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IND AS 16
PPE

#1 Overview

- Introduction (#2)
  - → PPE
  - → Applicability
- Initial recognition & measurement. (#3)
  - → purchase
  - → self generated
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  - → Exchange
- Subsequent recognition (#4)
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  - → Dep.
  - → comp. acting
- Special Issues (#5)
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  - → First time adaption.

#2 Introduction

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i) PPE :- PPE are tangible items that are

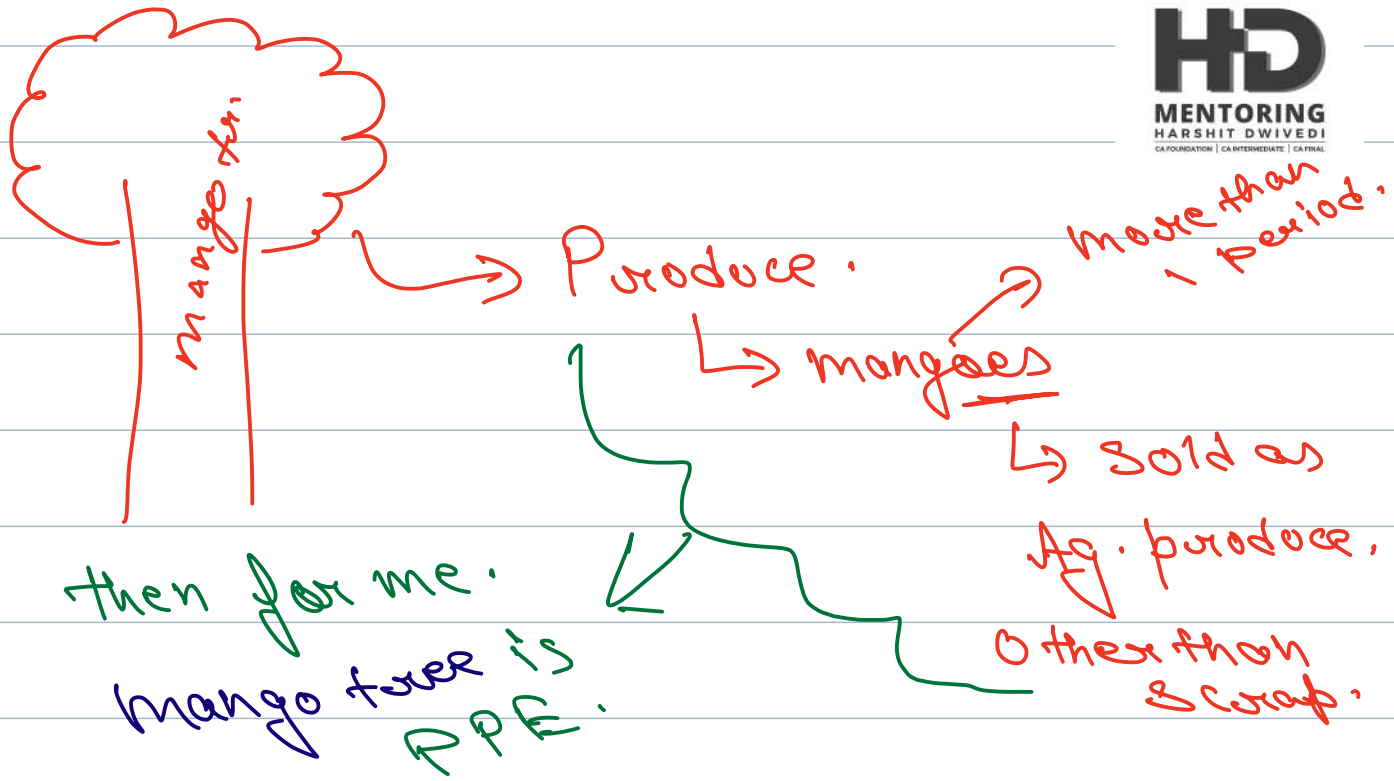
- expected to be used for more than 1 period
  - Non current in nature
- & are held for use in
  - → prodⁿ / supply of g/sr.
  - → for rental to others
  - → for administrative purpose.

ii) Applicability :- applies to all PPE except

- → if any other IND AS specifies accng treatment.
- → PPE classified as Held for sale (IND AS 105)
- → Mineral rights reserves such as oil, natural gas & similar regenerative resources.
- → Biological Assets related to Agriculture activity other than bearer plants. (IND AS 41)

Bearer plants :- It is a living plant that

- is used in prodⁿ & supply of agric. produce
- is expected to bear produce for more than 1 period.
- and has a remote likelihood of being sold as agricultural produce except for incidental scrap sales.



