4 ACCOUNTING STANDARD – 10 PROPERTY, PLANT & EQUIPMENT

"Push yourself, because no one else is going to do it for you"

1. IMPORTANT DEFINITIONS

1. PROPERTY PLANT AND EQUIPMENT

Any Tangible item will be called as PPE if it satisfies the following Conditions:

Condition – 1	Condition – 2
Held for Use in • Production or Supply of goods and services • For Rental to Others • For Administrative Purposes	Expected to be Used for more than 12 Months.
Renting should be the main business activity of the entity to Qualify tangible item as PPE otherwise it would be qualified as an Investment Property under AS 13	

2. BIOLOGICAL ASSETS

It means Living Plants and Animals. AS 10 doesn't apply to Biological Assets except on Bearer Plants.

3. BEARER PLANT:

a plant that satisfies all the 3 conditions:

Bearer Plant is a plant which	is used in the production or supply of Agricultural produce
	is expected to bear produce for more than a period of 12 months
	Has a remote likelihood of being sold as Agricultural produce Except for incidental scrap sales

Note: When bearer plants are no longer used to bear produce, they might be cut down and sold as scrap. For example - use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a Bearer Plant.

Example of bearer plant is Mango Tree, Coconut Tree etc

2. RECOGNITION CRITERIA FOR PPE

The cost of an item of PPE should be recognized as an asset if, and only if:

(a) It is probable that future economic benefits associated with the item will flow to the enterprise, and

(b) The cost of the item can be measured reliably.

Treatment of Spare Parts, Standby Equipment and Servicing Equipment
Case I: If they meet the definition of PPE as per IND AS 16: Recognised as PPE as per IND AS 16
Case II: If they do not meet the definition of PPE as per IND AS 16: Such items are classified as Inventory as per IND AS 2. • Treat Expense First as a part of Purchase of Goods • if at the end of Reporting Period, these items are not yet fully consumed then treat them as Inventory (Closing Stock)

3. MEASUREMENT OF PPE

At Initial Recognition	Subsequent measurement on BS date
	COST MODEL
COST MODEL	(Or)
	REVALUATION MODEL

Note: Selection of Any Model at BS date is an Accounting Policy.

INITIAL RECOGNITION

Cost of an item of PPE comprises:

COST Includes	COST Excludes
(a) Purchase Price including Import duties and Non-refundable Taxes	• Cost of Opening new business such as inauguration cost
(b) Any Directly attributable Costs bringing the Asset to its 'location and condition' **Eg.** • Cost of Employee benefits on construction or acquisition of PPE • Installation Cost	• Startup Costs (i.e. Legal Expenses) • Cost of introducing a new product including advertising

<table>
<tr>
<td>
• Cost of Testing the PPE
• Professional Fees
• Initial delivery Cost etc
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<td rowspan="2">
• Initial operating losses
• Cost of relocating or reorganizing part or all the operations of an enterprises.
• Administrative and other general overheads
• Abnormal Cost/Losses (eg. Loss due to strike)
• Staff Training Costs
• Income earned from incidental operations
eg. Income from Car Park.
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<td>
(c) Decommissioning Restoration and Similar Liabilities
This cost is to be estimated using appropriate discounting rate i.e. it should be recognised initially at PV of future outflow.
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<td colspan="2">Excess of Net Proceeds from Sale of Items produced during testing will be deducted from the Cost of Item of PPE.</td>
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Example 1:

An amusement park has a 'soft' opening to the public, to trial run its attractions. Tickets are sold at a 50% discount during this period and the operating capacity is 80%. The official opening day of the amusement park is three months later. Management claim that the soft opening is a trial run necessary for the amusement park to be in the condition capable of operating in the intended manner. Accordingly, the net operating costs incurred should be capitalised. Comment.

ANSWER:

The net operating costs should not be capitalised, but it should be recognised in the Statement of Profit and Loss.

Even though it is running at less than full operating capacity (in this case 80% of operating capacity), there is sufficient evidence that the amusement park is capable of operating in the manner intended by management. Therefore, these costs are specific to the start-up and, therefore, should be expensed as incurred.

