



Ref. No.:

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CORE CONCEPT OF
CORPORATE ACCOUNTING

Example:

A company measures an intangible asset at fair value. The asset was revalued upwards by ₹ 40,000 in 2017. At the end of 2018, the asset is valued again and a downward revaluation of ₹ 50,000 is required. How is the revaluation accounted for ?

Solution

In 2017, there is a revaluation surplus of ₹ 40,000. It should be directly credited to equity under the head revaluation surplus, i.e., in the balance sheet. The entry is :

Intangible asset	Dr.	₹ 40,000	
			To Revaluation Surplus
			₹ 40,000

The downward revaluation (revaluation decrease) of ₹ 50,000 in 2018 can first be set off against the revaluation surplus of ₹ 40,000. Now the revaluation surplus is reduced to 0 and ₹ 10,000 should be treated as an expense (in the income statement or statement of profit and loss) in 2018. The entries are :

i) Revaluation surplus	Dr.	₹ 40,000	
			To Intangible asset
			₹ 40,000
ii) Amortisation (in the income statement)	Dr.	₹ 10,000	
			To Accumulated amortisation
			₹ 10,000

Note : The decrease shall be debited directly to revaluation surplus (in equity) to the extent of any credit balance existing in the revaluation surplus in that specific asset.

Elimination of intangible asset

An intangible asset should be eliminated from the balance sheet when it is disposed of or when there is no further expected economic benefit from its future use. On disposal, the gain or loss should be taken to statement of profit and loss as gain or loss on disposal, i.e., it should be treated as income or expense.



Useful life

An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Intangible assets with finite useful lives

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.



- a) Training costs
- b) Relocating or reorganizing costs.

Initial measurement

After intangible assets have been first recognized. They are to be measured. They should be initially measured at cost. But Subsequently, they can be carried at cost or at a revalued amount.



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