

ACCOUNTING STANDARD – 10**ACCOUNTING FOR FIXED ASSETS****Purpose:**

¶ Disclosure of Fixed Assets.

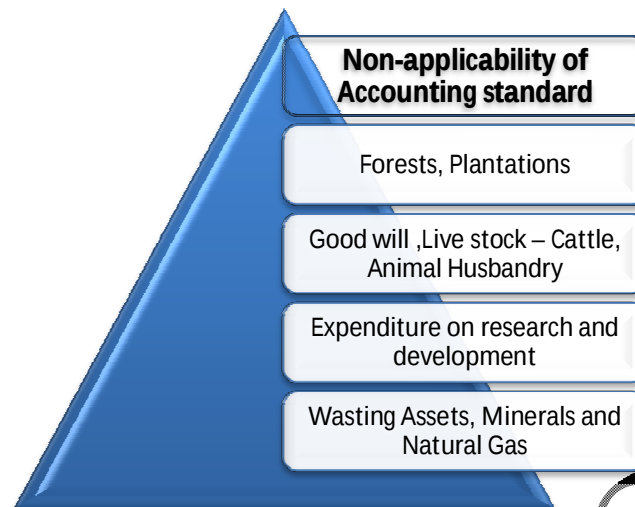
Fixed Assets	<u>Fixed asset</u> is an asset ⚡ Held with the intention of being used ⚡ For the purpose of producing or providing goods or services and ⚡ Not held for sale in the normal course of business. E.g. Land, Building, Plant etc.								
Whether an expense is to be capitalised or not as Fixed Asset depends upon “Materiality”	<u>Treatment of Machinery Spares</u> <table><tr><td>Machinery spares</td><td></td><td>Charged to the profit and loss statement as and when consumed.</td></tr><tr><td>If such spares can be used</td><td>only in connection with an item of fixed asset and their use is expected to be irregular</td><td>Appropriate to allocate the total cost On a systematic basis Over a period not exceeding the useful life of the principal item.</td></tr></table>			Machinery spares		Charged to the profit and loss statement as and when consumed.	If such spares can be used	only in connection with an item of fixed asset and their use is expected to be irregular	Appropriate to allocate the total cost On a systematic basis Over a period not exceeding the useful life of the principal item.
Machinery spares		Charged to the profit and loss statement as and when consumed.							
If such spares can be used	only in connection with an item of fixed asset and their use is expected to be irregular	Appropriate to allocate the total cost On a systematic basis Over a period not exceeding the useful life of the principal item.							
Fair Market Value	<u>Fair Market Value</u> is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length.								
Gross Book Value	<u>Gross Book Value</u> of a fixed asset is its historical cost or other amount substituted for historical cost in the books of accounts. When this amount is shown net of accumulated depreciation, it is termed as net book value.								
Elements Of Cost	⚡ Purchase Price (+) Import duties and (+) Non-refundable taxes and levies and (+) Any directly attributable cost of bringing the asset to its working condition for its intended use (-) Trade Discount (-) Rebates ⚡ Administration and General OH – Generally exclude. ⚡ Specifically Incurred – Include. ⚡ The expenditure incurred on test runs and experimental production, is capitalised as an indirect element of the construction cost. ⚡ If the time gap between the dates a project is ready to commence production and when production actually begins is prolonged, all expenses incurred during this period are charged to the profit and loss statement.								

Self Constructed Fixed Assets	✚ The cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the specific asset. ✚ Cost = Directly related + Attributable – Internal Profits (if any)
Assets Purchased by Cash	✚ Record at Purchase Price.
Non-monetary consideration	✚ When a fixed asset is acquired in exchange or in part exchange for another asset/issue of shares, the cost of the asset acquired should be recorded either at fair market value or at the net book value/securities issued of the asset given up, adjusted for any balance payment or receipt of cash or other consideration. ✚ For this purpose fair market value may be determined by reference either to the asset given up or to the asset acquired/securities issued, whichever is more clearly evident.
Assets acquired on hire purchase	Recorded at their CASH VALUE with a suitable disclosure, that the enterprise does not have full ownership thereof.
Assets owned jointly with others	✚ Recorded in the Balance sheet to the extent of the enterprise's share in such assets, original cost, and accumulated depreciation and written down value. ✚ Alternatively, the pro rata cost of those assets may be grouped together with similar fully owned assets with an appropriate disclosure.
Assets purchased for a consolidated price	Where several assets are purchased for a consolidated price, the consideration is apportioned to the various assets on a fair basis determined by competent valuer.
Assets acquired by Govt. Grant	Refer AS-12
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.
Improvement And Repairs	Subsequent expenditures related to an item of fixed asset should be added to its book value only if it INCREASES the FUTURE BENEFITS FROM THE EXISTING ASSET BEYOND ITS PREVIOUSLY ASSESSED STANDARD OF PERFORMANCE
Revaluation of fixed assets	✚ When a revaluation is made, either an entire class of assets should be revalued, or the selection of assets should be made on a systematic basis. The basis should be disclosed. ✚ The revaluation in financial statements of a class of assets should not result in the net book value of that class being greater than the recoverable amount of assets of that class.

	When a fixed asset is revalued upwards, any accumulated depreciation existing at the date of the revaluation should not be credited to the profit and loss account.
Accounting on retirement /disposal	- 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.
Goodwill	Goodwill needs to be accounted for only when some consideration in money or money's worth has been paid for it.
Disclosure	- Gross and net book values of fixed assets at the beginning and end of an accounting period along with additions, disposals, acquisitions and other movements during the year. - Expenditure incurred in the course of construction or acquisition. - Revalued amounts substituted for historical costs of fixed assets, the method adopted for revaluation, the nature of indices used, the year of any appraisal made and whether an external valuer was involved in carrying out the revaluation.

REVALUATION OF FIXED ASSETS	
FIRST TIME	
Increase in Net Book Value ↓ Credit in RR A/c	Decrease in Net Book Value ↓ Debited to P & L A/c

REVALUATION OF FIXED ASSETS			
SECOND TIME			
Earlier Revaluation A/c is credited		Earlier P & L A/c is credited	
Increase in Net Book Value ↓ Credit RR A/c	Decrease in Net Book Value ↓ To the extent of RR A/c reverse it, and balance should be transfer to P & L A/c	Increase in Net Book Value ↓ To the extent of P & L A/c, reverse it and the balance transfer to RR A/c	Decrease in Net Book Value ↓ Debited to P & L A/c

COMMON POINTS IN AS-6 & AS-10

Thanks for YOUR SUPPORT!!

FOR FULL BOOK OF CA-IPCC GROUP-I & II

“ACCOUNTING STANDARDS” CONTACT – +91 9910026558, 9910026755

PRAVEEN TAWANIA CLASSES

GENIUS INSTITUTE OF COMMERCE

1/10 & 1/12, 2nd Floor, Above LG Showroom, Opp. Metro Pillar No. 27, Laxmi Nagar, Vikas Marg, Delhi-110092.

About the Author

CA. Praveen Tawania is a practicing Chartered Accountant and a faculty member, teaching subjects of Accounting, Financial Reporting, AS/IFRS for CA and CWA & CS in Northern Region of the Country. He has also been teaching at various Institutes, Universities and conducting training on whole range of management consultancy services including IFRS, XBRL, Valuations, Foreign Collaborations and Joint Ventures, Taxation, Specialized Audits, ERM, Risk Advisory and Corporate Training services. He is a regular contributor in the various online forums for CA's and CA Students. His contribution is also lies to the “KRN Foundation” for the benefit of Society.