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:

Purchase	3,00,00,000
+ DAC	1,00,00,000
+ PV of Decommissioning Liability	9,63,858
Cost of PPE	**4,09,63,858**

1/4/23	PPE A/c	Dr.	4,09,63,858	
	To Bank A/c			4,00,00,000
	To Decommissioning Liability A/c			9,63,858
31/3/24	Interest Cost A/c	Dr.	96,386	
	To Decommissioning Liability A/c			96,386

4. MEASUREMENT OF COST AT INITIAL RECOGNITION:

Case - 1

If Payment is deferred beyond Normal Credit Terms:

Cost of an item of PPE is the CASH PRICE EQUIVALENT (Present Value of Agreed Price) at the recognition date:

Total Contract Value	XXX
(-) Present Value of Future Cash Outflow (discounting)	XXX
Interest Cost (Charged to P&L)	XXX

Example 3: - (Payment is beyond normal Credit Term)

Asset is Purchased & Payment will be made after 1 Year of ₹ 80,00,000. Discount Rate is 7% p.a.

Pass necessary Journal Entry

Solution:

PV of 80lakhs @7% p.a. = 80,00,000 / 1.07 = 74,76,635

Date of Purchase	Asset A/c	Dr.	74,76,635	
	To Creditor A/c			74,76,635
Date of Payment	Creditor A/c	Dr.	74,76,635	
	Interest A/c	Dr.	5,23,365	
	To Bank A/c			80,00,000

Example 4: - (Payment is Beyond Normal Credit Term)

Asset is Purchased & Payment will be made equally in 2 installments of 80,00,000 in 2 years. Discount Rate is 7% p.a.

Pass necessary Journal Entry.

Solution:

Cost of Asset is equal to "Cash Price Equivalent".

Cash Price Equivalent mean PV of 40,00,000 @7% Discount for 2 Years.

Year	Amount	PVF	PV
1	40,00,000	0.935	37,40,000
2	40,00,000	0.873	34,92,000
Cost = Cash Price Equivalent			72,32,000

Date of Purchase:

Asset A/c	Dr.	72,32,000	
To Creditor A/c			72,32,000

1st Year End:

Interest A/c	Dr.	5,06,240	
To Creditor A/c			5,06,240
Creditors A/c	Dr.	40,00,000	
To Bank A/c			40,00,000

Creditor A/c

To Bank A/c	40,00,000	By Asset A/c	72,32,000
To Balance C/d	37,38,240	By Interest A/c	5,06,240

2nd Year:

Interest A/c	Dr.	2,61,760	
To Creditor A/c			2,61,760
Creditors A/c	Dr.	40,00,000	
To Bank A/c			40,00,000

Case - 2

PPE acquired in Exchange for a Non-monetary Asset or Assets or a combination of Monetary and Non-monetary Assets:

Cost of such an item of PPE is measured at fair value of Asset Given Up (1st Priority) or Asset Received (2nd Priority) unless:

(i) Exchange transaction lacks commercial substance; Or

(ii) Fair value of neither the asset(s) received, nor the asset(s) given up is reliably measurable.

If the PPE acquired is not measured at Fair Value, its cost is measured at the carrying amount of the asset given up.

Example 5:

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)

Example 6:

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 IndAs 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

Example 7:

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 IndAs 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

Case - 3

PPE purchased for a Consolidated Price:

Where several items of PPE are purchased for a consolidated price, the consideration is apportioned to the various items based on their respective fair values at the date of acquisition.

Note: In case the fair values of the items acquired cannot be measured reliably, these values are estimated on a fair basis as determined by competent valuer.

Case - 4

Government Grant related to PPE:

If Govt. Grant is received in Kind (i.e. PPE received at Free of Cost) then it should be recognised at Nominal Value as per AS 12.

