



# CA INTERMEDIATE

## MARATHON

**Advanced Accounting**

**AS 10:  
Property, Plant & Equipment**

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# 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

**PROPERTY, PLANT & EQUIPMENT****Question 1: Inter Nov 2018 (5 Marks)**

Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a new restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed. Management has prepared the following budget for this period -

Salaries of the staff engaged in preparation of restaurant before its opening ₹ 7,50,000  
Construction and remodelling cost of restaurant ₹ 30,00,000. Explain the treatment of these expenditures as per provisions of AS 10 "Property, Plant and Equipment".

**Solution**

As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of PPE.

Management of Neon Enterprise should capitalize the costs of construction and remodelling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management. The restaurant cannot be opened without incurring the construction and remodelling expenditure amounting ₹ 30,00,000 and thus the expenditure should be considered part of the asset.

However, the cost of salaries of staff engaged in preparation of restaurant ₹ 7,50,000 before its opening are in the nature of operating expenditure that would be incurred if the restaurant was open and these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, ₹ 7,50,000 should be expensed. → P&L

**Question 2: ICAI Study Material / RTP Nov 2023**

ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	✓	25,00,000
Initial delivery and handling costs	✓	2,00,000
Cost of site preparation	✓	6,00,000
Consultants used for advice on the acquisition of the plant	✓	7,00,000
Interest charges paid to supplier of plant for deferred credit	✗	2,00,000
Estimated dismantling costs to be incurred after 7 years	✓	3,00,000
Operating losses before commercial production	✗	4,00,000

Please advise ABC Ltd. on the costs that can be capitalized in accordance with AS 10 (Revised).

**Solution**

According to AS 10 (Revised), these costs can be capitalized

Cost of the plant (cost per supplier's invoice plus taxes)	25,00,000
Initial delivery and handling costs	2,00,000
Cost of site preparation	6,00,000
Consultant's fees	7,00,000
Estimated dismantling costs to be incurred after 7 years	3,00,000
	<b>43,00,000</b>

**Note:** Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 2,00,000 and operating losses before commercial production amounting to ₹ 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the Statement of Profit and Loss in the period they are incurred.

### Question 3: ICAI Study Material (Sim.)

With reference to AS-10 Revised, classify the items under the following heads:

#### HEADS

- cap. ✓ [ a) Purchase Price of Property, Plant and Equipment (PPE)  
 b) Directly attributable cost of PPE or  
 ⊗ c) Cost not included in determining the carrying amount of an item of PPE.

#### ITEMS

- (1) Import duties and non-refundable purchase taxes.
- (2) Initial delivery and handling costs.
- (3) Costs of testing whether asset is functioning properly, after deducting the net proceeds
- (4) Initial operating losses, such as those incurred while demand for the output of an item builds up.
- (5) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
- (6) Trade discounts and rebates.
- (7) Costs of relocating or reorganizing part or all of the operations of an enterprise.
- (8) Installation and assembly costs.
- (9) Cost of site preparation
- (10) Administration and other general overhead costs.

#### Solution

ITEM	HEAD	ITEM	HEAD
✓ (1)	✓ a)	✓ (6)	✓ a)
✓ (2)	✓ b)	✓ (7)	✓ c)
✓ (3)	✓ b)*	✓ (8)	✓ b)
✓ (4)	✓ c)	✓ (9)	✓ b)
✓ (5)	✓ c)	✓ (10)	✓ c)

\*Considered that this cost of testing is after deducting net proceeds from selling any items produced while bringing asset to that location & condition otherwise if net proceeds are after fixing the asset to its location and condition (asset ready for use), it will be classified under category (c) i.e. Cost not included in determining the carrying amount of an item of PPE.

### Question 4: ICAI Study Material / RTP May 2023

Star Limited purchased machinery for 6,80,000 (inclusive of GST of 40,000). Input credit is available for entire amount of the GST paid.

The company incurred the following other expenses for installation.

	₹
Cost of preparation of site for installation	✓ 21,200
Total labour charges (200 out of total of 500 men hours worked, were spent for installation of the machinery)	✓ 56,000
Spare parts and tools consumed in installation	✓ 5,000
Salary of supervisor (time spent for installation was 25% of total time worked)	✓ 26,000
Total technical expenses (1/10 relates to the plant installation)	✓ 34,000
Test run & experimental production charges	✓ 18,000

Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for the installation	12,000

The machine was ready for use on 15-1-2022 but was used from 1-2-2022. Due to this delay further expenses of ₹ 8,900 were incurred (PAL)  
Calculate the value at which the plant should be capitalized in the books of Star Limited.

