Buildings
Vechicles
Land

Factory / Industry for which Property & Equipment needed

machinery.

AS-10 Property Plant & Equipment.

Assets

- Non current
  - Tangiable AS-10
  - Intangiable AS 26
- current Assets
  - Inventories (AS 2)

Earlier AS 6 : Depreciation Accounting
AS 10 : Accounting for fixed Assets.

later AS6 → Withdrawn and merged in AS-10 & renamed PPE

Objective: R, m, P & Disclousre with respect to
I. Purchase of PPE, Retirement & Disposal of PPE
II. Depreciation - usage of PPE

Scope: Non-Applicability.

- Any PPE dealt with Spacific AS (Ex AS 19 leases)
- Renewable & Non Renewable Resource.

→ Agriculture products
→ Forest Products
→ Live stock
→ Biological Assets (Living animals/Plant)

→ Wasting Assets
- mines/minerals
- coal
- Gas
- Petroleum/oil

Exceptions (AS-10 ✓)

① For Extraction of Resources
② For doing agriculture
③ Bearer plant

} If any PPE are used then AS-10 ✓

↓

3conditions

- Life span >12m
- Should produce agriculture produces, like fruits, seeds, flowers and leaves
- Remote likelyhood to sell the plant except as a part of scrapsale.

③ Definitions

PPE - life span >12 months
used for → Production/supply of Goods & Servic
→ For Rentals
→ Administrative Purpose

Administrative purpose includes

① Selling & distribution
② Finance & Accounting
③ Office purpose etc.

Note①

PPE → not only direct future Economic Benefits but also indirect future economic Benefit.
★ Eg: Safety measures & enviromental protection etc.

② For them PPE which are used for giving rentals like investment property.

AS 13 → Applicable in full
AS 10 → only cost model is Applicable.
Revaluation model is not applicable.

⇒ Income & related expense of incidental operations are recognised in P&L A/c

Recognition & measurement

Recognition

- Initial Recognition (For 1st time)
  - Modes of Acquisition
    - cash/credit
    - EOA
    - IOS
    - Self constrint ⇒ CP ↓ material C.C
- Subsequent Recogni (@ End of the year / B/Sdate)

(i) Items acquried for cash/credit

↓

@ cost price

↓

Purchase price + Direct Expense.

↓

Price stated in invoice.

PP includes

1) Quoted price
2) Trade Discount & volume Rebate (TD & VR) etc
3) Taxes (RT & NRT)

\- +

Quoted price

\+ NRT

\- RT (if included)

(-) Trade discound / volume Rebate / Qty discount.

Direct Expense: Exp's directly related to Acquision & Installetion of PPE

Incorporation

112.

CQ:3 The treatment followed by the company is not correct as per AS-10, this excludes biological assets from scope of AS 10. Therefore, Depreciation accounting is not applicable to livestock.

Also a new AS on Agriculture is under development once the standard releases on agriculture even livestock shall be dealt as per respective Standard.

Direct Expense

Consider

1) carrying cost (Carraige inward / Frigh)
2) loading & unloding charges
3) Employee cost / Professional fee to labour
4) Assembling cost (Nuts & Bolts)
5) Site preparation cost
6) Installation fees
7) Testing cost (net of sale proceeds)
8) (-) Govt grants
9) + Borrowing cost (QA - Satisfies - AS16)

Ignore (not DE)

1) Borrowing cost (QAX)
2) General Adm. Exp's (Except related to installation)
3) Selling & distribution Exp
4) Finance & Accounts
5) Initial operating losses
6) Inefficiency → P&L
7) Inauguration Expenses
8) Avd & Promotional Exp's
9) R&D → AS 26
   ↓
   cost of development of new plant
10) Borrowing cost → QAX → Charge
11) Training
12) Relocation Exp

IF you incur Exp

FEB ↑ → capitalized

FEM (maintained) → charged to P&L A/c

COST OF PPE = Purchase Price + Direct Expense + PV of Decommissioning & Resoration
↓ Refer NoteBook 20.7

20.9 Commercial substance
↓ 2 conditions
① configuration should significantly difference large.
↓ b/w OA & NA
Old New Asset.

should be different
- Risk
- Nature
- Timeing
- cash flows

10 (m) exchange 20 (m) machine CS ✓
nothing is mentioned

laptop exchange DESKTOP CS ✗
not significantly different

② Enterprise specific value of portion of operations
Shoucd significantly differ from OA to NA.
↓ Post Tax cashflows

cash flows after tax of machinery furniture

EOA
*By P&L xx
NEW Asset CFV
Cash/Bank ✓
TO old Asset BV
TO cash/Bank ✓
*TO P&L xx