5. MEASUREMENT OF PPE AT BALANCE SHEET DATE

An enterprise should choose,

- ♦ Either Cost model,
- ♦ Or Revaluation model

as its accounting policy (IND AS 8) and should apply that policy to an entire class of PPE.
Any change in Accounting Policy shall have Retrospective effect.

Class of PPE: A class of PPE is a grouping of assets of a similar nature and use in operations of an enterprise.

Examples of separate classes:

1) Land
2) Land and Buildings
3) Machinery
4) Ships
5) Aircraft
6) Motor Vehicles
7) Furniture and Fixtures
8) Office Equipment
9) Bearer plants

Example 8:
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?

SOLUTION:
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.

Cost Model
After recognition as an asset, an item of PPE should be carried at:
Cost - Any Accumulated Depreciation - Any Accumulated Impairment losses

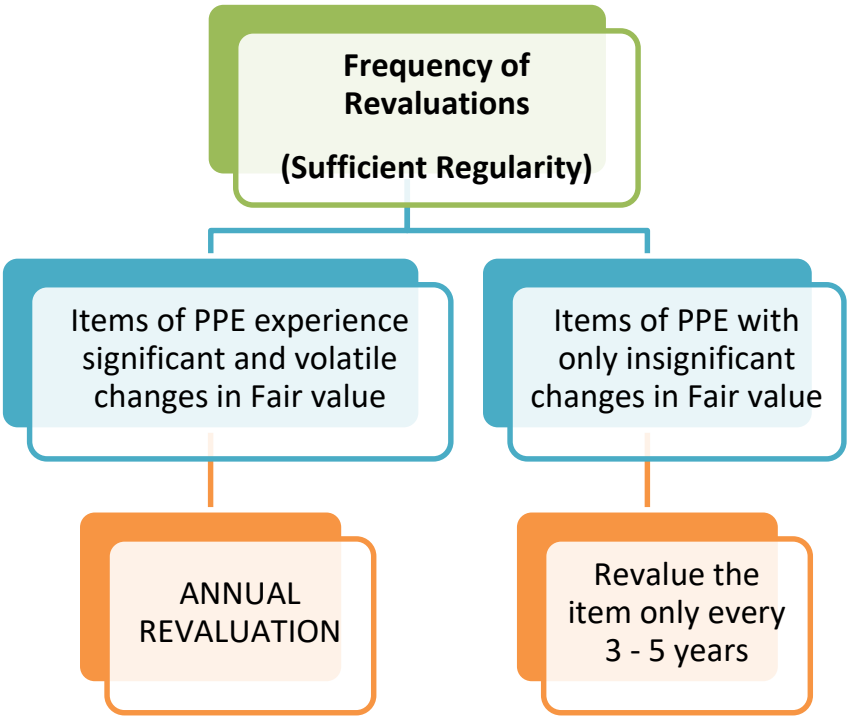
Revaluation Model

After recognition as an asset, an item of PPE whose fair value can be measured reliably should be carried at a revalued amount.

Fair value at the date of revaluation	-
Less: Any subsequent accumulated depreciation	(-)
Less: Any subsequent accumulated impairment losses	(-)
Carrying value	=

Revaluation for entire class of PPE

If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.



6. ACCOUNTING TREATMENT OF REVALUATIONS

When an item of PPE is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

Technique 1:

Accumulated depreciation is eliminated against the gross carrying amount of the asset

Step 1 – Eliminate the Accumulated Depreciation balance from Gross Carrying amount of PPE (Debit Acc. Dep A/c and Credit PPE A/c)

Step 2 – Now Compare the Net Carrying Amount of PPE with Fair Value of PPE and determine the Revaluation Profit/Loss

Step 3 – Increase or Decrease the Net Carrying Amt. of PPE with the Revaluation Profit/Loss by either Debiting or Crediting the PPE.

