

## 2. IND AS 16 - PROPERTY, PLANT & EQUIPMENT

### Practical Example 1:

Fair value of Asset Purchased Rs. 1,00,000/-

Fair Value of Asset Given up Rs. 70000/-

Cash Paid Rs. 25000/-

Carrying Amount of Given up asset Rs. 55000/-

How to Record Asset Purchased, assume Commercial substance is present in the transaction.

### Solution:

New Asset A/c Dr.	95000	
To Old Asset A/c	55000	
To Bank A/c	25000	
To Gain (P&L)	15000 (B/f)	

### Practical Example 2:

Fair value of Asset Purchased Rs. 3,00,000/-Fair Value of Asset given up is not known Carrying Amount of Given up asset Rs. 5,50,000/-Cash Received - 200000

How to record as per IND AS 16, Assume Commercial substance is present in the transaction.

### Solution:

New Asset A/c Dr.	3,00,000	
Bank A/c Dr.	2,00,000	
Loss on Ex. Dr.	50,000	
To Old Asset A/c	5,50,000	

### Practical Example 3:

Fair value of Asset Purchased Rs. 3,00,000/-

Fair Value of Asset given up 3,30,000/-

Carrying Amount of Given up asset Rs. 2,00,000/-

Cash Paid 50,000/-

Give Accounting Treatment as per IND AS 16,

Assuming No Commercial substance is present in the transaction.

### Solution

New Asset A/c Dr.	2,50,000 (B/f)	
To Old Asset A/c	2,00,000	
To Cash A/c	50,000	

**Practical Example 4:**

Jupiter Ltd. has an item of plant with an initial cost of Rs. 100,000. At the date of revaluation accumulated depreciation amounted to Rs. 55,000. The fair value of asset, by reference to transactions in similar assets, is assessed to be Rs.65,000. Find out the entries to be passed?

**SOLUTION:****Method - I: Accumulated Depreciation is eliminated**

Accumulated depreciation Dr.		55,000
To Asset A/c		55,000
Asset A/c Dr.	20,000	
To Revaluation reserve		20,000

The net result is that the asset has a carrying amount of ₹ 65,000 (100,000 - 55,000 + 20,000).

**Method - II: Change in gross carrying amount and accumulated depreciation**

Carrying amount (100,000 – 55,000)	45,000
Fair value (revalued amount)	65,000
Surplus	20,000
% of surplus (20,000/ 45,000)	44.44%

**Entries to be Made:**

Asset (1,00,000 × 44.44%)	Dr.	44,444	
To Accumulated Depreciation (55,000 × 44.44%)			24,444
To Surpluson Revaluation			20,000

**Practical Example 5:**

Upward revaluation and further Downward:-

31.03.2010 Carrying amount 500000

31.03.2010 Fair Value 650000

31.03.2011 Fair Value Case 1 - 550000 and Case 2 - 450000

Pass Journals.

**Solution:****Case 1:**

31.03.2010

PPE a/c	Dr.	150000	
To Revaluation Reserve			150000

31.03.2011

Revaluation Reserve	Dr.	100000	
To PPE			100000

Case 2:31.03.2010

PPE a/c	Dr.	150000	
	To Revaluation Reserve		150000

31.03.2011

Revaluation Reserve	Dr.	150000	
P/L a/c	Dr.	50000	
	To PPE		200000

**Practical Example 6:**

PPE (CAR) whose carrying amount is Rs. 5,00,000, is sold at Rs. 6,00,000

**Case 1** - Selling CARs after use is not regular ordinary activity.

Here 1,00,000 Gain should be transfer to Profit and Loss Statement.

**Case 2** - Selling CARs after use is Regular Ordinary activity Here, Carrying Amount of PPE should be converted as Inventory and gross sale proceeds should be treated as Revenue from Operation.

**A) On the date of re-classification**

1) Inventory A/c	Dr	5,00,000	
	To PPE A/c		5,00,000

**B) On the date of sale**

2) COGS A/c	Dr	5,00,000	
	To Inventory A/c		5,00,000

3) Bank A/c	Dr	6,00,000	
	To Sales A/c		6,00,000

**Practical Example 7:**

PPE costs Rs. 50 Lacs acquired on 01.04.21 with estimated useful life of 20 years. Estimated Decommissioning liability to be incurred after 20 years is 12 Lacs. Discounting Rate is 10%. At the end of the 6th Year, estimated outflow of Decomm. Liab. Changed to Rs. 10 Lacs & discounting rate changed to 11%.

Apply IND AS 16 till 6th Year.

**Solution****1. Calculate total cost of PPE as on 1/4/21**

Particular	Amount
Purchase & Direct Cost	50,00,000
+ PV of Decommissioning liability (12,00,000 × 0.148)	1,78,320
<b>Cost of PPE</b>	<b>51,78,320</b>

**Journal Entry**

PPE a/c	Dr.	51,78,320	
	To Bank/Creditor		50,00,000
	To Provision for Decommissioning cost		1,78,320

**2. Calculate the amt of provision to be shown at the end of the year under b/s**

1st year. Interest cost as 178320 @ 10% = 17,832

Interest cost (p&l) Dr. 17,832

To Provision a/c 17,832

Year	Opening Balance	Interest During the year	Closing Balance
1 <sup>st</sup> year	1,78,320	17,832	1,96,152
2 <sup>nd</sup> year	1,96,152	19,615	2,15,767
3 <sup>rd</sup> year	2,15,767	21,577	2,37,344
4 <sup>th</sup> year	2,37,344	23,734	2,61,078
5 <sup>th</sup> year	2,61,078	26,108	2,87,186
6 <sup>th</sup> year	2,87,186	28,718	3,15,905

Carrying amount = Provision for decommissioning cost at the end of the 6th year = 3,15,905

**3. Calculate the change in provision of Decommissioning cost as on 1/4/27: -**

What should be the provision amt based as following received figures: -

Discount rate = 11%

Out flow = 10,00,000

Remaining period = 20 - 6 = 14 years

PVF @ 11% for 14th year = 0.232

Revised provision based as change (0.232 × 10,00,000) = 2,32,000 as on 1/4/27

Carrying amount (opening balance) of provision = 3,15,905 as on 1/4/27

Decrease in liabilities = 83,905

**Case 1: Suppose PPE is under Cost model:**

Provision a/c	Dr.	83905	
	To PPE a/c		83905

**Case 2: Suppose PPE is under Revaluation model:**

Provision a/c	Dr.	83905	
	To Rev. Surplus a/c		83905

However, Gain to the Extent of earlier Revaluation loss shall be changed to P&I a/c.