5-7 marks

AS 10 – Property Plant & Equipment (PPE)

1) Meaning of PPE :-

Any Tangible Asset which is

a) Held For Use in :-

(i) production of Goods
(ii) Supply of Goods or Services
(iii) Rental to Others ; (or)
(iv) Administrative purpose

Renting should be main Business activity

and

b) Expected to be Used for more than 12 months

2) Recognition of PPE (in the Books) :-

Record Karna

When both Conditions are Satisfied, then PPE Shall be Recognised :-

(i) Cost of PPE Can be measured Reliably
(ii) Future Economic Benefits Can be obtained.

3) Cost of PPE :-

Purchase Cost (+) DAC (+) DC (+) Borrowing Cost

DC at PV

Purchase Cost :- Invoice prices (including Taxes)
(-) Trade Discount
(-) Refundable Taxes (GST)
(+) Freight, Loading, Handling Cost
(+) Transport & Transit Insurance

Directly Attributable Cost, means any cost which is necessary to bring the PPE into Useable Condition, Such as :- Initial delivery cost, Site preparation, Consultant fees, Installation Cost, Labour Cost, Costing of Testing the PPE (net of Sale of Samples) Supervisor Salary, Depreciation of any other PPE Used, Rent of any PPE used, Legal Charges, Stamp Duty Charges, Title guarantee Insurance

Dismantling Cost :- Estimated Cost to be incurred in Future when the PPE will be dismantled. (Cost will be at Present Value)

Borrowing Cost :- to be added to Cost of PPE if allowed as per AS 16.

Example 2:

1/4/23, PPE Purchased @3 Crore, DAC is 1 Crore, Life of PPE = 10 Years.

There is a Decommissioning Liability after 10 Years of Rs. 25 lakhs. Discount Rate is 10% p.a.

What is the cost of PPE? & How to treat Decommissioning Liability.

Solution:

Particulars	Amt.
Purchase Cost	3,00,00,000
(+) DAC	1,00,00,000
(+) Present Value of D.C. 2500000 × 0.386	965000
Cost of PPE =	4,09,65,000

Journal Entry at Beginning of 1st yr.

PPE a/c Dr.	4,09,65,000	
To Bank a/c		4,00,00,000
To provision for DC a/c		9,65,000

4) Expenses which are not a part of Cost of PPE :— (transfer to P&L)

a) Admn./Gener./S&D OH
b) Abnormal Loss
c) Training Cost
d) Operating Losses
e) Cost of Relocating the Asset from one place to another
f) Marketing / Promotion / Advertisement
g) Re-installation / Re-set-up
h) Rent of Factory Building

5) Different Cases of Identification of Cost

a) PPE purchase today, but payment will be deferred atleast for 12 months or more :-

Cost = PV of Future payments (also called Cash price Equivalent)

Example On 1/4/26, Building purchased for 1 yr. Credit. Agreed payment to be made on 31/3/27 of Rs. 60,00,000. Show the A/c entries, if Current Cash price is 57 lacs.

1/4/26 Building a/c Dr. 57,00,000
To Credit a/c 57,00,000

31/3/27 Creditor a/c Dr. 57,00,000
(P&L) Interest Exp Dr. 3,00,000
To Bank a/c 60,00,000

b) PPE acquired in Exchange of any other Asset :-

General Rule :- Cost (of PPE purchased) = Fair values (Market Value)

Which Fair value ?

1st priority = FV of Assets given

2nd priority = FV of Asset Acquired

Exceptional Rule :- When Both Fair values are not available (or) when the transaction lacks Commercial Substance, then Cost of acquired Asset will be equal to Carrying Amt of Asset given.

Note:- In Exceptional Rule, Exchange Gain/Loss will never be recognised. Asset will be either recorded at Carrying Amt of Asset given (or) at balancing figure if Cash is also involved.

(Refer Ex 5, 6, 7) of AS Trump

Q.AS10.SM.14

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 AS 10.