Technique 2:

Restatement Approach (No elimination of Accumulated Depreciation)

Gross carrying amount and Accumulated Depreciation is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

- No need to eliminate Accumulated Depreciation.
- Calculate the Revaluation Gain/Loss and its "% of Change" (Gain (loss) / WDV)
- Increase/Decrease the Original Cost and Accumulated Depreciation with above % and pass following journal entry:

PPE A/c Dr.
To Accumulated Depreciation A/c
To Revaluation Surplus A/c

Example 9:

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 Cost			55,000
Asset Cost	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%

Entry to be Made:

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

(6.1) Revaluation – Increase or Decrease – Treatment

1) Increase in value of PPE:

General Rule	Increase is credited to Revaluation Reserve
Exception: Subsequent Increase, earlier PPE value was decreased	Increase in value shall be first charged to P&L to the extent of earlier reduction, remaining increased value is credited to Revaluation Reserve

2) Decrease in value of PPE:

General Rule	Decrease is debited to Profit and Loss A/c
Exception: Subsequent Decrease, earlier PPE value was increased	Decrease in value shall be first charged to Revaluation Reserve to the extent of balance of RR available, remaining decreased value is debited to Profit and Loss

Example 10:

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

(6.2) Utilisation of Revaluation Surplus

The revaluation surplus included in owners' interests in respect of an item of PPE maybe transferred to the Revenue Reserves (i.e. Retained Earnings) when the asset is de-recognised.

Case I: Mandatory transfer of Revaluation Reserve to Retained Earnings (GR):

When the asset is:

- Retired; or
- Disposed of

Case II: Option to Transfer Revaluation Reserve to Retained Earnings (GR)

- When the asset is still used by an enterprise not yet sold.
- Transfer the amount equal to the excess depreciation due to Upward Revaluation.

Note:
Transfers from Revaluation Surplus to the Revenue Reserves are not made through the Statement of Profit and Loss.

Example 11:
On 01/04/21, PPE Purchased at a cost of 10,00,000 with useful life of 10 Years. Depreciation is chargeable on SLM basis. On 01/04/23, Fair Value of PPE is 9,50,000.

7. TREATMENT OF DIFFERENT SUBSEQUENT EXPENDITURE ON PPE

1. **Cost of day to day Servicing:** This cost is directly recognised in the Statement of Profit and Loss because it does not increase the earning efficiency of PPE.

2. **Replacement of parts of PPE:** Capitalise in the carrying amount of PPE if the recognition criteria are met. (i.e. Future Economic Benefits + Cost Reliable)

Examples:

a) Aircraft interiors such as seats and galleys may require replacement several times during the life of the air frame.

b) Replacing the interior walls of a building, or to make a non-recurring replacement.

3. **Regular Major Inspection or Overhaul:** When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement, if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized.

Example 12:

A shipping company is required by law to bring all ships into dry dock every five years for a major inspection and overhaul. Overhaul expenditure might at first sight seem to be a repair to the ships but it is actually a cost incurred in getting the ship back into a seaworthy condition. As such the costs must be capitalised.

A ship which cost ₹ 20 million with a 20 year life must have major overhaul in every five years. The estimated cost of the overhaul at the five-year point is ₹ 5 million.

The depreciation charge for the first five years of the assets life will be as follows:

	Overhaul Component (Million)	Ship (other than overhaul component) Million
Cost	5	15
Years	5	20
Depreciation per year	1	0.75

Total accumulated depreciation for the first five years will be Rs. 8.75, and the carrying amount of the ship at the end of year 5 will be Rs. 11.25 million.

The actual overhaul costs incurred at the end of year 5 are Rs. 6 million. This amount will now be capitalised into the costs of the ship, to give a carrying amount of Rs. 17.25 million.

The depreciation charge for years 6 to 10 will be as follows:

	Overhaul Component (Million)	Ship (other than overhaul component) Million
Cost	6	11.25

Years	5	15
Depreciation per year	1.2	0.75

Annual depreciation for years 6 to 10 will now be Rs.1.95 million. This process will be continued for years 11 to 15 and years 16 to 20. By the end of year 20, the capital cost of ₹ 20 million will have been depreciated plus the actual overhaul costs incurred at years 5, 10 and 15.

8. DEPRECIATION

Component Method of Depreciation:

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item with significant useful life different from other components should be depreciated separately.

