in RR following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve