

## REVALUATION ACCOUNTS

Revaluation of asset can be seen as a way of re-assessing or revaluing assets in order to show their current value. In revaluation of assets, it is important to employ an expert who will revalue the assets and show their current replacement value. Revaluation of assets is necessary because some assets may have appreciated in value while others may have been over or under depreciated. In such case, a revaluation account must be opened and the difference in values are posted. When there is increase in assets value, the revaluation account will be credited. And increase in value of asset will be debited to the revaluation account.

### ILLUSTRATION 1

Below is the balance sheet of Tall and Short. They have been operating as partners for many years sharing profits and losses equally.

Dr	Balance sheet		Cr
Capital	#	Fixed Asset	#
Tall	80,000	Premises	75,000
Short	80,000	Plant and mach	60,000
Current Account		Current Assets:	
Tall	12,510	Stock	38,500
Short	8,340	Debitors	15,300
Current Liabilities		Cash at bank	11,700
Creditors	<u>19,650</u>		
	<u>200,500</u>		<u>200,500</u>

On the date of the balance sheet, the partners decided to admit small into the partner in the following condition:

1. Small is to bring capital of #40,000 for one fifth, share of profit with additional #10,000 all in cash for his future share of goodwill.
  2. The assets are to be revalued as follows :
 

Plant & machinery	45,000
Stock	32,500
Premises	100,000
  3. Provision of #1800 for the bad debt.
- Required to prepare:
- a. Revaluation Account
  - b. Capital Account and
  - c. Balance sheet ( Revised )

### SOLUTION

- i. Preparation of revaluation account

Dr	Revaluation Account	Cr
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Decrease in value of assets		#	Increase in value of assets		#
Plant \$ Machinery		15,000	Premises		25,000
Stock		6,000	Goodwill		10,000
Bad debts		1,800			
Share of profit					
Tall	6,100				
Short	6,100	<u>12,200</u>			
		<u>35,000</u>			35,000

ii. Partners Capital Account

	Tall #	Short #	Small #		Tall #	Short #	Small #
Balance c/d	86,100	86,100	40,000	Balance b/d	80,000	80,000	-
				Cash	-	-	40,000
				Share of profit	6100	6,100	-
	<u>86,100</u>	<u>86,100</u>	<u>40,000</u>		<u>86,100</u>	<u>86,100</u>	<u>40,000</u>

iii. Preparation of new balance sheet

Revised Balance Sheet as at 1/1/2007

Capital	#	#	Fixed Assets	#	#
Tall		80,000	Premise		100,000
Short		80,000	Plant \$ machinery		45,000
Small		40,000	Goodwill		10,000
Current Account			Current Assets:		
Tall	18,610		Debtors	15,300	
Short	14,440	33,050	Less: Bad debts	1800	13,500
Current Liab:			Cash at bank		51,700
Creditors		<u>19,650</u>	Stock		<u>32,500</u>
		<u>252,700</u>			<u>252,700</u>

Workings :

1. Share of profit :

$$\text{Tall} = \frac{1}{2} * 12,200 = \text{\#}6100$$

