Accounting Standard 10-(AS-10)
Accounting for Fixed Assets

Fixed assets are grouped into different categories such as land, building, furniture and fittings, patents etc. AS-10 deals with the accounting of such items in the financial statements with a few exceptions.

The standard does not include accounting of the following categories of fixed assets:

- Forests, plantations and similar regenerative natural resources
- Wasting assets
- Expenditure on real estate development and
- Livestock

Depreciation accounting is not dealt with under this standard but under Accounting Standard-6. Treatment of subsidies and government grants is likewise dealt with under a separate standard.

The following terms are used in the standard and defined as follows:

- **Fixed asset** is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

- **Fair market value** is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

- **Gross book value** of a fixed asset is its historical cost or other amounts substituted for historical cost in the books of account or financial statements. When this amount is shown net of accumulated depreciation, it is termed as net book value.

Fixed assets usually form a significant value of the total assets of the enterprise. It is therefore important that same is presented correctly. Classification of fixed assets is very crucial. Transactions should be analysed to determine whether it is of capital nature or not. This classification impacts the value of fixed assets and materially the financial statement.

On analysis, a transaction strictly could get classified as a fixed asset but it may be expensed for other reasons. For instance, when spares are used infrequently for different machines, it can be capitalized and charged off over a period of time. On the other hand if spares are of a low value they can also be expensed.

Standby and servicing equipments are generally capitalized. A component of a machine can be added to the cost of the machine if it is expected to enhance the life of the machine and last as long as the machine. However if the component is expected to have a shorter life, it can be treated as a separate asset item and depreciation accordingly.

Cost of an asset

The historical cost of the fixed asset is its purchase price including any taxes, duties and excluding any discounts or rebates. Other costs that have to be incurred to bring an asset to its location and make it operational have to be added to the cost of the asset. Such costs typically include items such as site preparation, transportation, handling or installation. If professional fees are paid to architects and engineers, they also form part of fixed asset cost. Administrative costs are generally excluded unless proved otherwise. Costs prior to commercial production like test runs are normally capitalized.

If there is a delay in the date for starting commercial production though plant is ready for the same, expenditure incurred is sometimes capitalized and amortized over a 3 to 5 year period. Expenses incurred after commercial production starts is treated as revenue expenditure.

Fixed assets can be acquired for consideration other than cash. If shares or other securities are issued in exchange for an asset, the value of securities issued is deemed to be the cost of the asset. If however an asset is exchanged for another, the net book value of the asset given up can be considered as the cost of the new asset.

Retirement or Disposal

Once an asset is disposed, it is removed from the financial statements. When however, an asset is no longer expected to be used and awaiting disposal, it cannot be removed from the books. It is stated at lower of net realisable value and net book value. The expected loss has to be recognised in the profit and loss account immediately and a separate disclosure made in the financial statements.

Sometimes assets can be re-valued at some point and a revaluation reserve created for the same. When such assets are disposed, the difference between the net proceeds and net book value is set off first against any credit lying in the revaluation reserve. After such adjustment the unutilised credit in the revaluation reserve has to be transferred to general reserve.

Valuation of Fixed Assets in special cases

Assets purchased under a hire purchase agreement do not give the purchaser clear title of the asset till all instalments under the agreement is paid. Such assets are recorded at total cash price though the enterprise does not have ownership of the same. The interest is appropriately calculated and added to the cost price. For the unpaid amount the corresponding liability is created. Depreciation is charged on the full value of the asset. The fact that such an asset is under a hire purchase agreement has to be disclosed in the financial statements.

For assets with joint ownership, the extent to which the enterprise has ownership, are recorded in the books. It can be grouped with other assets of the same category that have complete ownership. In the fixed asset register, the joint ownership details can be mentioned.

Sometimes consideration is paid for several assets together where individual cost of assets is not available. In such cases cost of each type of asset is determined by a valuer.

Goodwill is recorded in the books only when it is acquired and a consideration paid for it. Self-generated goodwill is not recorded in the books. Goodwill acquired should be written off over a period of time but often enterprises avoid doing the same.

Disclosure

The standard requires the following mandatory disclosures:

- Gross and net book value of fixed assets at the beginning and end of the accounting period, with additions, deletions, acquisitions and other movements
- Expenditure incurred during construction or acquisition of an asset
- If revaluation was carried out, the re-valued amount, the basis of revaluation and if any external re-valuer was appointed

AS-10 is a mandatory standard and applies to accounting and disclosure of fixed assets in financial statements. The standard defines fixed assets. It states what comprises its cost and deals with valuation in special cases. It also gives the accounting treatment at the time of retirement or disposal of an asset.

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