**Solution**

Particulars	Amount
Purchase Price (excl. GST for which credit available) (6,80,000 - 40,000)	6,40,000
Cost of preparation of site for installation	21,200
Labour charges (56,000 * 200/500)	22,400
Spare parts and tools consumed in installation	5,000
Salary of supervisor (26,000 * 25%)	6,500
Technical expenses (34,000 * 1/10)	3,400
Test run & experimental production charges	18,000
Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for the installation	12,000
<b>Total Cost</b>	<b>7,39,500</b>

**Question 5: RTP May 2025 / RTP Nov 2020**

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ₹ 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shrishti Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

**Solution**

Particulars		Amount
Purchase Price	Given (158,34,000 x 100/112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x 3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
<b>Total Cost of Asset</b>		<b>1,45,00,140</b>

$$126000 \times \frac{5}{105} = 60000$$

$$126000 - 60000 = 66000$$

**Question 6: Inter May 2025 (7 Marks)**

Hardy Ltd. intends to extend the factory set up on the adjacent plot with disintegrated old premises. It acquired the land having an area of 250 hectares at a cost of ₹ 25,000 per hectare. Hardy Ltd. incurred Stamp duty and registration charges of 5% of land value. Legal fees were paid ₹ 4,75,000 for land acquisition.

Hardy Ltd. incurred ₹ 37,85,000 for demolishing old premises thereon. A sum of ₹ 12,60,000 (including 5% GST thereon) was realized from the sale of material salvaged from the site.

Till the new site with extended factory premises is ready, the company needs to move the present production facilities to another (temporary) site. The following incremental costs will be incurred.

- 1) Set up costs of ₹ 7,50,000 to install machinery in the new location. ✗
- 2) Rent of ₹ 12,00,000. ✗
- 3) Removal costs of ₹ 2,50,000 to transport machinery from old location to temporary location ✗
- (i) Management is of the opinion that the cost of moving the production facilities to another temporary location can be capitalized. You are required to advise.
- (ii) You are also required to compute the cost of land acquired.

**Solution**

(i) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired.

These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of relocating or reorganizing operations of the company and do not meet the requirement of AS 10.

Therefore, these costs cannot be capitalized.

**(ii) Computation of cost of land**

Particulars		₹
Purchase Price	250 hectares x ₹ 25,000 per hectares	62,50,000
Stamp Duty & Registration Charges	5% of ₹ 62,50,000	3,12,500
Legal & Consultancy Fees		4,75,000
Demolition Expenses (Net of Salvage Income)	37,85,000 - 12,00,000 [12,60,000 × (100/105)]	25,85,000
<b>Cost of Land</b>		<b>96,22,500</b>

**Question 7: RTP May 2018**

In the year 2021-22, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	20,00,000
Roof	25	10,00,000
Lifts	20	5,00,000
Fixtures	10	5,00,000
Remainder of building	50	50,00,000
		<b>90,00,000</b>

Calculate depreciation for the year 2021-22 as per componentization method

**Solution**

**Statement showing amount of depreciation as per Componentization Method**

Component	Depreciation = Cost / Useful life	Depreciation (p.a.)
Land	-	Nil
Roof	10,00,000/25	40,000
Lifts	5,00,000/20	25,000
Fixtures	5,00,000/10	50,000
Remainder of building	50,00,000/50	1,00,000
		<b>2,15,000</b>

**Question 8: ICAI Study Material**

Skanda Ltd. acquired a machinery for ₹ 2,50,00,000 five years ago. Depreciation was charged at 10% p.a. on SLM basis, useful life being 10 years. At the beginning of Year 3, the machinery was revalued to ₹ 3,00,00,000 with the surplus on revaluation being credited to Revaluation Reserve. Depreciation was provided on the revalued amount over the balance useful life of 8 years. The machinery was sold in the current year for ₹ 1,12,50,000. Give the accounting treatment for the above in the Company's accounts. What will be the treatment if the machinery fetched only ₹ 42,50,000 now?