Solution In Case of PPE acquired in exchange of another Asset, then such Acquired Asset should be recorded at fair value of Assets given.

Cost of Jet = FV of L&B given + Cash paid

= 15 million + 3 million

= 18 million

Private Jet a/c	Dr.	18 million	
To Land & Building			10 million
To Bank			3 million
(B/F) To Profit on Exchange			5 million

c) More than One PPE acquired by Paying Single Amount.

Cost of Each Asset Shall be determined in the Ratio of Fair values of all assets acquired together.

d) PPE Acquired through Govt. Grant (AS 12)

(i) If PPE is acquired from Govt at Free of Cost then Cost of PPE = Nominal Value

*Nominal value Can be Rs. 10, 100 etc.

(ii) If PPE is acquired from Govt at Concessional price, then Cost = Actual price paid (i.e Concessional price)

6) Revaluation of PPE

At B/S date, Entity has two options :-

a) Cost model (Cost less Depreciation)

b) Revaluation model (Market Value less Depreciation)

Cost model (or) Revaluation model shall be applied on entire Class of PPE.

↳ Eg. We can apply Cost model on all Machines, and Revaluation model on All Buildings.

Cost model		Revaluation model	
Original Cost	xxx	Original Cost	xxx
(–) 1st yr. Dep	(xx)	(–) 1st yr. Dep	xxx
WDV of PPE	xxx	WDV (net)	xxx
(–) 2nd yr. Dep	(xx)	(–) 2nd Dep	xxx
WDV of PPE	xxx	(+/–) Revaluation Gain/Loss	xxx
		Fair value	xxx
		(–) 3rd Dep on Fair value	(xx)
		WDV (net)	xxx

Frequency of Revaluation

- If Change in Value is Significant & Volatile → Annual Revaluation is Mandatory
- If Change in Value is insignificant → Revaluation can be done in 3-5 yrs.

Accounting of Revaluation

1) First Time Revaluation

a) **Upward Revaluation** :- Gain is transferred to Revaluation Reserve.

PPE a/c Dr.	30
To Revaluation Reserve	30

b) **Downward Revaluation** :- Loss is transferred to P&L a/c :-

P&L a/c Dr.	50 lacs
To PPE a/c	50 lacs.

2) Subsequent Revaluation :-

a) **Upward now but earlier Downward** :-

Current Gain upto previous Loss → transfer to P&L

Additional Gain → Transfer to RR

PPE a/c Dr.
To P&L (1st priority)
To RR (Balance if any)

b) **Downward Now, Earlier Upward** :- (Refer Q5 practice sheet)

Loss (current) shall be setoff will available RR Balance.

Additional Loss → Transfer to P&L.

Revaluation Reserve Dr. (1st priority)
Profit & Loss Dr. (Balance if any)
To PPE a/c xxx

Techniques of Revaluation

a) **Net method** :- Org. Cost of PPE = 1200000 Dr.
provision for Dep (till date) = 400000
Cr. Bal. accumulated Dep Asset 8

Fair value = $\boxed{10,00,000}$

a) provision a/c Dr. 400000
To Asset 400000

b) Asset a/c Dr. 200000
To RR 200000

b) **Gross method** Org. Cost = 12,00,000
Accumulated Dep = 400000
(Provision)
Fair value = 10,00,000

Rev. Gain = 200000
Rev. Gain (%) = $\frac{200000}{800000} \times 100 = 25\%$

Dr. Orginal Cost 1200000 x 25% = 300000 ↑
Cr. Provision 400000 x 25% = 100000 ↑
200000

Before Revaluation B/S

PPE	1200000	800000
(−) provision	400000	

Net method

B/S

Liab	
RR	2
Asset	
PPE	10

Gross method

B/S

Liab.		
RR		2
PPE	1500000	10
Provision	(500000)	

Utilization OF Revaluation Reserves

(RR Debit Kab Kab Hoga)

① PPE is not yet SOlD
(it is Currently being using in Business)
↓
Option to Transfer RR to GR equal to Excess Depreciation every year

② PPE is Finally SOlD
↓
Mandatory Transfer OF RR to GR
↓
RR a/c Dr.
To GR

7) Component Accounting V.Imp.