Note-1 :- Biological Assets.

- Plants
  - Bearer plant → IND AS 16
  - others. → IND AS 41
- Livestock (animals) → IND AS 41

Note 2 :- ICAI Clarifications

☞ Spare parts / stand by equipment / servicing equipments.

↓

these items will be recognised as PPE only if they meet the defn else it is inventory.

☞ unit of measurement is recognition of PPE in aggregation of individual insignificant items.

↓

tools, Moulds etc.

↳ it is appropriate to aggregate them

↳ PPE.

☞ Items acquired for safety & environmental reasons.

↓

acquisition of such PPE although not directly increasing F.E.B. but necessary for entity to obtain FEB from other assets.

↳ PPE.

#3 Initial Recognition & Measurement.

i) Recognition principle :-

a) Cost should be measurable.

b) FEB should flow to entity

ii) Initial Recognition ↓

Initially measure at Cost

Purchase price

+ Non refundable duties & taxes. **

− Trade Discount. (##)

** Non refundable taxes.

↓

GST on Composition scheme.

D.A.C.

(Cost to make asset R.T.U.)

↓

i) Cost of E.B. (defined in Ind As 19) arising from construction or acquisition of item of PPE.

2) Cost of Site prep.

3) delivery & handling cost

4) installation & assembly costs.

5) Professional fees

6) Cost of testing PPE (note)

Estimate of Cost of D.S.R.

↓

if cost is related to PPE

{ for acquisition or using PPE }

Yes ↓ Capitalise it to Cost of PPE

No ↓ Capitalise it to the cost of inventory.

↓

Also recognise & measure it as Provision

↓

as per Ind As 37.

Discount

↓

T.D. ↓ less from Cost of PPE

C.D. ↓ if in nature of interest ↳ less from cost.

else. ↳ charge it to P or L.

JIE. → Inadmissible
PPE Dr
To prov.
↓
Ind As 37.

note :- Excess amount from Sale proceeds over Cost of testing Shall not be income recognised in P/L but it should be deducted from Cost of asset which is D.A.C. of PPE.

note :- following are not D.A.C.