Example 13:

It may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

Is Grouping of Components possible?

Yes.

A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts **may be grouped** in determining the depreciation charge.

(a) Accounting Treatment:

Depreciation charge for each period should be recognized in the Statement of Profit and Loss unless it is included in the carrying amount of another asset for example -

- **AS 2:** Depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories.
- **AS 26:** Depreciation of PPE used for development activities may be included in the cost of an intangible asset.
- **AS 10:** Depreciation of PPE used for construction and development of another self- generated PPE may be included in the cost of self-generated asset.

(b) Depreciable Amount and Depreciation Period

What is "Depreciable Amount"?

Depreciable amount is:

Cost of an asset (or other amount substituted for cost i.e. revalued amount) - Residual value

The depreciable amount of an asset should be allocated on a systematic basis over its useful life.

(c) Review of Residual Value and Useful Life of an Asset

Residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5.

(d) Commencement of period for charging Depreciation

Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. (i.e. Ready to use)

Depreciation in Case the asset is Not Working/ lying idle (in case of situations like covid):
Depreciation of an asset ceases, at the earlier of the date that ,the asset is classified as held for sale and the date the asset is de-recognised. Therefore, the asset continues to be depreciated even if it remains idle, unless the asset is fully depreciated.

Apart from the above, it may be noted that as per AS 10, one of the factors in determining useful life of an asset is technical or commercial obsolescence. Therefore, even when the asset is idle, the same should be depreciated due to technical or commercial obsolescence and wear and tear during that period.

(e) Cessation of Depreciation

I. Depreciation ceases to be charged when asset's residual value exceeds its carrying amount; or

II. Depreciation of an asset ceases at the earlier of:

- The date that the asset is retired from active use and is held for disposal, and
- The date that the asset is derecognized

Therefore, depreciation does not cease when the asset becomes idle or is retired from active use (but not held for disposal) unless the asset is fully depreciated.

(f) Depreciation of Land and Buildings

Land and buildings are separable assets and are accounted for separately, even when they are acquired together.

A. Land: Land has an unlimited useful life and therefore is not depreciated.

Exceptions: Quarries and sites used for landfill.

Depreciation on Land:

I. If land itself has a limited useful life:
It is depreciated in a manner that reflects the benefits to be derived from it.

II. If the cost of land includes the costs of site dismantlement, removal and restoration:
That **portion of the land asset** is depreciated over the period of benefits obtained by incurring those costs.

B. Buildings:
Buildings have a limited useful life and therefore are depreciable assets.

An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

(g) Depreciation Method

The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.

The method selected is applied consistently from period to period unless:

- There is a **change in the expected pattern of consumption of** those future economic benefits; or
- That the method is changed in accordance with the statute to best reflect the way the asset is consumed.

(h) Review of Depreciation method:

The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.

Note:
Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5

9. RETIREMENTS

Items of PPE retired from active use and held for disposal should be stated at the lower of:

- Carrying Amount, and
- Net Realisable Value

Note: Any write-down in this regard should be recognised immediately in the Statement of Profit and Loss.

10. DE-RECOGNITION

The carrying amount of an item of PPE should be de-recognised:

