



[Frequently Asked Questions]

Fixed Assets Valuation

Subject:	Business Economics
Course:	B.A., 1st Semester, Undergraduate
Paper No. & Title:	Paper – 103 Fundamentals of Business & Accounting
Unit No. & Title:	Unit – 3 (IV) Fixed Assets Valuation
Lecture No. & Title:	Lecture – 4 Fixed Assets Valuation

Frequently Asked Questions

Q1. What are the Characteristics that a fixed asset should possess?

A1. Assets should possess following characteristics:-

- (i) Such assets should be used or intended to be used in production of goods or providing services.
- (ii) it should not be held for the purpose of resale.
- (iii) Life expectancy of such assets is more accounting period.

Q2. What types of expenses are included in historic cost?

A2. Historic cost includes expenses or costs that are directly attributable towards acquisition or construction of an asset and which are incurred to bring the asset into workable condition.

For example:- inward freight, installation charges, expenses incurred in test run etc.

Q3. Why assets are revalued?

A3. Assets are revalued to incorporate the major changes that have occurred in fixed assets held by the business. The revaluation of assets helps in showing the assets of business at a value nearer to the market value of the asset.

Q4. How are revalued assets represented in the financial statement?

A4. Revalued assets are represented in the financial statement by following two methods:

- (i) Representing asset at gross book value and the accumulated depreciation till date.

(ii) Representation of asset at net book value & thereby adding the net increase on account of revaluation.

Q5. What is the maximum price at which the asset can be revalued?

A5. Revalued price can to the maximum be equal to the net recoverable amount of fixed asset.

Q6. What is meant by increase in expected future benefits, from fixed assets from repairs & improvement?

A6. Future benefits expected from a fixed asset is said to be increased if repairs or improvement costs affects the asset in any of following manner:

- (a) Increase the production capacity or efficiency.
- (b) Increase the life span of the assets than before.

Q7. How is improvement and repair cost on asset dealt with in books of account?

A7. If expenses on repair and improvement increases expected future benefits, then such expenses shall be capitalized to the respective asset. However, no there is no such change in expectation, then the expenses are charged to Profit & Loss Account.

Q8. When is an addition to an asset treated as a completely different asset instead of addition to the amount of existing asset?

A8. If the addition or extension has a separate identity and can be used after disposal of existing asset it is accounted separately.

Q9. What is the accounting treatment when an asset is disposed of?

A9. When an asset is disposed off, the following are the accounting treatments in books of account:

- i. Gain/loss arising on disposal of fixed asset is recognized in profit and loss a/c
- ii. When an asset is disposed of it will not be recorded in the balance sheet after its disposal.
- iii. At times it may so happen that fixed asset is withdrawn from the active use and may be held for disposal. In such a case, the fixed assets is to be stated at the lower of net book value and net realizable value in the books of accounts and shown separately under balance sheet. Any loss shall be immediately recognized.
- iv. In case any revalued asset is disposed and there is profits, it should be credited to P & L Account and in case of losses it should be first adjusted against balance in revaluation reserve and any balancing loss should be debited to P & L Account. If the amount of loss is less than the balance in revaluation reserve, the additional loss shall be transferred to P & L Account.

Q10. What are the Compulsory disclosure as per AS-10 for fixed asset?

A10. In financial statement, disclosure of following is the the must:

1. The gross and net book values of fixed asset at the beginning and end of accounting period showing additions, disposals, acquisition and other movements should be made.

2. Expenses incurred on Account of fixed assets in course of construction or acquisition should be disclosed.

In case of revaluation, revalued amount substituting the historical cost of fixed assets, the method adopted to revalue the asset, whether any external valuer has valued the fixed asset must be disclosed.