i) Cost of Conducting business in new location or with a new class of Customer

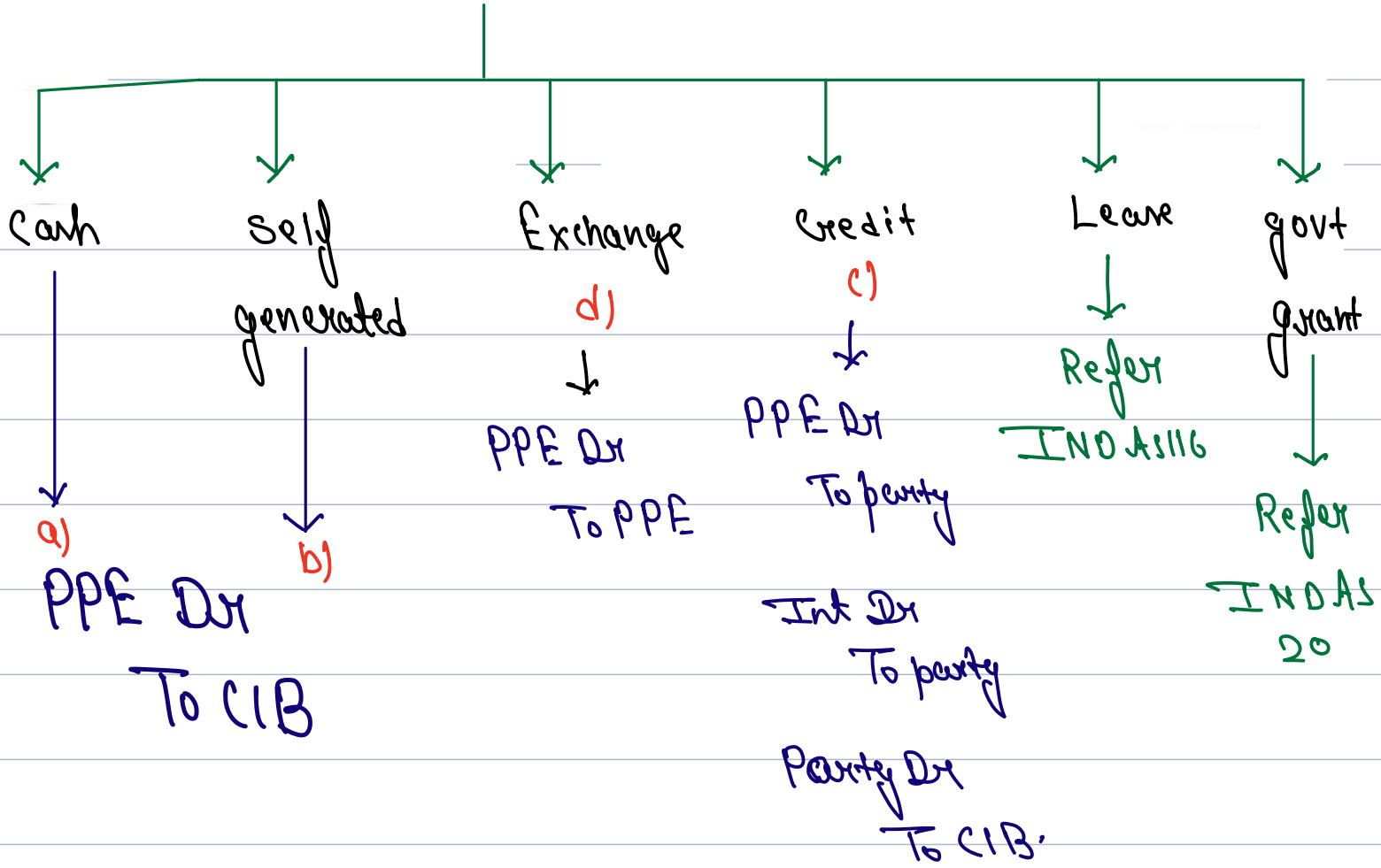
ii) Cost incurred in introducing new product or service.

iii) Cost of opening a new facility.

iv) administrative & other general O.H. Costs.

v) inaugaration function.

iii) Measurement :-



a) Cash

Purchase price	XXX
Less : Trade Discount	(XXX)
Add : Non-Refundable	XXX
Add : Expense for RTU	XXX
Add : PV of DSR	XXX
	XXX

b) Self generated RTU

A. Cost directly attributable plus reasonable cot are added to the cost of PPE till the asset is RTU.
B. Same principles of initial cost as discussed earlier are applicable here also
C. Some special points
   I. Capital advances given to raw material supplier or labour contractor should not be added to capital WIP. It is shown as asset under NCA – Advances
   II. Borrowing cost as per Ind AS 23 is included
   III. Depreciation on own equipments on own equipments used in construction will be included on proportionate basis.

IV. Opportunity cost, Abnormal Loss, income or expense that do not relate to construction are not included in cost of PPE

V. Unused raw material at site does not form part of PPE.

c) Credit

If asset is acquired for Deferred Credit Consideration then interest element to be excluded from Cost of PPE.

Question# 1	TYK Q.1 ICAI SM
ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:	
1. Cost of the plant (cost per supplier's invoice plus taxes)	₹ 25,00,000
2. Initial delivery and handling costs	₹ 2,00,000
3. Cost of site preparation	₹ 6,00,000
4. Agent commission on the acquisition of the plant	₹ 7,00,000
5. Interest charges paid to supplier of plant for deferred credit	₹ 2,00,000
6. Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
7. Operating losses before commercial production	₹ 4,00,000
Please advise ABC Ltd. on the costs that can be capitalized in accordance with Ind AS 16.	

Soln :- According to IND AS 16 PPE cost to be Capitalised

1) Cost of the plant	2500000
2) Delivery & handling cost	200000
3) Cost of site preperation	600000
4) Agent Commission	700000
5) prov. of DSR.	300000
	₹ 4300000

Question# 2	ILL 9 ICAI SM
On 1st April, 20X1, XYZ Ltd. acquired a machine under the following terms: `	
List price of machine - 80,00,000	
Import duty - 5,00,000	
Delivery fees - 1,00,000	
Electrical installation costs - 10,00,000	
Pre-production testing - 4,00,000	
Purchase of a five-year maintenance contract with vendor - 7,00,000	
In addition to the above information XYZ Ltd. was granted a trade discount of 10% on the initial list price of the asset and a settlement discount of 5%, if payment for the machine was received within one month of purchase. XYZ Ltd. paid for the plant on 20th April, 20X1. Compute the cost of the asset to be recognized.	