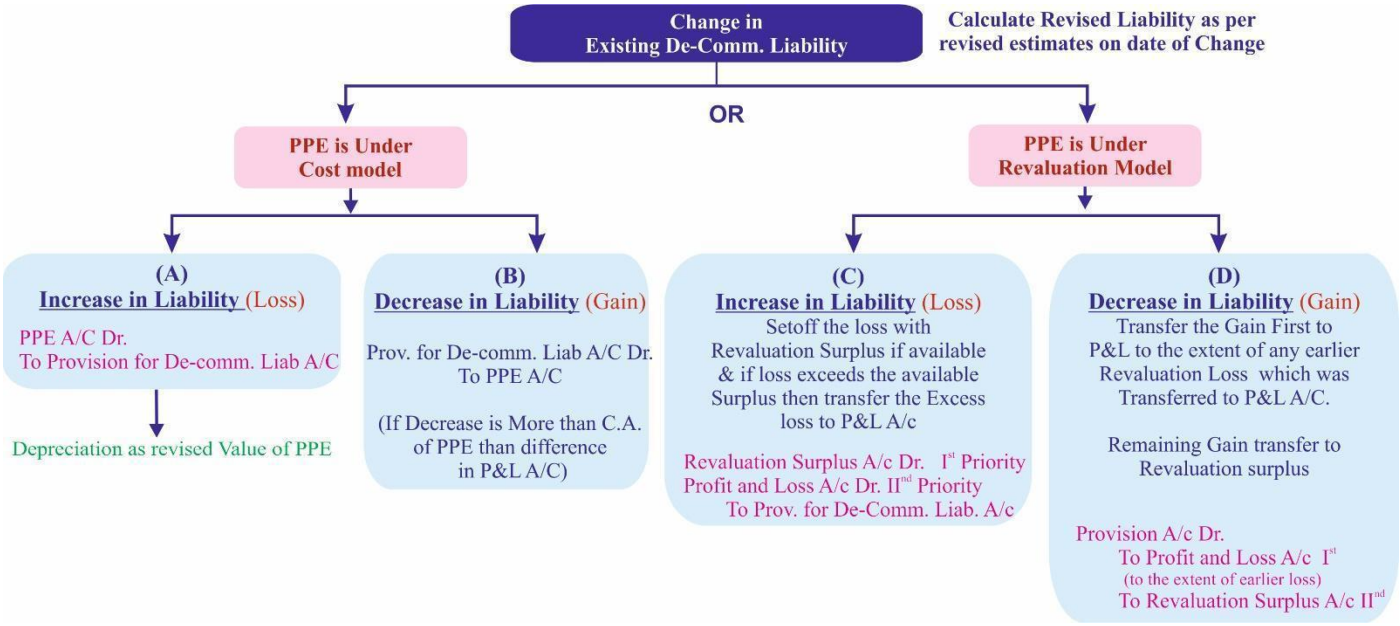
- On disposal
- By sale
- By entering into a finance lease, or
- By donation, or
- When no future economic benefits are expected from its use or disposal

Accounting Treatment:

- Gain or loss arising from de-recognition of an item of PPE should be included in the Statement of Profit and Loss when the item is derecognized.
- Compensation from third parties for items of PPE that were Impaired, Lost or Given up shall be included in Profit and Loss when such compensation becomes receivable.
- Gain or loss arising from de-recognition of an item of PPE =

  Net disposal proceeds (if any) - Carrying Amount of the item

11. CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND OTHER LIABILITIES



Example 14:

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 IndAS 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 x 0.148)	1,78,320
Cost of PPE	**51,78,320**

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 on 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
1st year	1,78,320	17,832	1,96,152
2nd year	1,96,152	19,615	2,15,767
3rd year	2,15,767	21,577	2,37,344
4th year	2,37,344	23,734	2,61,078
5th year	2,61,078	26,108	2,87,186
6th 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 x 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 charged to P&l a/c.

12. MCQ's from ICAI Resources

1. As per AS 10 (Revised) 'Property, plant and equipment', which of the following costs is not included in the carrying amount of an item of PPE
   (b) Costs of site preparation
   (c) Costs of relocating
   (d) Installation and assembly costs.
   (e) initial delivery and handling costs

2. As per AS 10 (Revised) 'Property, Plant and Equipment', an enterprise holding investment properties should value Investment property
   (a) As per fair value
   (b) Under discounted cash flow model.
   (c) Under cost model
   (d) under cash flow model

3. A plot of land with carrying amount of 1,00,000 was revalued to 1,50,000 at the end of Year 2. Subsequently, due to drop in market values, the land was determined to have a fair value of €1,30,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
   (a) Initial upward valuation of 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of 20,000 debited to P/L.
   (b) Initial upward valuation of 50,000 credited to P/L. Subsequent downward revaluation of 20,000 debited to P/L.
   (c) Initial upward valuation of 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of 20,000 debited to Revaluation Reserve.
   (d) Initial upward valuation of 50,000 debited to P/L. Subsequent downward revaluation of 20,000 credited to P/L.