Example :- Aircraft may have following Major Components :-
a) Engine / wings → 10 yrs.
b) Outer Body → 20 yrs.
c) Furniture / Fittings → 5 yrs

Building (Prestige Point) may have major Component :-
a) RCC work (50-60 yrs)
b) Lift (20 yrs)

a) Calculate **Depreciation on each Component** of PPE Separately, if such Component is significant in **Value** & has different **Useful life**.

b) Replacement of Any Component of PPE

Old Component
↓
Carrying Amt shall be DeRecognised :-

P&L a/c Dr. 419.12
To PPE a/c 419.12

New Component
↓
Cost of New Component shall be Capitalised
↓
PPE a/c Dr. 1350
To Bank 1350

On Sale of Scrap :-

Bank a/c Dr.
To P&L

> Note :- Overhauling / major Inspection Shall be treated as Separate Component and Same A/c just like Replacement of Component

c) If Carrying Amt. of Old Component is missing then it Can be Calculated as Under :-

(i) Current Cost of Component —— 7500000 (1350)

(ii) Current Cost (x) PVF 838.24 —— 35,000,00

(iii) Accumulated Depreciation —— 18,66,667
based on original life till date 419.12

(iv) Carrying Amt of Old Component —— 1633333 (419.12)
(ii – iii)

8) Depreciation Accounting

(1) Depreciation is mandatory & to the extent possible on each Component wise.

(2) L&B → No Dep on Land Part.

(3) A/c of Dep.
- P&L
- OR
- Capitalised to PPE Inventory or Intangible Asset } DAC

(4)
Depreciation method
↓
Method of Depreciation should always be based on Pattern of Use

(5)
When to start Depreciation?
↓
When Asset is available for Use (Ready to Use)

(6)
Change in method (or) Useful Life (or) Residual value of Depreciation
↓
It is treated as Change in Accounting Estimate
↓
Propestive effect shall be given

(7)
Cessation of Depreciation (Stop Charging Depreciation)

- CA = RV
- (OR) Asset is Sold / Transferred (DeRecognised)
- (OR) Asset is Retired From Active Use and Held For Sale

If PPE is not Used for temporary period but Intension to Use in future.
Depreciation shall be Charged for such Temporary Period.

9) Retirement of PPE From Active Use and Held For Sale

- Stop Charging Depreciation
- Measure the PPE at Lower of :-

a) Carrying Amt.

(OR)
b) NRV

10) De Recognition Of PPE (eliminate from Books)

DeRecognise the PPE in Case Of :-

- Sale
- Transfer of ownership (Gift)
- Lease

Gain/Loss on DeRecognition ⇓ profit and Loss A/c (P&L)

11) Provision For Dismantling Cost (Practice Sheet Q4)

a) It is a Long Term Provision and Subject to Change due to Change in estimate Amount of outflow.

b) Accounting For Change in provision :-

Carrying Amt of provision	XXX
(–) Revised Amt. of provision	XXX
Decrease/Increase of provision ⇒	Gain/Loss

PPE (Cost model)

a) Increase in provision (Loss)

PPE a/c Dr.
To provision for DC

PPE (Revaluation)

a) Increase in provision (Loss)

RR Dr. (if available)
P&L Dr. (if No RR)
To Provision for DC

Calculate Dep on Revised Value OF PPE.

b) Decrease in provision (Gain)

Provision For DC a/c Dr.
To PPE

Calculate Dep on Revised Value OF PPE.

b) Decrease in provision (Gain)

Provision For DC Dr.
To P&L (if there is previous Loss)
To RR (Balance)

Refer EX 14 OF AS Trump (Practice Note Book Pg. 11)