Soln :- As per Ind As 16 PPE will be Capitalised on 1-4-11

List price	8000000
− Trade discount (10%)	(800000)
	7200000
+ import duty	500000
+ Delivery fees	100000
+ electrical installation charge	100000
+ Pre Production Testing	400000
Cost of Asset.	9200000

Also in addition Settlement discount will be received ⇒ ₹ 7200000 × 5%.
⇒ 360000

will be recognised as other income.

H.W.

Illustration 10

X Limited started construction on a building for its own use on 1st April, 20X0. The following costs are incurred:

	₹
Purchase price of land	30,00,000
Stamp duty & legal fee	2,00,000
Architect fee	2,00,000
Site preparation	50,000
Materials	10,00,000
Direct labour cost	4,00,000
General overheads	1,00,000

(10L - 1L - 1.5L)

(4L - 22000)

Other relevant information: Material costing ₹ 1,00,000 had been spoiled and therefore wasted and a further ₹ 1,50,000 was spent on account of faulty design work. As a result of these problems, work on the building was stopped for two weeks during November, 20X0 and it is estimated that ₹ 22,000 of the labour cost relate to that period. The building was completed on 1st January, 20X1 and brought in use 1st April, 20X1. X Limited had taken a loan of ₹ 40,00,000 on 1st April, 20X0 for construction of the building. The loan carried an interest rate of 8% per annum and is repayable on 1st April, 20X2. Assume that the entity did not considered the construction period as substantial period of time as per Ind AS 23.

Calculate the cost of the building that will be included in tangible non-current asset as an addition?

Question#3 — **ILL – 1 ICAI SM**

On 1st April 20X1, an item of property is offered for sale at ₹ 10 million, with payment terms being three equal instalments of ₹ 33,33,333 over a two years period (payments are made on 1st April 20X1, 31st March 20X2 and 31st March 20X3).

The property developer is offering a discount of 5 percent (i.e. ₹ 0.5 million) if payment is made in full at the time of completion of sale. Implicit interest rate of 5.36 percent p.a.

Show how the property will be recorded in accordance of Ind AS 16.

Soln :-

WN-1 Repayment Schedule.

year	amount paid	D.f. @ 5.36%	P.V.
1-4-2001	3333333	₹1	3333333
31-3-2002	3333333	0.949	3163333
31-3-2003	3333334	0.901	3003334
	10G		Cost ⇒ 9500000

WN-2 L.A.T.

year	op.	Int.	Rep.	cl.bal.
1-4-01	9500000	–	3333333	6166667
31-3-02	6166667	330533	3333333	3163867
31-3-03	3163867	169467	3333334	–

