REVALUATION RESERVE AND REALISED RESERVE

REVALUATION RESERVE :

The Concept of Revaluation Reserve must be analysed in its correct Perception. Revaluation Reserve must be considered pragmatically under the present scenario of Economic Consideration.

The normal accounting understanding of the Concept Of Revaluation Reserve is nothing but Valuation of Fixed Assets of an Undertaking at its Current Market Price or at its Realisable Value visa-vis its Book Value.

When the Fixed Assets are revalued at its Current Market Price and or Realisable Value, in the Books of Accounts of an Undertaking, the difference between the Current Valuation and Book Value is Debited to Fixed Assets and corresponding Credit is given the Revaluation Reserve Account.

Banks in India are adopting the aforesaid Concept as far as Valuation of their Fixed Assets comprising of Real Estates are concerned. But, the point of consideration underlines that the aforesaid Revaluation Reserve though created in the Books of Accounts, but is used only to set off Additional Depreciation arising on account of Revaluation of the Fixed Assets.

We would like to take the Concept in its Pragmatic Manner and Correct Perception as enumerated below :

1. The Valuation of Real Estate (Fixed Assets) of a Banking Company must be done as per the Reckoner Valuation as prescribed by Authorities from time to time;
   The Valuation must be supported and or backed up by Corresponding Insurance Coverage. This will ensure not only the Credibility of Revaluation of Real Estate but also supported by Insurance Coverage and in case of Contingencies (unforeseen events) Revalued Real Estate Figures are capable of its Realisation. The Cost of Insurance Premium is Rs.0.35 per Rupees One Thousand, which is

hardly a cost to Convert the Concept of Revaluation Reserve (mere book entry) into Realisable Value.

2. As far as Banking Companies are concerned, either in India or in Overseas are facing the problems of Bad Loans & Advances popularly known as 'NPA' – Non Performing Assets, which is perhaps the biggest headache not only for the Banking Companies but also for Reserve Bank of India and Ministry of Finance.

3. We would like to analyse the Concept of 'Loss' arising on account of NPA. The Provisional Loss arising on account of NPA is of two folds-
   (a) On account of Principal Amount of Loans and Advances, which of Capital in Nature just like at par with Fixed Assets (Real Estate) ;
   (b) On account of Revenue Nature which is nothing but Interest provided and credited in the Books of Accounts and

4. Looking at the overall Concept of Revaluation in its correct perception it is nothing but Valuation of Assets of Capital in Nature appearing on the Asset Side of a Banking Company.

   When the Revaluation Reserve (on Fixed Assets) is created and totally backed-up by Insurance Coverage, then the Possible Loss arising out of Capital in Nature – Principal Amount of Loans and Advances may be considered to be allowed to be set off against each other rather than to be set off against Current Revenue Profits of a BankingCompany.

   We agree that the Revenue Loss (possible loss of Non-Realisable Interest) must be set off against the Current Revenue Profits of a Banking Company.
5. The Current Profits are then available for Declaration of Divided and the benefits of Dividend Declaration adds to Additional Sources of Fund as far as Budgetary Proposals are concerned.

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