IndAS 16 – PPE

Case Study with MCQs and Descriptive Questions

Asia Airways Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies. The company prepares financial statements under IndAS. The Chief Financial officer of the company Mr. Lalit needs your help in closing the books and prepare the financial statements. He has asked his accountant Mr. Harish to explain you the transactions for the year ended 31 March 20X3. Mr. Harish is confused as to how he should treat the transactions:-

On 1 April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed. Costs relating to the production line are as follows:

Details	Amount Rs. in million
Costs of the basic materials (list price ` 12.5 million less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30 June 20X2	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00
General Overheads	0.50
Cost of Test Run	0.60

The production line took two months to make ready for use and was brought into use on 31st May 20X2. The other overheads were incurred during the two months period ended on 31st May 20X2. They included an abnormal cost of Rs. 0.3 million caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, Asia Airways Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of Rs. 2 million included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discounting rate is 5%. The present value of Rs. 1 payable in 8 years at a discount rate of 5% is approximately Rs. 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is Rs. 3 million. The Company computes its depreciation charge on a monthly basis.

Separate Component

Answer the below questions:

1. Which of the following items need to be capitalized in determining the cost of Production Line?
   (a) Abnormal cost of Rs. 0.3 million
   (b) Recoverable GST of Rs. 1 million
   (c) Initial estimate of the costs of dismantling and removing the item and restoration of site of Rs. 2 million
   (d) Initial estimate of the costs of dismantling and removing the item and restoration of site of Rs. 1.36 million
2. Calculate the Total Cost at which Asset should be recognised initially?
   (a) 13.26
   (b) 13.86
   (c) 14.36
   (d) 15.66

10 + 0.8 + 0.6 + 0.5 + 1.36 + 0.6 (Dismant)

3. What should be total depreciation amount on Production Line (i.e. Asset)?
   (a) 1.756 million
   (b) 1.733 million
   (c) 1.444 million
   (d) 2.108 million
4. What should be the value of Asset to be carried to Balance Sheet at the end of Current Year?

13.86 − 1.756 = 12.104

5. What should be the value of dismantling costs to be carried to Balance sheet at current year end?

1.417

6. Total Charge to Profit and Loss for the year?

Cost of Dism. = 1.36
(+) Unwinding cost (10%) = 0.057
1.417

Dep = 1.756
F/C = 0.057
Exp cost = 0.40
O/H = 0.3
Gen. O/H = 0.5
3.013 Pal

Financial cost

Closing provision

Sol):- Production line (PPE)

Available for Use

From 1/June onwards

Total Useful life = 8 yrs.

8 yrs. for Other part

4 yrs. for Overhaul Component

Total Dep (10 m) ⇒ Total Cost 13.86

Component 1

3 m.

Life = 4 yrs.

$3m \times \frac{1}{4} \times \frac{10}{12} = 0.625$

Component 2

Bal. fig.

10.86

Life 8 yrs.

$10.86 \times \frac{1}{8} \times \frac{10}{12}$

1.131

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