Journal

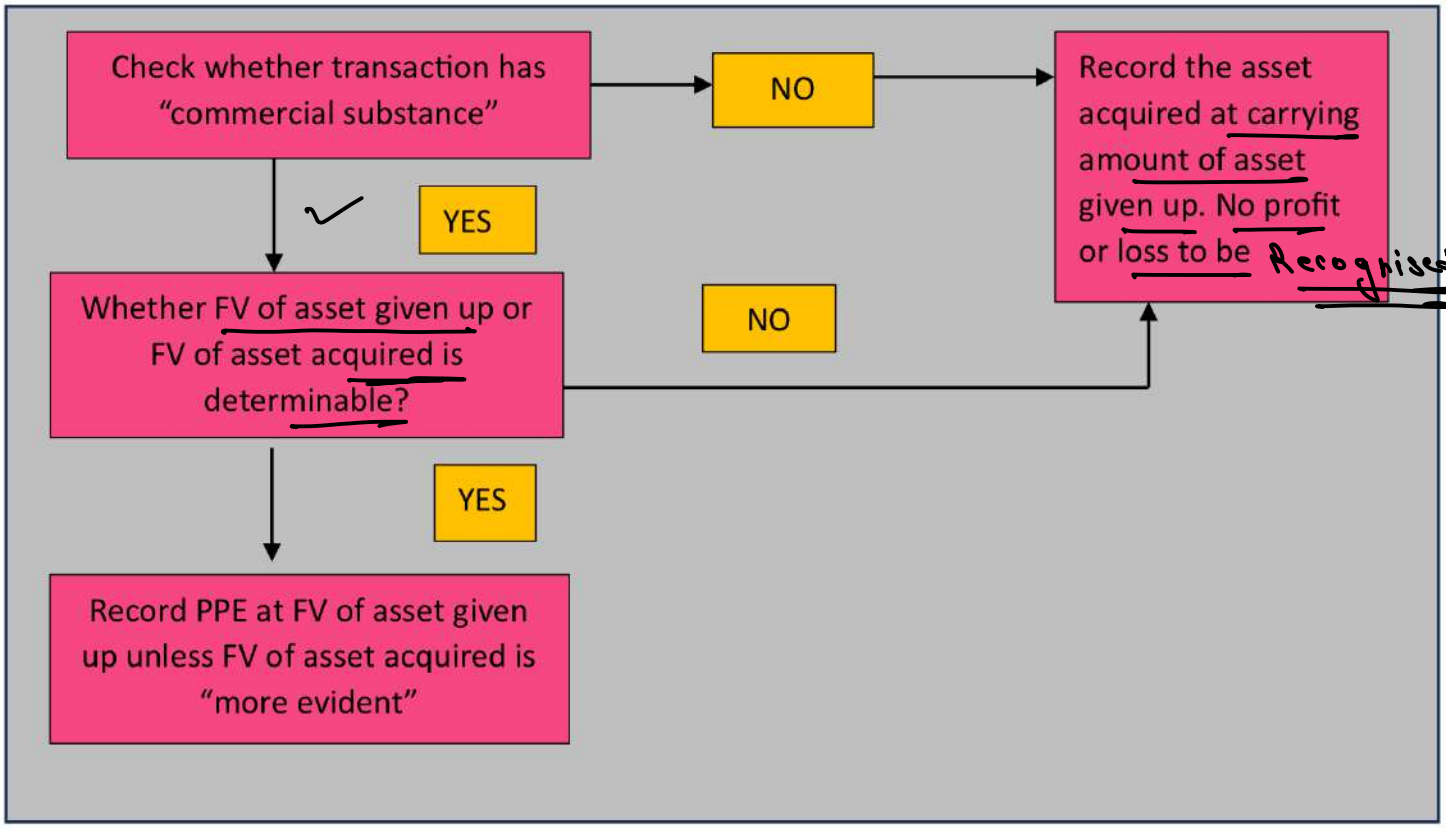
1-4-01	P.P.E.	Dr	9500000	
	To Bank			3333333

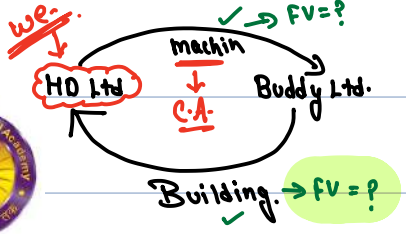
To Def. Cons. (Bif) 6166667

31-3-02 P/L (int) Dr 330533
Def. Cons. Dr 3002800 (Bif)
To Bank 3333333

31-3-03 P/L (int) Dr 169467
Def. Cons. Dr 3163867 (Bif)
To Bank 3333334

D) Exchange





Commercial Substance.

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- **Yes**
  - Check whether FV of assets is determinable
    - **Yes**
      - 1st pref ⇒ FV of assets coming in or acquired. (if clearly evident) else.
      - IInd pref ⇒ FV of assets given up else
      - IIIrd pref ⇒ R.A. of assets given up.
    - **No**
      - R.A. of assets given up.
- **No**
  - R.A. of assets given up.

Note :- if nothing is mentioned in Q. we will assume Commercial Substance existing.

Question#4 ILL -2 ICAI SM

Pluto Ltd owns land and building which are carried in its balance sheet at an aggregate carrying amount of ₹ 10 million. The fair value of such asset is ₹ 15 million. It exchanges the land and building for a private jet, which has a fair value of ₹ 18 million, and pays additional ₹ 3 million in cash.

Show the necessary treatment as per Ind AS – 16.