CRD-6

P&m (FV) = 25L
cash = 20L

land BV 10L
FV

P&m	25L	
cash	20L	
TO land		10L
TO P&L		35L

CRD-7

cary FV 13,10,000
cash 15K

CS ✗

car x BV = 13L
FV = 13,25,000

★cary	12,85,000	13L
cash	15,000	
TO car x		13,00,000

AS-2

Private jet FV = 20m

CS ✓

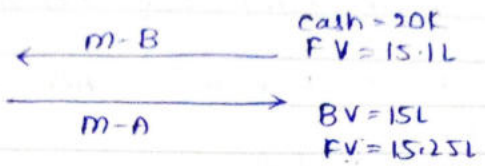
L&B BV = 10m
FV = 15m
cash = 3m

Private Jet ~~15m~~ ~~20m + 15m = 16m~~

TO L&B	10m
TO cash	3m
★ TO P&L A/c	5m

AP-3

CSX



MB 14.8 L
cash 20L
TO MA 15L

diff Transfer to (SP) securities preimum

✓ Issue of shares (IOS)

PPE acquired by Way of ISSue of shares.

NA @ Face value of shares issued (not given means)
Then Face value of shares issued

20.9. SP-CQ9

Face value = 10₹
Fair value = 15₹
no of shares = 60,000

Ans machinery A/c Dr 9L
TO Share capital 6L
TO securities preimum 3L

PPE @ consolidated price

shirts 600 } 6:9
Pants 900
1500 → bargain
1000
600 400

M1
M2
M2

single Negotiable price/consolidated price
allocated to all the assets in accordance with
F.V (A) acq as on DOA.
↓
TS not available

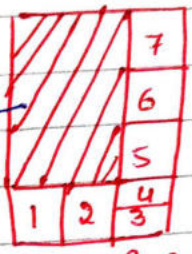
20.18 Component Wise Accounting (CWA)

In case of Asset having different life spain

means part wise depreciation

↓

means part wise accounting is done.



Reminder of Assets.

Insignificant parts

(main parts)

significant parts (components)

machine

Ex theatre.

Building AC
Projector
~~Land~~
Furniture

} Different life so (CWA)

To cash

CWA (✓/✗) → decides by management. (any one)

basis ① life spain

If different ② Pattern of Generating of FEM [Depreciation WDV/SLM]

any 1 satisfy enough ③ other factors. (Availability of components and Ascertainment of fair value)

Ex

Aircraft < Body - 5-7y SLM
Engine - 10-15y WDV

} CWD ~~WDV~~ ✓

Differed credit period → Post poned credit period

- Creditors general cr policy — ≤ 12m
- But, due to some good relation b/w crs & Business concern

cr period offered > general cr period

A/cing in case of DCP

- Assets purchased = 1L
  - GCP = 2m
  - DCP = 2 yrs

1L —— 2y ——→ 1L
PV ———————— FV

(side sketch: PV ↔ FV, 1L; 1L → PV, ? Int)

To get genuinity of Transaction
→ Future value includes intrest

PV ← Bring — FV

FV − PV = Intrest → Dealt by AS16.

- QA ✓ → capatalize
- QA ✗ → charge

Eg : m Purchased (1L) CP = 2yrs ROI @ 10% pa

$1L \times \frac{1}{(1+0.1)^2}$

FV = 1L

PV 82,645 —— B/F 17,356 → Int

		Dr	Cr
0 (ining)	Machinery A/c Dr	82645	
	To creditor for asset		82,645
(end)	P&L A/c	8264	
	To Intrest		8264
	Int	9092	
	To creditor.		9092
	P&L A/c	9092	
	To intrest		9092

Due entry
Int 8264
To creditor 8264.

Ya end Cr's for Asset A/c Dr 1L
To Cash / Bank 1L

Expenditure

Initial expenditure

@ purchase / installation

↓

To bring the asset to present condition / current condition.

↓

capatilied

(If it is not directly related to acq / installation → charged)

Subsequent expenditure

↓

After Ready to use but before actual use (blw RTU & AU)

↓

charged

↓

maintain FEB

After Actual lease

↓

IF FEB ↑ capitalize

FEB (maintain) charge

abnormal

Purchase of PPE = 10L

Due to improper loading = 1L (before installation)

of machinery part

Installation Exp = 50K

CP(PPE) 10,50,000

Subsequent Expense

↳ major inspection ~ Always capitalise

① not a minor inspection

② Inspection done for the entire Asset inorder to get work (or) FEB

comprehensive inspection

- oil refinary
- Air crafts
- central AC unit

} major inspection.

Replacements

↓

of worn out part

↓

maintaing future economic benefits expense

↓

charged.