4. A plot of land with carrying amount of 1,00,000 was revalued to 90,000 at the end of Year. Subsequently, due to increase in market values, the land was determined to have a fair value of 1,05,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
   (a) Initial downward valuation of 10,000 debited to Revaluation Reserve. Subsequent upward revaluation of 15,000 credited to P/L.
   (b) Initial downward valuation of 10,000 debited to P/L. Subsequent upward revaluation of 15,000 credited to P/L.
   (c) Initial downward valuation of 10,000 debited to P/L. Subsequent upward revaluation of 10,000 credited to P/L and 5,000 credited to Revaluation Reserve.
   (d) Initial downward valuation of 10,000 credited to P/L. Subsequent upward revaluation of 10,000 debited to P/L and 5,000 debited to Revaluation Reserve.

5. On sale of an asset which was revalued upwards, what would be the treatment of Revaluation Reserve?

(a) The Revaluation Reserve is credited to P/L since the profit on sale of such asset is now realized.

(b) The Revaluation Reserve is credited to Retained Earnings as a movement in reserves without impacting the P/L.

(c) No change in Revaluation Reserve since profit on sale of such asset is

(d) The Revaluation Reserve is reduced from the asset value to compute profit or loss.

6. A machinery was purchased having an invoice price ₹1,18,000 (including GST 18,000) on 1 April 20X1. The GST amount is available as input tax credit. The rate of depreciation is 10% on SLM basis. The depreciation for 20X2-X3 would be

(a) ₹ 10,000

(b) ₹ 11,800.

(c) ₹ 9,000

(d) ₹ 10,500.

ANSWERS	1	2	3	4	5	6
	B	C	C	C	B	A

13. MCQ's Created by Jai Sir and Team

7. Entity A exchanges land with a book value of Rs. 10,00,000 for cash of Rs. 20,00,000 and plant and machinery valued at Rs. 25,00,000. What will be the measurement cost of the assets received. (Consider that the transaction has commercial substance)?
   a) 10,00,000
   b) 20,00,000
   c) 45,00,000
   d) 25,00,000

8. In an exchange transaction where Entity A swaps car X (with a book value of 3,00,000 and a fair value of 3,25,000) for cash of 5,000 and car Y (with a fair value of 3,10,000), with no commercial substance, what will be the measurement cost of the assets received?
   a. 3,10,000
   b. 2,95,000
   c. 2,85,000
   d. 3,25,000

9. Entity B purchased an asset on 1st January 2021 for Rs. 1,50,000 and the asset had an estimated useful life of 8 years with no residual value. On 1st January 2026, the directors review the estimated life and decide that the asset will probably be useful for a further 5 years. If the company charges depreciation on a straight-line basis, what will be the amount of depreciation for each year starting from 2026?
   a. Rs. 18,750
   b. Rs. 22,500
   c. Rs. 11,250
   d. Rs. 30,000

10. Entity B purchased an asset on 1st April 2022 for Rs. 8,00,000 but put to use on 1st June, 2022 and the asset had an estimated useful life of 10 years with residual value of Rs. 40,000. On 1st April 2026, the directors review the estimated life and residual value and decide that the asset will probably be useful for a further 5 years with residual value of Rs. 50,000 at the end of life. If the company charges depreciation on a straight-line basis, what will be the amount of depreciation for year ending 2026-27?
    a. Rs. 91,733
    b. Rs. 1,01,733
    c. Rs. 89,200
    d. Rs. 76,000

11. Entity X maintained equipment in its books at 3,50,000. Unfortunately, these assets were damaged beyond repair. The insurance company, under a "New for Old" policy, replaced the

equipment with new machinery valued at 35,00,000. How should Entity X account for this situation?

a. Recognize both a loss in the Statement of Profit and Loss equal to the carrying value of the damaged equipment and receivable and a gain in the income statement resulting from the insurance proceeds under AS 29 (Revised)* once receipt is virtually certain.
b. Recognize a gain in the income statement equal to the difference between the cost of the new machinery and the carrying value of the damaged equipment.
c. Recognize a loss in the Statement of Profit and Loss equal to the carrying value of the damaged equipment.
d. Recognize a gain in the Statement of Profit and Loss equal to the cost of the new machinery.