₹ in million

Soln :-

PPE (Jet) Dr	18	
To PPE (L & B)		10
To Cash/bank		3

To P12 (BIF) 5

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#4 Subsequent Recognition

a) Revaluation

i) PPE shown @ each BIS date either @ cost model or Revaluation model.

ii) Chosen acing policy (Cost/Revaluation) will apply to class of PPE.

↓

It consists of group of assets having similar nature or use.

eg→ LSB, PSM, furniture etc.

iii) Cost Model

Cost	xxx
– Acc. Dep.	(xx)
– Acc. I. Loss	(xx)
C.A	xxx

iv) Revaluation Model

C.A. = F.V. as on date of Revalⁿ & Dep. should be calculated on this Revalued amount in future.

v) A/cing for Revaluation

Case-1 :- Dep. is charged directly to PPE i.e PPE is appearing at WDV.

eg → C.A. of PPE = ₹ 100

- FV = ₹120
  - ↓
  - PPE Dr 20
    - To R.R. 20
  - & Subsequently
    - FV = ₹130
    - Or
    - FV = ₹90
- FV = ₹90
  - ↓
  - P/L Dr 10
    - To PPE 10
  - & Subsequently
    - FV = 85 ↓
    - FV = 105 ↓

PPE Dr 10
To RR 10

R.R. Dr 20
PIL Dr 10
To PPE 30

PIL 5
To PPE 5

PPE Dr 15
To PIL 10
To RR 5

Case-2 Dep. is charged to acc. dep. i.e. P.P.E. is appearing at Cost.

Eg →

PPE	200	50% →	300
− Acc. dep	(40)	50% →	(60)
CA	160		240
R.A.	240	→	

Asset is increased by ₹ 80 i.e. $\frac{80}{160} \times 100 \Rightarrow 50\%$.

PPE Dr 80
To R.R 80

Option I

Elimination approach.

(elimination of Acc. dep.)

a) acc. dep Dr 40

Option II

Restatement approach.

(proportionately Δ in Cost & Acc. dep

To PPE 40

∫

b) PPE Dr 80

To R.R. 80

∫

Subsequently it will become same as in Case 1

i) PPE Dr 100

To Acc.dep. 20

To Rev.Res. 80

PPE = 200 + 50% = 300

Acc.dep = 40 + 50% = 60

ii) C.A. 300

− Acc.dep. (60)

240

∫

Subsequently also follow same proportion of ↑ or ↓ ∫ in Case of ↓ use R.R. first as done in Case (1).

Note :- if Q. is Silent then we will use option 2 i.e. Restatement approach.

vi) R.R. will be trf. to OCI − N.R.

vii) Frequency of Revaluation

- Volatile
- else

Annual 3-5 yrs.

viii)

eg→ Cost 100

− Dep (3yrs) (30) → ₹ 10 p.a.

($\frac{100}{10}$ x 3 yrs)

C.A. 70

+ Rev. gain 35 → OCI-NR

F.V. on D.O. Rev. 105

− Dep. of 4th year (15) → ₹ 15 p.a.

($\frac{105}{7}$ = 15)

C.A. 90

Dep. Dr 15
To PPE 15

&

PL Dr 15
To Dep. 15

OR

Dep. Dr 15
To PPE 15

&

PL Dr 10
R.R. Dr 5
To Dep 15

IND AS states Co. may transfer excess dep. of ₹ 5 due to Revaluation from OCI to R.E. in SOCIE.

Question#12 — **ILL 3 OF SM , TYK Q. 2 SM**

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

Find out the entries to be passed?

Soln:-

Cost ⇒	100000
− Acc.dep	(55000)
C.A.	45000
FV	65000

∴ increase in Asset ⇒ $\frac{20000}{45000} \times 100 \Rightarrow 44.44\%$

Elimination approach

Acc. Dep. Dr 55000
To PPE 55000

PPE Dr 20000
To RR. 20000

Restatement approach

PPE Dr 44444 (1L × 44.44%)
To Acc. Dep. 24444
(55000 × 44.44%)
To R.R. 20000

Question#13 — **ILL 15 OF SM ICAI**

An item of PPE was purchased for ₹ 9,00,000 on 1 April 20X1. It is estimated to have a useful life of 10 years and is depreciated on a straight line basis. On 1 April 20X3, the asset is revalued to ₹ 9,60,000. The useful life remains unchanged at ten years.

