Ind AS

Worked Example

Calculation of Total Comprehensive Income when there are different Fair Values in subsequent years

Worked Example

Ind AS 16 – Calculation of Total Comprehensive Income when there are different Fair Values in subsequent years

INTRODUCTION

Revaluation is the recording of an asset (ie, an item of property, plant and equipment) at its fair value. It is a process of placing a different valuation on the asset from its carrying amount. Revaluation of assets take place either because they have increased or decreased in value (ie, become worth more/less than before) or because factors external to the business unit have made the values on the face of the Balance Sheet unrealistic. When revalued, an item of property, plant and equipment is carried at a revalued amount, being the fair value at the date of revaluation *less* any subsequent accumulated depreciation and accumulated impairment losses.

If there is an increase in the carrying amount of an item of property, plant and equipment as a result of revaluation, the increase shall be recorded in Other Comprehensive Income and accumulated in equity under the heading 'Revaluation Surplus.' A deferred tax liability is created in Other Comprehensive Income, which is the difference between the carrying amount and the tax base of the asset *multiplied* by the income tax rate. The effect is that Revaluation Surplus is shown in Other Comprehensive Income, net of tax.

SCENARIO

Profit before depreciation CU 100 per year. Asset CU 100. Income tax rate 40%. Depreciation (SLM) – Financial 20%, Tax 25%. Fair value – CU 100 at the end of year 1; and CU 60 at the end of year 3.

Statement of Profit and Loss and Other Comprehensive Income (CU)

Year	1		2		3		4		5	
Profit before depreciation		100		100		100		100		100
Depreciation		20		25		25		30		30
Accounting Profit		80		75		75		70		70
Tax expense –										
Current tax	30		30		30		30		40	
Deferred tax expense / (liability)	2	32	–	30	–	30	(2)	28	(12)	28
Profit for the Period		**48**		**45**		**45**		**42**		**42**
Other comprehensive income										
Revaluation surplus (net of tax)		12				6				
Total comprehensive income		**60**		**45**		**51**		**42**		**42**

Statement of Changes in Equity (CU)

Year	1	2	3	4	5
Revaluation surplus					
Opening balance	–	12	9	12	6
Created	12	–	6	–	–
Transferred to retained earnings	–	(3)	(3)	(6)	(6)
Closing balance	**12**	**9**	**12**	**6**	**–**

Current Tax (CU)

Year	1 to 4	5
Profit before depreciation	100	100
Depreciation allowed	25	–
Taxable profit	75	100
Current tax @ 40%	**30**	**40**

Deferred Tax Liability (CU)

Year	1	2	3	4	5
Opening balance	–	10	10	14	12
Created through –					
Profit or loss	2	–	–	–	–
Other comprehensive income	8	–	4	–	–
Reversed through profit or loss	–	–	–	(2)	(12)
Closing balance	**10**	**10**	**14**	**12**	**–**

Carrying Amount of the Asset (CU)

Restated proportionately

Year	1 Revaluation increase			2	3 Revaluation increase			4	5
Gross block	100	→	125	125	125	→	150	150	150
Accumulated depreciation	20	→	25	50	75	→	90	120	150
Carrying amount	80	→	100	75	50	→	60	30	–

Eliminated against Gross Carrying Amount **(CU)**

Year	1 Revaluation increase			2	3 Revaluation increase			4	5
Gross block	100	→	100	100	100	→	60	60	60
Accumulated depreciation	20	→	–	25	50	→	–	30	60
Carrying amount	80	→	100	75	50	→	60	30	–

Tax Base of the Asset **(CU)**

Year	1	2	3	4
Gross Block	100	100	100	100
Depreciation allowed	25	50	75	100
Tax base	**75**	**50**	**25**	**–**