CHAPTER 20

Amount standing in revaluation reserve [Clause (j)]

20.1 INTRODUCTION

Clause (*j*) of *Explanation 1* of section 115JB(2) of the Act has been substituted for the words "if any amount referred to in clauses (*a*) to (*i*) is debited to the profit and loss account, and as reduced by,-" by the Finance Act, 2012 with effect from 1-04-2013 i.e. applicable from assessment year 2013-14 and onwards. Clause (*j*) reads as below:

> "(j) *the amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such asset.*"

20.2 MEMORANDUM EXPLAINING THE FINANCE BILL

The objective of bringing clause (*j*) can be understood from memorandum explaining the Finance Bill, 2012. In this regard, excerpts of the same has been provided as hereunder:

> *"It is noted that in certain cases, the amount standing in the revaluation reserve is taken directly to general reserve on disposal of a revalued asset. Thus, the gains attributable to revaluation of the asset is not subject to MAT liability.*
>
> *It is, therefore, proposed to amend section 115JB to provide that the book profit for the purpose of section 115JB shall be increased by the amount standing in the revaluation reserve relating to the revalued asset which has been retired or disposed, if the same is not credited to the profit and loss account."*

By virtue of above clause (*j*), adjustment by way of add back in book profit is required to be made if the amount standing in revaluation reserve relating to revalued asset on the retirement or disposal of such asset is not credited to the statement of profit and loss account. The following conditions should be precedent for invoking the adjustment by way of clause (*j*) while reckoning the book profit as per section 115JB of the Act:

(*i*) It should be retirement or disposal of the asset which were revalued at any point of time. Meaning thereby, the retirement or disposal of the revalued asset should be on or after 1st day of April, 2012, it does not matter that the asset was revalued on or before 1st day of April, 2012 or subsequent to the said date.

(*ii*) There should be some outstanding amount in revaluation reserve in reference to the assets which were revalued. Thus, the amount standing in revaluation reserve related to the revalued asset which is retired or disposed of is required to be added back, but not the entire revaluation reserve.

(*iii*) The outstanding amount referred in point (*ii*) above is not credited in the statement of profit and loss.

Objective of clause (*j*) can be well understood by way of following Illustration mentioning the situation before insertion of clause (*j*) and after insertion of clause (*j*):

Let's suppose that any asset has been purchased during the financial year 2008-09 for amounting to INR 1 Crore. The said asset has been revalued at INR 2.5 Crore during the financial year 2009-10 and sold during the financial year at INR 3 Crore.

◆ **Illustration:**

(*i*) Original cost of asset : INR 25,00,000

Journal entry at the time of purchase of asset:

Fixed Asset	Dr.	25,00,000
Bank	Cr.	25,00,000

(*ii*) Cost after revaluation of asset : INR 2,00,00,000

Journal entry at the time of revaluation of asset:

Fixed Asset	Dr.	1,75,00,000
Revaluation Reserve	Cr.	1,75,00,000

(*iii*) Sale of asset on 31-03-2012 : INR 2,50,00,000

Journal entries at the time of sale of asset:

Bank	Dr.	2,50,00,000
Revaluation Reserve	Dr.	1,75,00,000
Fixed Asset	Cr.	2,00,00,000
Profit and Loss Account	Cr.	50,00,000
General Reserve	Cr.	1,75,00,000

20.3 SITUATION BEFORE INSERTION OF CLAUSE (j)

Please note that effect of depreciation has not been considered in the above journal entries. On perusal of the above journals, it is clear that the amount outstanding in revaluation reserve has not routed through statement of profit and loss, and accordingly the same has not offered to tax for MAT liability.

20.4 SITUATION AFTER INSERTION OF CLAUSE (j)

Let's suppose the asset has been sold on 01-04-2012. Now the clause (*j*) will have to be considered. And accordingly, the amount outstanding in revaluation reserve relating to the revalued asset, which is not credited to the statement of profit and loss i.e. INR 1,75,00,000 is required to be added back in the book profit by virtue of clause (*j*) of *Explanation 1* to section 115JB of the Act.