Show the necessary treatment as per Ind AS 16.

Soln :-

Cost as on 1-4-01 = 900000

— Dep. for 2 years = (180000)

{ 900000/10 × 2 }. → 90000 p.a.

C.A. on 31-3-03 720000

+ Rev. gain (B/f) 24000 → OCI NR.

F.V. on 1-4-03 960000

— Dep. for (03-04) (120000) → 120000 p.a.

{ 960000/8 }

C.A. 840000

Entry → Dep. Dr 120000

To PPE 120000

or

P/L Dr 120000

To Dep. 120000

Bal. of R.R.

⇒ 24000

P/L Dr 90000

R.R. Dr 30000

To Dep 120000

Bal. of R.R.

↳ 210000

Question#22 **ILL 4 OF SM ICAI**

Venus Ltd. is a large manufacturing group. It owns a considerable number of industrial buildings, such as factories and warehouses, and office buildings in several capital cities. The industrial buildings are located in industrial zones whereas the office buildings are in central business districts of the cities. Venus's Ltd. Management wants to apply the Ind AS 16 revaluation model to subsequent measurement of the office buildings but continue to apply the historical cost model to the industrial buildings. Is this acceptable under Ind AS 16, Property, Plant and Equipment?

Answer:

Venus's Ltd. management can apply the revaluation model only to the office buildings. The office buildings can be clearly distinguished from the industrial buildings in terms of their function, their nature and their general location.

Ind AS 16 permits assets to be revalued on a class-by-class basis.

The different characteristics of the buildings enable them to be classified as different PPE classes. The different measurement models can therefore be applied to these classes for subsequent measurement. All properties within the class of office buildings must therefore be carried at revalued amount. Separate disclosure of the two classes must be given in accordance with Ind AS 16