Mark. 1cr  
To RR 1cr

**Solution**

Particulars	₹
Original Cost of the Asset	2,50,00,000
Less: Depreciation for 2 years (₹ 2,50,00,000 x 10% x 2 years)	(50,00,000)
Book Value at the beginning of Year 3	2,00,00,000
Add: Revaluation Surplus (balancing figure)	1,00,00,000
Revalued Amount as given (= revised depreciable value)	3,00,00,000
Less: Depreciation for Years 3-5 (₹ 3,00,00,000 ÷ 8 yrs x 3 yrs)	(1,12,50,000)
<b>Carrying Amount at the end of Year 5</b>	<b>1,87,50,000</b>

The treatment of Gain / Loss on Disposal / Revaluation is as below:

Particulars	Disposal Proceeds = ₹ 1,12,50,000	Disposal Proceeds = ₹ 42,50,000
Book Value Less Disposal Proceeds = Loss recognized in Profit or Loss	₹ 1,87,50,000 - ₹ 1,12,50,000 = ₹ 75,00,000 (Loss) PAL	₹ 1,87,50,000 - ₹ 42,50,000 = ₹ 1,45,00,000 (Loss) PAL
Revaluation Surplus directly transferred to Retained Earnings	₹ 1,00,00,000	₹ 1,00,00,000

**Question 9: Inter May 2023 (5 Marks)**

In the books of Topmaker Limited, carrying amount of Plant and Machinery as on 1<sup>st</sup> April, 2022 is ₹ 56,30,000.

On scrutiny, it was found that a purchase of Machinery worth ₹ 21,12,000 was included in the purchase of goods on 1<sup>st</sup> June, 2022. On 30<sup>th</sup> June, 2022 the company disposed a Machine having book value of ₹ 9,60,000 (as on 1<sup>st</sup> April, 2022) for ₹ 8,25,000 in part exchange of a new machine costing ₹ 15,65,000.

The company charges depreciation @ 10% p.a. on written down value method on Plant and Machinery.

You are required to compute:

- Depreciation to be charged to Profit & Loss Account.
- Book value of Plant & Machinery as on 31<sup>st</sup> March, 2023; and
- Profit/Loss on exchange of Plant & Machinery.

**Solution****Depreciation to be charged in Profit & Loss Account & Book Value as on 31<sup>st</sup> March, 2023**

Particulars	Book Value or Cost or Acquisition	Period	Depreciation (a)	Book Value as on 31.03.2023 (b)
Opening Value	46,70,000 (56,30,000 - 9,60,000)	01.04.2022 to 31.03.2023	4,67,000 (46,70,000 x 10%)	42,03,000
Sold	9,60,000	01.04.2022 to 30.06.2022	24,000 (9,60,000 x 10% x 3/12)	-
Purchases	21,12,000	01.06.2022 to 31.03.2023	1,76,000 (21,12,000 x 10% x 10/12)	19,36,000
New Machinery	15,65,000	01.07.2022 to 31.03.2023	1,17,375 (15,65,000 x 10% x 9/12)	14,47,625
<b>Total</b>			<b>7,84,375</b>	<b>75,86,625</b>

**Profit/Loss on Exchange of Machinery**

Particulars	Amount in ₹
Balance as per books on 01.04.2022	9,60,000
Less: Depreciation for 3 months (₹ 9,60,000 x 10 /100 x 3 / 12)	(24,000)
W.D.V. as on 30.06.2022	9,36,000
Less: Exchange value	(8,25,000)
Loss on Exchange of Machinery	1,11,000

**Question 10: RTP Jan 2026/ Inter Nov 2020 (5 Marks)**

Zenith Ltd. had following assets. Calculate depreciation for the year ended 31st March, 2025 for each asset as per AS 10:

- Machinery purchased for ₹ 10 lakhs on 1st April, 2020 and residual value after useful life of 5 years, based on 2020 prices is ₹ 10 lakhs.
- The company owns a piece of Land acquired for ₹ 50 lakhs which is being held for use in its factory operations.
- Machinery is constructed for ₹ 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April, 2024, but the company does not begin using the machine until 31st March, 2025.

d) Machinery purchased on 1st April, 2022 for ₹ 50,000 with useful life of 5 years & residual value is Nil. On 1st April, 2024, management decided to use this asset for further 2 years only.

**Solution Computation of Amount of Depreciation as per AS 10**

		Amount
(i)	Machinery purchased on 1/4/20 for ₹ 10 lakhs (having residual value of ₹ 10 lakhs) <b>Reason:</b> The company considers that residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) <b>Reason:</b> Land has unlimited useful life & therefore, it is not depreciated	Nil
(iii)	Machinery constructed for own use (₹ 5,00,000/10) <b>Reason:</b> The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April, 2024. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life <b>Reason:</b> The entity has charged depreciation using SLM at 10,000 p.a. i.e (50,000/5 years). On 1st April, 2024 Asset's net book value is [50,000 - (10,000 x 2)] i.e. ₹ 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend annual provision for depreciation to charge unamortized cost over revised remaining life of 2 years. Consequently, Depreciation for next 2 years at ₹ 15,000 p.a. (30,000/2).	15,000