12) Other Important Points

a) Biological Assets

- Animals
  - Animals Used in Agr. Activity → NO AS 10
  - Animals Used in Business Other than Agr. Act. → AS 10 ✓ (Dogs For Security OF PPE)
- plants
  - Bearer → • Used For production of Agr. Goods (+) • Life > 12m → AS 10 ✓
  - Non Bearer → Crops → NO AS 10

b) Spare parts / Tools / Small Equipments

- Life > 12m ⇒ PPE
- Life < 12m ⇒ Expense (at B/S date Unconsumed then Closing Inventory)

c) Any PPE (existing in Books) if Lost due to Fire or any other reason, then whole CA shall be de-Recognised through P&L a/c

Refer Q6

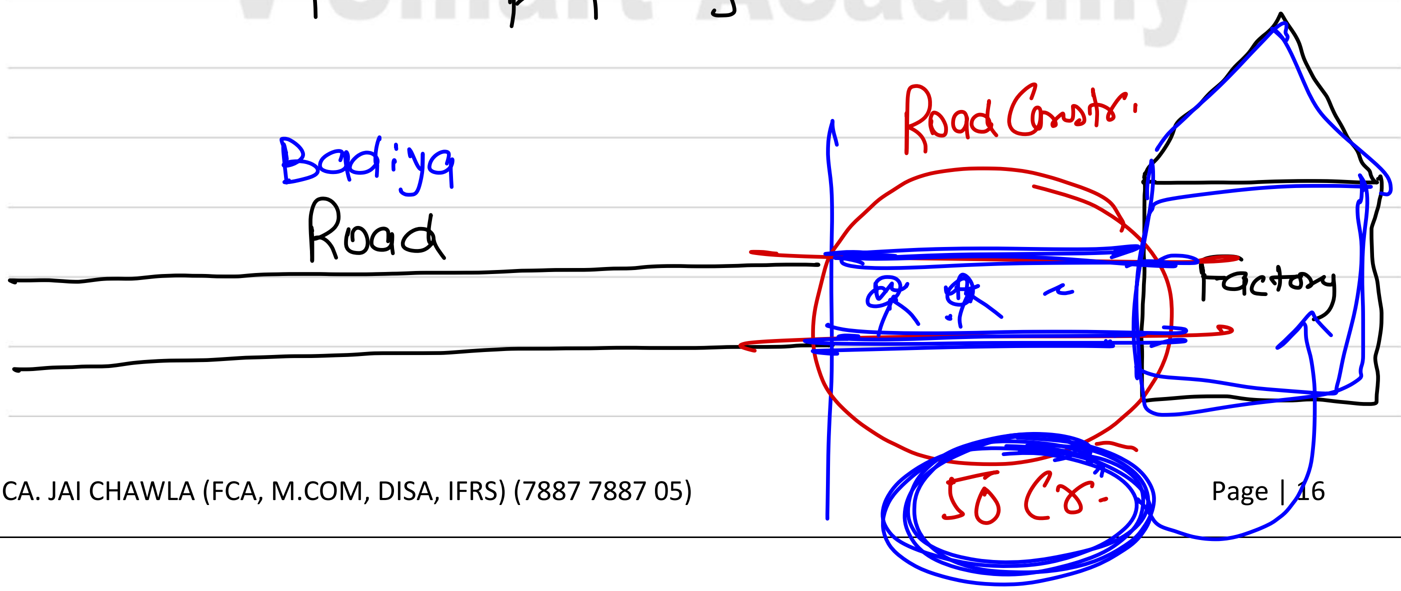
P&L a/c Dr. (Book value)
  To PPE a/c

If New PPE received from Insurance Company then it should be recorded at its fair value through P&L

New PPE a/c Dr. (at FV)
  To P&L a/c

d) Cost incurred to Construct public Utilies (Roads, Bridge, Railway lines etc) can be added to the cost of project i.e Factory if such cost is DAC.

This cost of public Utility Can-not be separately treated as Asset, because it is a public property.



e) Any Expense of Staff Salary or any other Recurring nature, if incurred during Construction of property (or) renovation of PPE, Such expense Shall never be Capitalised. (Unavoidable) (d18a)