9) JE for Sale of PPE

eg :- C.A. of PPE = ₹50
Rev. Reserve = ₹10

SP = 65

CIB Dr 65
To PPE 50
To PIL 15

&

tvf. RR to RE

SP = 60

CIB Dr 60
To PPE 50
To PIL 10

&

tvf. RR to RE

SP = ₹30

CIB Dr 30
RR Dr 10
PIL Dr 10 (Bal)
To PPE 50

SP = 45

CIB Dr 45
RR Dr 5
To PPE 50

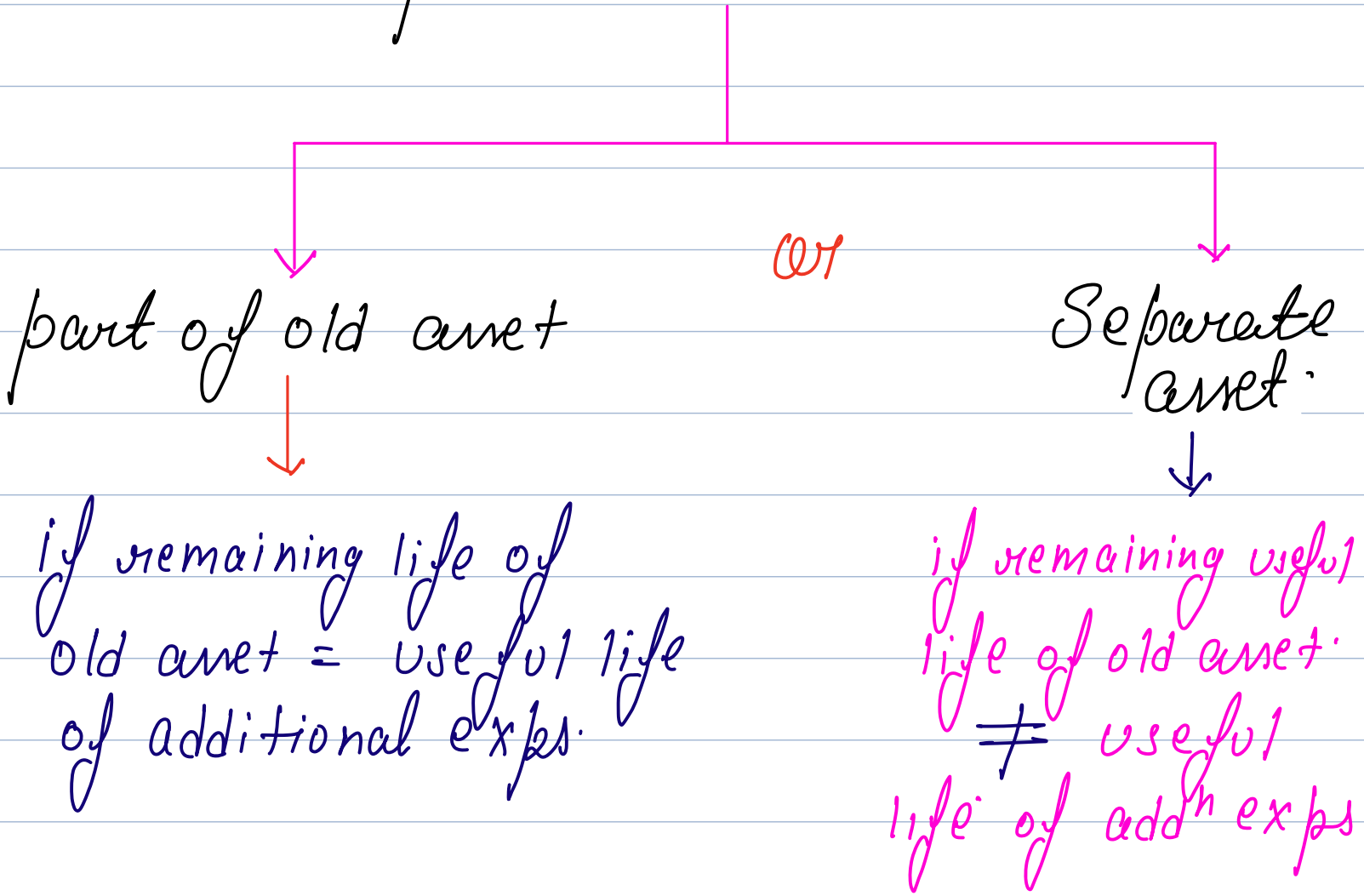
tvf. Bal. R.R. to RE

Eg: XX to XZ

b) Amount Receivable from Ins. Co. due to damage in PPE is acted for separately as other income in SOPL.

Part B) Additional Expense

i) if such expense gives FEB of >12m, then Capitaline cost as a



ii) Subsequent Cost →

Repairs & maintenance.

Day to Day

entity does not recognise cost of day to day servicing in the C.A. of PPE. rather these cost are recognised in P or L as they incurred.

These cost are primarily Cost of labour & consumables & may include cost of small parts.

Replacement at reg. intervals

Some parts of PPE may require replacement at reg. intervals like replacing interior wall of Building.

i) Recognise cost of new item in PPE at time of replacement in C.A. of PPE &.

ii) Derecognise amount of replaced part from C.A. of PPE.

major inspection/ overhauls.

will discuss with Component a/c ing

Part C :- Depreciation

i) methods of charging Dep.

SLM

WDV

or

RBM

or

DBM

↳ PUM

↳ MHR

2) eg- Cost ⇒ 100, SV = 20, life = 4yrs

SLM

$$Dep \Rightarrow \frac{100-20}{4} = 20$$

	y^1	y^2	y^3	y^4	
CA	100	80	60	40	
Dep ⇒	20	20	20	20	⇒ 80
	80	60	40	20	

WDV

$$Dep = \%$$

$$\Rightarrow 1 - \left(\frac{SV}{Cost}\right)^{\frac{1}{n}}$$

$$\Rightarrow 1 - \left(\frac{20}{100}\right)^{\frac{1}{4}}$$

$$\Rightarrow 33.125\%$$

	y^1	y^2	y^3	y^4	
CA	100	67	45	30	
Dep	(33)	(22)	(15)	(10)	= 80
	67	45	30	20	

3) Dep. is charged from date of asset is RTU.

4) Dep. ceases when PPE is ⊢ Sold

↳ Classified as held for sale

5) Choice of Dep. method should be based on Consumption pattern & not on revenue pattern

6) if PPE is consisting of Land & Building both, then Dep. should be charged on Building Component.

7) if there is Δ in Dep. method or usefullife or scrap value, then it is Δ in Acing estimate & hence effect should be given prospectively over remaining useful life on C.A. of PPE as on date of change.

8) Journal

Dep Dr
To PPE

Dep Dr
To Acc. Dep
(if Q is Silent)

Part D :- Component Acing