50000  
5  
= 10000

**Question 11: RTP Nov 2022**

RS Ltd. has acquired a heavy plant at a cost of ₹ 2,00,00,000. The estimated useful life is 10 years. At the end of the 2nd year, one of the major components i.e. the Boiler has become obsolete (which was acquired at price of ₹ 50,00,000) and requires replacement, as further maintenance is uneconomical. The remainder of the plant is perfect and is expected to last for next 8 years. The cost of a new boiler is ₹ 60,00,000. Can the cost of the new boiler be recognised as an asset, and, if so, what should be the carrying value of the plant at the end of second year?

$$500 - (500 \times \frac{2}{10})$$

**Solution**

**Recognition of Asset:** The new boiler will produce economic benefits to RS Ltd., and the cost is measurable. Hence, the item should be recognized as an asset. The cost old boiler should be de-recognized and the new boiler will be added.

**Statement showing cost of new boiler and machine after year 2**

Particulars	₹
Original cost of plant	₹ 2,00,00,000
<b>Less:</b> Accumulated depreciation [(2,00,00,000 /10) x 2]	₹ 40,00,000
Carrying value of the plant after two years	₹ 1,60,00,000
<b>Less:</b> Current Cost of Old Boiler to be derecognized	
WDV of Boiler (replaced) after 2 years (50,00,000/10 x 8)	40,00,000
	<b>1,20,00,000</b>
<b>Add:</b> Cost of new Boiler to be recognized	60,00,000
Revised carrying amount of Plant	<b>1,80,00,000</b>

**Question 12: ICAI Study Material / RTP Jan 2025 (Sim.)**

Bharat Infrastructure Ltd. acquired a heavy machinery at a cost of ₹ 1,000 lakhs, the breakdown of its components is not provided. The estimated useful life of the machinery is 10 years. At the end of Year 6, the turbine, which is a major component of the machinery, needed replacement, as further usage and maintenance was uneconomical. The remainder of the machine is in good condition and is expected to last for the remaining 4 years. The cost of the new turbine is ₹ 450 lakhs. Give the accounting treatment for the new turbine, assuming SLM Depreciation and a discount rate of 8%.

$$\left(\frac{1}{1.08}\right)^6 = 0.630169$$

**Solution**

Since initial breakup of components is not available, the cost of replacement of ₹ 450 lakhs can be used, discounted at 8% for the 6-year period lapsed.

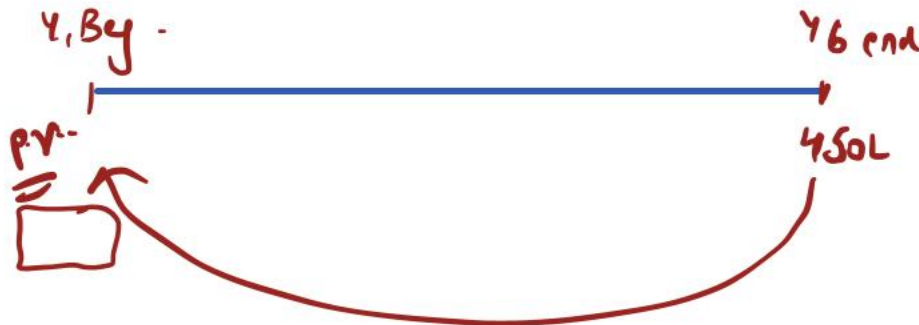
Thus, estimate of cost 6 years back = ₹ 450 lakhs ÷ 1.08<sup>6</sup> = ₹ 283.58 lakhs

Current carrying amount of turbine (to be de-recognised) =

Estimated cost ₹ 283.58 lakhs (-) SLM depreciation at 10% (useful life 10 years) for 6 years ₹ 170.15 lakhs = ₹ 113.43 lakhs.

Hence revised carrying amount of the machinery will be as under:

Particulars	₹ in lakhs
Historical Cost [₹ 1,000 lakhs (-) SLM Dep. at 10% for 6 years]	400.00
Add: Cost of new turbine	450.00
Less: Derecognition of current carrying amount of old turbine	(113.43)
<b>New Carrying Amount of Machinery</b>	<b>736.57</b>



## Exchange of Asset

1) Acquire : Machinery FV (Fair value) = 1,00,000

Given up : Car FV = 80,000      CA (Carrying Amt.) = 70,000  
↓  
Book value / WDV

Prof. 1

Machinery to be shown at 80,000

Machinery A/c - Dr      80,000

To Car

To Profit on Exchange

70,000 [Always at carrying Amt.]

