(Withdrawn vide 278th Council Meeting held on May 13-15, 2008)

GN(A) 1 (Revised 1976)

Mode of Valuation of Fixed Assets

Relevant marginal notes governing the value to be placed on fixed assets as contained in Part I of Schedule VI to the Companies Act read as follows:

> "Under each head the original cost and the additions thereto and deductions therefrom during the year, and the total depreciation written off or provided upto the end of the year to be stated.
>
> Where the original cost aforesaid and additions and deductions thereto relate to any fixed asset which has been acquired from a country outside India, and in consequence of a change in the rate of exchange at any time after the acquisition of such asset, there has been an increase or reduction in the liability of the company, as expressed in Indian currency, for making payment towards the whole or a part of the cost of the asset or for repayment of the whole or a part of monies borrowed by the company from any person, directly or indirectly, in any foreign currency specifically for the purpose of acquiring the asset (being in either case the liability existing immediately before the date on which the change in the rate of exchange takes effect), the amount by which the liability is so increased or reduced during the year, shall be added to, or as the case may be, deducted from the cost, and the amount arrived at after such addition or deduction shall be taken to be the cost of the fixed asset.
>
> In every case where the original cost cannot be ascertained without unreasonable expense or delay, the valuation shown by the books shall be given. For the purposes of this paragraph, such valuation shall be the net amount at which an asset stood in the company's books at the commencement of this Act after deduction of the amounts previously provided or written-off for depreciation or diminution in value, and where any such asset is sold, the amount of sales proceeds shall be shown as deduction."

Prior to the amendment in 1961, the normal practice followed by companies in case where the original cost of an asset could not be ascertained, was to show such asset along with other assets under a single designation "At cost or Book Value".

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The Research Committee is of the opinion that as the law stands at present there is no need to show separately, under each heading, the total value of assets shown at net book value. The Committee feels that the requirements of the Act would be satisfied if under each asset heading, with appropriate description, an aggregate figure is shown embodying both cost and net book value. The position is illustrated as under:

Illustration:

At cost	- - - - - - - -
Less – Sale Proceeds	- - - - - - - -
	X X X
Add – Additions	- - - - - - - -
Less – depreciation to date	- - - - - - - -
	X X X X

In the above illustration, the term "At cost" will include net book value as on 1st April, 1956 in respect of those items for which cost could not be readily ascertained. The term "sale proceeds" means the whole of the amount realised by sale of those items in respect of which cost is not ascertainable and cost in case of other items. In such a case the term "At Cost" should be applied to "book value" in respect of assets acquired before 1-4-1956 and "at cost" in other cases.

It is not necessary, where an item of assets is a mixture of "at cost" and "at the net book value standing in the books of the company as on 1st April, 1956" to show the two figures separately.

The management of the companies should take every possible step to ascertain the written down value with reference to the original cost for the purposes of adjustment of assets, sold or disposed of. Where this is not possible, an attempt should be made to work out a reasonably approximate figure with reference to old records and in such cases, the adjustment should be made with reference to such figures. In those cases where even such approximate written down values cannot be determined owing to the asset being very old, the asset may be considered as fully written off or the sales proceeds may be shown as a deduction from the book value of the block of assets concerned as permitted by law. However, before making any such adjustment on the sales proceeds, due consideration should be paid to the following factors:

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(a) If there are good reasons to believe that the sale price contains a large element of profit, an attempt should be made to isolate such profit component even on an approximate basis before making the adjustment;

(b) If on the other hand, there are good reasons to believe that there is a shortfall, the approximate amount of such shortfall should be written off in the year in which the asset is sold or disposed of.

The addition or deduction, aforesaid, need not be shown as distinct items; these can be shown merged with other additions and deductions during the year. The value derived after such addition or deduction would constitute the cost of the assets concerned in respect of which the adjustments were made.

The above recommendations should, therefore, be borne in mind for the purposes of presentation of the final accounts of companies.

This note replaces the recommendation published in "The Chartered Accountant", April 1962, p. 371.