Exception

If it ↑ FEM → capatilise

Replacement of Asset

↓

new asset capatilised but before capitalizing derecognizing old Asset

↓

sell

charged to P&L A/c

Replacement of compo of Depts

↓

new com Capitalised but, BV of old component should be derecognised

Note purchased an Asset along with component → CMD (Individual component Accounting.

Management decided not to follow component wise accounting as fair value of component is unacertainable

Eg After 7 years

Asset + component

↓

Fair value ascertainable

Before 7y

PV of (fair value)

Depreciation for 7yrs → BV of (component

Re major inspection

Asset major inspection

11 + 10k

After 2y

BV

A 30k + ~~3k~~ I → derecognise old MI

+ 5k New MI → capatalise

CQ-8 20:10

① Oil refinary + major inspection = 10L + 2L
life 12y + 12y

Depreciation = 83,333 (A) + 16,667 (MI) = 1L

2) BV corginal = 10L + 2L

(-) Dep 8yers = 6,66667 + 1,33,336 = 8L 4L
(F)

BV after 8 yrs = 3,33,333 + 66,664

↓ Old MI Deregonise ⇒ charge to P&L

+ New major inspection cost (captalize)
55,000

= 3,33,333 + 55,000

Revised life 6y 6y.

Revised Dep pa = 33333/6 + 55k/6

= 55,556 + 9166

Revised BV @8th year = 3,33,333 (A) + 55000 (MI)

(-) Dep of 9th yr = (55 556) + (9167)

Revised BV after 9th yr = 2,77,780 + 45833

3,23,613

...ion of a company?

...E FORMATION OF A COMPANY [SEC 3]'

(Sec 3(1))

Incorporation

Not applied to Investment property.

Revaluation → (Optional / Mandatory)

AS-10 → RT / RV (Prudence concept is not violated doesn't applied)

not routed to P&L A/c

not violating prudence concept.

→ How many times?

As many times, provided That there must be significant difference blw BV & Revalued value.

AS 10: There is no significant diff + atleast once 3-5 year

Who will revalue?

Asset having

Active market	No Active market
↓	↓
Field expert officer (or) certified valuer	Management
[If management have knowledge of field expertise - X FEO/CV]	↓
↓	We can't sell
Directly management will do revaluation.	↓
	Replacement cost
	↓
	Optimum depreciation replacement cost method (DDRC)

In active market

Market Based Appraisal model (MBAM)

Based on verification of market

Realisable value / Fair value.

when you can't sell or can't replace

↓

Income Approach

Discount CF M

in other words,

Capitalization method

↓

$V = \frac{\text{Income (I)}}{\text{Rate of Return (ROR)}}$

Factors of Revaluation

1) Date of purchase
2) Usage of asset
3) extent of usage
4) Repairs & maintainance policy (overhauling)
5) Realizable value.
6) Availability of stores & spares.
7) Ascertainment of fair value

Rules of revaluation

1) single asset cant be revalued
2) If you want to revalue you must revalue entire class of asset.
3) All the assets no need to be revalued.

Accounting treatment [JE]

1st Rev - R↑ = 100

asset A/c Dr 100
To Revaluation surplus 100

Subsequent revaluation ↑20

Asset A/C Dr 20
To Rev - surplus 20

Subsequent revaluation ↓40

Revaluation surplus 40
To Asset A/C 40

Subsequent revaluation ↓ 100

Revaluation surplus Dr 80
P&L A/C 20
To Asset Asset 100

Sub Rev ↓50

P&L A/C Dr 50
To Asset 50

Sub Revalu ↑ 25

Asset A/c Dr 25

To P&L A/c 25

Sub Rev ↑ 85

Asset A/c 85

To P&L A/c 45

To Rev Sub 40.

1st time Rev ↓ 100

P&L A/c 100

To Asset 100

Subsequent Rev ↓ 20

P&L A/c 20

To Asset 20.

Subsequent Rev ↑ 40

Asset A/c Dr 40

To P&L 40

Subsequent Rev ↑ 105

Asset Dr 105

To P&L 80

To Rev Sub 25.

Techniques and methods of Revaluation.

CP (PPE) = 1000 → Dr

(-) Accumu Dep = 400 → Cr

BV 600

FV = 1500

Method-1 elimination method

Step-1 : eliminate Acc Dep

Accumulated Dep A/c Dr 400

To PPE 400

- Revised value of PPE = 1000 - 400 = 600
- Revised value of Acc Dep = 400 - 400 = 0

900 ↑

Now Asset balance ↑ to 1500

Step-2 Revaluation of Asset

Rev ↑ asset (BV) = 600

↑ Revalue = 900 (B/F)

Asset (RV) 1500

PPE A/C Dr 900

To Rev surplus 900

Method-2 Proportional Method

Cost Price = 1,000	?	2500	∵ 600 – 500
(-) Accumulated Dep = (400)	?	(1000)	1000 – ?
BV → 600 →		1,500	

