

# AS 10: Property, Plant & Equipment

## Meaning

Tangible items that are

- ★ held for use in production/supply/rental/administrative purposes
  - ★ & expected use > 12 months
- Eg: Building, P&M, Furniture, etc.

## Non Applicability

Biological assets  
(living animal/plant)  
other than Bearer Plant

Wasting assets

used in Prod<sup>n</sup>/supply of agricultural produce

Expected > 12 months

Remote chances of being sold as agricultural produce

## Recognition criteria

- Cost to be recognised as asset if
- ★ Probable that Future Economic benefits will flow
  - ★ Cost can be measured reliably

## Treatment of Spare Parts/Standby Eq./Servicing Eq.

Whether definition of PPE is met

Yes  
Apply AS 10

No  
Apply AS 2

## Notes:

- ★ Items of PPE may be acquired for safety or environmental reasons
- ★ It may be appropriate to aggregate individual insignificant items such as moulds, tools & dies
- ★ Entity may expense an item since its not material even if it meets PPE definition

# Measurement of PPE — Initial Recognition: Cost Model

## Purchased

Cost of PPE includes

Purchase Price (net of trade discount)

+ Non Refundable Taxes

+ Directly Attributable costs

(site Preparation, Installation, Prof. fees, Initial delivery & transport, costs of testing)

+ Dismantling, Decommissioning, Restoration cost at Present value

### Exclusions:

\* Costs of opening new facility i.e. Inauguration exp.

\* Costs of introducing new product/service (Advertising & Promotional activities)

\* Costs of Staff training

\* Administrative & other general overhead

\* Initial Operating Losses

\* Costs of Relocating

## Self Constructed

Same Principles as Purchased

(incl. construction costs)

+ Borrowing costs as per AS 16

o Internal Profits eliminated

o Abnormal amount of wasted material, labour not included

## Special cases

1) Deferred Credit

Total Payment - Cash Price recognised as interest

2) Consolidated Price

Apportioned on Fair value basis

3) Exchange

If Transaction has Commercial substance

Recognise PPE Acquired at

Prj. 1st: Fair value of Asset Given + cash paid (if any)

Prj. 2nd: Fair value of Asset Acquired

Prj. 3rd: Carrying Amount of Asset Given + cash paid (if any)

Note: If any cash is received it will be deducted.

If Transaction Lacks Commercial substance

(No change in cash flows due to exchange)

Only 1 Prj. i.e.

Carrying Amount of Asset given + cash paid (if any)

# Subsequent Recognition

Choose Either

Cost Model

Apply to Entire class of PPE ie. Assets of similar nature & use

Revaluation Model

Frequency

Significant & volatile changes in Fair value: Annual  
Insignificant: Interval of 3-5 years

## Revaluation

Accounting Treatment

Transfer of Revaluation Surplus to Revenue Reserve

First Revaluation

Upward Use

Downward Use

Revaluation Surplus

P&L A/c

Methods (If there is Acc. Dep.)

Method 1: Proportionate Increase in Cost & Acc. Dep.

Find Revaluation Gain (%) & Increase Gross Block & Acc. Dep. by (%)

PPE A/c - Dr  
To Acc. Dep. A/c  
To Rev. Surplus A/c

Method 2: Accumulated Depreciation Eliminated

Acc. Dep. A/c - Dr  
To PPE A/c

PPE A/c - Dr  
To Rev. Surplus A/c

Subsequent Revaluation

Ist Use	IInd Use
↑ R/S	↑ R/S
↓ P&L	↓ P&L
↑ R/S	↓ R/S & then P&L
↓ P&L	↑ P&L & then R/S

During use of Asset

Excess Dep. may be hd. (optional)

When Asset is Derecognised

Whole surplus is transferred

Dep. on Revalued Amt. xx  
- Dep. on Carrying Amt. (if no Revaluation) (xx)  
Excess Dep. xx

# Depreciation

Meaning: Systematic allocation of depreciable amount of asset over its useful life.

Depreciable Amount: Cost / Revolved Amount - Residual value

Useful life: On the basis of Period: Period over which asset is expected to be used

On the basis of Units: No. of units expected to be obtained

Component Method: Each part of PPE that is significant in relation to total cost of item should be depreciated separately. **Example**: Airframe & Engine of Aircraft

Commencement: When asset is available for use.

Cessation of Dep.: ① Asset's Residual value  $\geq$  Carrying Amount

② Earlier of  $\star$  Asset retired from active use & held for disposal  
 $\star$  Asset is derecognised

Depreciation Method: Method should reflect pattern in which future economic benefits are expected to be consumed by the enterprise.

Straight Line Method

$$\frac{\text{Cost} - \text{Residual value}}{\text{Useful life}}$$

OR

$$\text{Original Cost} \times \text{Rate (\%)}$$

Diminishing Bal./WDV Method

$$\text{Opening WDV} \times \text{Rate (\%)}$$

Units of Production Method

$$\text{Depreciable Amount} \times \frac{\text{Prod}^n \text{ in current Year}}{\text{Total Estimated Prod}^n}$$

Review of Useful life, Residual value, Depreciation Method: Change in Accounting Estimate (Prospective Effect)

## Subsequent Costs

Repair & Maintenance  
(Day to Day servicing)

Charged to P&L A/c

Replacement of Parts\*

Cost of New Part : Recognised  
Carrying Amt. of Old Part : Derecognised

Regular Major Inspections

Same treatment as  
Replacement of Parts

\* **New Carrying Amount** = Carrying Amt. of PPE on date of replacement + Cost of New Part - Carrying Amount of Old Part on date of Replacement

If Not Given, then

Start with Cost of New Part & Compute its P.V. on recognition date  
(-) Depreciation on above amount till date of replacement

Land & Buildings : separable assets & accounted separately even when acquired together

Land whether Depreciable : No since unlimited useful life

**Exception** : If Land has limited useful life

Retirement :

Asset retired from active use & held for disposal. Shown in B/S under Current Assets

Recorded at Lower of Carrying Amount or NRV

Expected loss to be immediately recognised

Derecognition :

On Disposal by sale/donation **or** when no future benefits expected

Profit/Loss on it to be transferred to P&L A/c