**Revaluation of Fixed Assets**

The revaluation of fixed assets is the process of entering the value of a company’s assets in the account at their true market value. During periods of price increases, particularly on the open market when property prices are rising rapidly, the market value of an asset is likely to be more than what the asset would have cost the business initially. In order that the accounts of the business show a true and fair view, this market value should be incorporated into the accounts of the business.

Revaluation shows the asset at its new value, which is useful because:

* It provides useful information to the users of accounts
* Enables performance ratios to be calculated more satisfactorily

Assets once revalued must then be depreciated based on the revalued amount.

**The Accounts**

The accounts required for the revaluation of fixed assets are

* The asset account
* The provision for depreciation account
* The disposal accounts
* The revaluation reserve account
* The revenue reserve account
* Relevant extracts for profit and loss account and balance sheet.

**Entries for Revaluation**

* Debit the asset account
* Credit the revaluation reserve account (with the increase in value)
* Debit the provision for depreciation account
* Credit the revaluation reserve account (with total depreciation charged on the asset)

When a revalued asset is disposed of:

* Debit the revaluation reserve
* Credit revenue reserve account (with total amount relating to the asset)

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| --- | --- | --- | --- | --- | --- |
| **Asset Account ( always cost or revalued price)** | | | | | |
| Dr |  |  |  |  | Cr |
| Date | Details |  | Date | Details |  |
| Y1 | Bal b/d | Xx | Y1 | Disposal (if any) | Xx |
| Y1 | Increase if revaluation takes place | Xx | Y1 | Bal c/d | Xx |
| Y1 | Any new assets or extensions at cost price | Xx |  |  |  |
|  |  | Xx |  |  | xx |
| Y2 | Bal b/d | Xx |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Provision for Depreciation Account** | | | | | | | | | |
| DR | |  | |  |  |  | | CR | |
| Date | | Details | |  | Date | Details | |  | |
| Y1``` | | Transfer bal to revaluation ac if revaluation takes place | | Xx | Y1 | Bal b/d | | xx | |
| Y1 | | Transfer depreciation on asset sold to disposal a/c | | Xx | Y1 | Charge for year | | Xx | |
| Y1 | | Bal c/d | |  | Y1 |  | |  | |
|  | |  | | xx |  |  | | Xx | |
|  | |  | |  |  |  | |  | |
|  | |  | |  | Y2 | Bal b/d | | Xx | |
|  | |  | |  |  |  | |  | |
| **Revaluation Reserve Account** | | | | | | | | | |
| Dr |  | |  | |  | |  | | CR |
| Date | Details | |  | | Date | | Details | |  |
| Y1 | Transfer to revenue reserve amount in the revaluation reserve to date for revalued asset | | Xx | | Y1 | | Increase in value of asset from asset account | | xx |
| Y1 | Bal c/d | | Xx | | Y1 | | Depreciation to date on the asset revalued | | Xx |
|  |  | | xxxx | |  | |  | | xxx |
|  |  | |  | |  | |  | |  |
|  |  | |  | |  | |  | |  |

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| **Disposal Account** | | | | | |
| Dr |  |  |  |  | Cr |
| Date | Details |  | Date | Details |  |
| Y1 | Cost of or revaluation value of an asset sole | Xx | Y1 | Depreciation to date on any asset sold | xx |
| Y1 | Profit on sale if any | Xx | Y1 | Any proceeds from the sale of fixed assets | Xx |
|  |  |  |  | Loss on sale if any | Xx |
|  |  | Xx |  |  | Xx |
|  |  |  |  |  |  |

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| **Revenue Reserve Account** | | | | | |
| DR |  |  |  |  | CR |
| Date | Details |  | Date | Details |  |
|  |  |  | Y1 | Amount in revaluation reserve to date on asset disposed of | xx |

|  |  |  |
| --- | --- | --- |
| **Profit and Loss Extracts** |  |  |
| **Expenses** |  |  |
| **Administration** |  |  |
| Loss on sale of assets |  |  |
| **Add other income** |  |  |
| Profit on sale of fixed assets |  |  |
|  |  |  |

**Balance Sheet Extract**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Cost** | **Agg. Dep** | **Net Book Value** |
| **Fixed Assets** |  |  |  |
| Premises | Cost or revalued price | Depends on date of revaluation | Xxx |
| **Financed By** |  |  |  |
| **Capital and Reserves** |  |  |  |
| Revaluation Reserve |  |  |  |
| Revenue Reserve |  |  |  |