Revaluation ↑ ① For Asset

PPE A/C Dr 1500

To Revaluation Surplus A/C 1500

[2500 – 1000]

② For Accumulated Dep

Revaluation Surplus. Dr 600

To Accumulated Depreciation 600

(1000 – 400)

method-1

Rev ↓ (Tr) For Asset

P&L

To Asset

For Acc Dep

ACC DEP A/C Dr

To P&L A/C

When can be This Revaluation Reserve Closed ?

method-1

RS	20K	MAC 1L
		(+) ↑ Rev 20K
		1.2L

TO close Revaluation Surplus

When asset is disposed off → TIF TO "General Reserve"

Revaluation Surplus Dr
TO General Reserve A/C

Method-2 In proportion with asset balance in the method of depreciation followed every year

		mac	IL
RS	-20K	(t)↑R	20K

life = 10 years

		mach	1.2L
RS	20K		
(-) 20K/10K	2K	(-) Dep	(12K)
	18K		1.08L

R&S A/C Dr 2K
TO P/L / GR A/C 2K.

Subsequent Recognition

Cost model

CP (PPE) XXX (IR)
less: ACC Dep (XXX)
less: ACC IL (XXX)
Carry / BV Amt XXX

Revaluation model

Rev (PPE) XXX
less: Rev ACC Dep (XXX)
less Rev ACC Impair loss (XXX)
carrying Amt XXX

↓

Rev surplus → liability

↓

(Note 2) (R&S)

Depreciation

Systamatic allocation of depreciaoable Amt of PPE over the above its useful life.
(Estimation)

Pattern of generation of future economic benefits

- S/m
- WDV
- PUM
- MHR

Commencement (Start)

[Ready to use/ Available for use]
↳ Cost Acc standards

[Not on actual usage]

Cessation (Stop)

→ No FEB
→ Retired
→ Sold
→ land - no Dep
→ SV > BV = No need to prov Dep
→ GG > BV
→ L&B - together.
↓
Seperated as per AS-10
CMD appropriate.

Factors for providing depreciation

1. Historical cost price
2. Scrap value
3) useful life
4) Dep (I)
5) Rate of Dep

Methods of depreciation:

SLM → constant rem
WDV → reducing rem
PUM → based on production
MHM → based on usage of PPE

How much?

proportionately (Period of usage)
To the extent of usage

At what Rate? < Corporate entities → Schedule II of Sec 123 of companies Act & dep → life period (remain
Non corporate entities
↳ Management through professional Judgement.

★ Purchased Stores & spares

& if it satisfies def of PPE

If Stores & spares is seperately identifiable

Non-integral

Dep seperately.

✗ capitalised

If not seperately identifiable.

Integral

Specific to pa PPE

capitalised

+ Value of

16

If life of (PPE) > life (spare)
Then depreciation done separately
If life of (spare) > life of (PPE)
No seperate depreciation needed

Change in Accounting Estimate

If something is AP → change in something also - change in AP
If something is AE → change in something also - change in AE

Exemption

Method of depreciation → Accounting policy
change in method of depreciation → change in Accounting Estimate

Why?

Method of depreciation depends on Estimation
↓
pattern of generation of FEB

Estimations in AS-10

- Residual value
- life of Asset
- Revaluation
- change in method of Dep
- Impairment of losses
- value in use
- NRV
- Recoverable value.

} change in Acc estimates → Accounted prospectively

3) DeRecognition

Accounting Treatment

IE: Dep DR
TO PPE A/c

Clo Dep

Administrative purpose
Rental purpose
} P&L
To Dep.

Subsequent Price Adjustment (Advanced level)

Cost model	Effect on PPE	Revaluation model
PPE A/C Dr To creditor A/C	↑ in liability	Reval. surplus / P&L A/C Dr To creditor
creditor A/C Dr To PPE A/C	↓ in liability	creditor A/C Dr To Reserves & surplus A/C
PPE A/C Dr To C/B A/C	↑ Taxes & Duties	RS / P&L A/C Dr To cash / Bank A/C
C/B A/C Dr To PPE A/C	↓ Taxes & Duties	cash / Bank Dr To RS / P&L A/C

Impairment of Assets

CQ

CA = 100,000

Recoverable Amt — RA = Higher of Net selling Price & value in use

NSP = 85,000

VIU = 25000(0.909 + 0.826 + 0.751 + 0.683 + 0.621)

= 25000 × 3.79 → AF

= 94,750

CA = 1L

RA = 94,750

CA > RA → Impairment loss

IL = CA − RA

= 1L − 94750

= 5250

...esentation

CA = 1L

...mp loss = (5250)

...es 94750

...rrying Amt.