10,000

2) Acquire : Machinery FV = 1,00,000

Given up : Car FV = 80,000      CA = 70,000      &      Cash = 5,000

Prof. 1

Machinery to be shown at 80,000 + 5,000 = 85,000

Machinery A/c - Dr      85,000

To Cash

To Car

To Profit on Exchange

5,000

70,000 (At CA)

10,000

3) Acquire : Machinery FV = 100000

Given up : car ~~FV = 80000~~ CA = 70000

Machinery to be shown at 100000

Machinery A/c - Dr 100000

To car 70000 (At CA)

To Profit on Exchange 30000 (B.P.)

Prof. 2  
X

4) Acquire : Machinery ~~FV = 100000~~

Given up : car ~~FV = 80000~~ CA = 70000

Machinery to be shown at 70000

Machinery A/c - Dr 70000

To car A/c 70000

5) Acquire : Audi (Blue) FV = 50 Lakhs

Given up : Audi (Black) FV = 50 Lakhs CA = 40 Lakhs

Transaction lacks commercial substance.

Audi (Blue) to be shown at 40 Lakhs

Ignore Fair value

Audi (Blue) A/c -Dr 40L

To Audi (Black) 40L

6) Acquire : Audi (Blue) & Cash Received = 2 Lakhs

Given up : Audi (Black) CA = 40 Lakhs

Transaction lacks commercial substance.

Audi (Blue) to be shown at 38L  
(40L - 2L)

Cash A/c -dr                      2L

Audi (Blue) A/c -dr              38L

To Audi (Black)

40

# Revaluation Model

## First Time Revaluation

### Machinery

Book value = 100000  
(Carrying Amt.)

Fair value  
130000

Increase: 30000

Machinery A/c - Dr 30000  
To Revaluation Reserve (surplus) 30000

Fair value  
80000

Decrease: 20000

P&L A/c - Dr 20000  
To Machinery 20000

# Subsequent Revaluation

First Time ka Increase tha  
30000  
(Revaluation Reserve)

Machinery  
Book value = 120000  
(Carrying Amt.)

Fair value = 135000

Fair value = 108000

Fair value = 80000

Increase = 15000

Decrease = 12000

Decrease = 40000

Machinery A/c - Dr 15000  
To Revaluation Res. 15000

Revaluation Res. A/c - Dr 12000  
To Machinery 12000

Rev. Res. A/c - Dr 30000  
P&L A/c - Dr 10000  
To Machinery 40000

Bal. in Revaluation Res:

$$30000 + 15000 = 45000$$

$$30000 - 12000 = 18000$$

$$30000 - 30000 = \text{Nil}$$

# Accounting Treatment of Revaluation (If there is Accumulated Dep.)

Example: Machinery

Cost = 100000

- Acc. Dep. =  $\frac{40000}{60000}$

Revalued at 150000

Solution Revaluation Increase of 90000 (150000 - 60000)

Method 1 Proportionate Increase in Cost & Acc. Dep.

~~Machinery 90000  
To Rev. Res. 90000~~

Revised value  
Mach. = 1L + 1.5L = 2.50L  
Acc. Dep. 0.4 + 0.6 = 1.00L  
1.50L

1) % Increase =  $\frac{90000}{60000} \times 100 = 150\%$

2) Increase both cost & Acc. Dep. with above (%)

Cost = 100000 x 150% = 150000

Acc. Dep. = 40000 x 150% = 60000

Machinery A/c - Dr 150000  
To Acc. Dep. 60000  
To Revaluation Reserve 90000



During use of Asset  
[Optional]

Machinery

Dep. Rate = 10% -

Book value = 100000

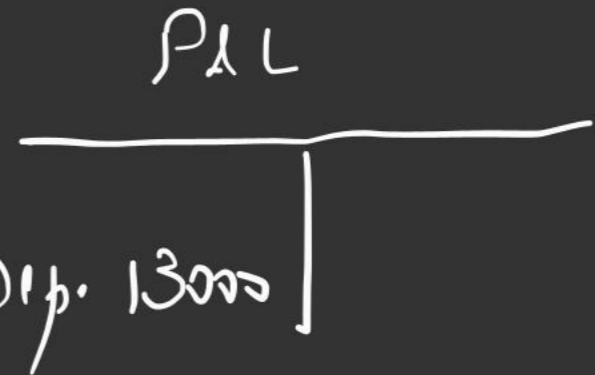
Revalued at 130000

Machinery 30000

Dep. 10% = 10000

Dep. 10% = 13000

To Revaluation Reserve 30000 ←



Revaluation Res. 3000

To Revenue Res. 3000



Add. / Extra Dep. = 3000

↓  
Can be hd. from Revaluation Res. -  
to Revenue Res.