

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 Prodⁿ/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

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

Prp. 2nd: Fair value of Asset Acquired

Prp. 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 Prp. i.e.

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

Subsequent Recognition

Choose Either

Cost Model

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

Revaluation Model

Frequency

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

Revaluation

Accounting Treatment

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	Ind Use
↑ R/S	↑ R/S
↓ P&L	↓ P&L
↑ R/S	↓ R/S & then P&L
↓ P&L	↑ P&L & then R/S

Transfer of Revaluation Surplus to Revenue Reserve

During use of Asset

Excess Dep. may be hd. (optional)

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

Excess Dep. xx

When Asset is Derecognised

Whole surplus is transferred

Depreciation

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

Depreciable Amount: Cost / Revalued 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
★ Asset retired from active use & held for disposal
★ 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