12. Company X purchased a vacant plot of land with the intention of constructing a commercial building. However, due to delays in obtaining construction permits, the company decides to utilize the land as a paid parking lot until construction begins. During the interim period, the company incurs expenses related to managing the parking lot and generates income from parking fees. Assume the following financial data for the year:

- Total expenses incurred for managing the parking lot: ₹50,000
- Total income generated from parking fees: ₹120,000

Considering the scenario described and the accounting treatment outlined in the statement, what would be the effect on the Statement of Profit and Loss?

a) Net income would increase by ₹70,000.
b) Net income would decrease by ₹50,000.
c) No effect to P&L a/c, net income to be deducted from cost of construction.
d) Net income would increase by ₹50,000.

13. An enterprise does not recognize in the carrying amount of an item of PPE the cost of
(a) Aircraft interiors require replacement several times during the life of the airframe
(b) Major parts of conveyor system
(c) Replacing the interior walls of a building
(d) Cost of small parts for day to day servicing

14. Which of the following costs will be included in the cost of PPE as per AS10
a) Inauguration cost
b) Cost of staff training
c) Administration Cost
d) Professional fees

15. An amusement park has a soft opening to the public, to trial run its attractions. Tickets are sold at a 50% discount during this period and the operating capacity is 80%. The official opening day of the amusement park is 3 months later.Management claimes that soft opening is a trial run

necessary for the amusement park to be in condition capable of operating in the intended manner. Accordingly, the net operating cost should be

a) Capitalised
b) Recognised in the Profit & loss
c) Neither capitalise nor recognise in Profit & loss
d) On the discretion of management

16. V'Smart Ltd has a Ship, Aircraft and Machinery. V'smart
a) Must choose same (Cost model or revaluation model) model for all Ship, aircraft and machinery
b) Must choose same(cost model or revaluation model) model for Ship and aircraft and can choose different model for machinery
c) Can choose different models for ship, aircraft and machinery
d) None of the above

17. Select the most appropriate option. Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately in _____ method of depreciation
(a) Straight line method
(b) Written down value method
(c) Component method
(d) None of the above

18. Depriciation of manufacturing plant and equipment is
a. Included in the cost of conversion of inventories as per AS 2
b. Charged to the Profit & Loss
c. Either (a) or (b)
d. None of the above

19. Depriciation of an asset ceases when
a) The asset becomes idle
b) The asset is retired from active use but not held for disposal
c) The asset is derecognized
d) All of the above

20. Change in Depreciation method is a
a) Change in accounting policy
b) Change in Accounting estimate
c) Extraordinary Activity
d) Change in Prior period item

21. Entity has a machine named which has carrying amount of Rs 1,00,000 using the cost model. There is a change in decommissioning liability which results in Decrease in Liability by Rs 1,05,000. Select the correct treatment.
    a) The machine should be remeasured at Nil value and Rs 5,000 should be recognized immediately in the Profit & Loss account
    b) The machine should be carried at Rs 1,00,000 and Rs 1,05,000 should be recognized immediately in the Profit & Loss account.
    c) The machine should be remeasured at Nil value and Rs 5,000 should be recognized over the useful life of machine in the Profit & Loss account
    d) The machine should be carried at Rs 1,00,000 and Rs 1,05,000 should be recognized over the useful life of the machine in the Profit & Loss account.

Correct Answer						
Q7	**Q8**	**Q9**	**Q10**	**Q11**	**Q12**	**Q13**
d	b	c	c	a	a	d
Q14	**Q15**	**Q16**	**Q17**	**Q18**	**Q19**	**Q20**
d	b	c	c	a	c	b
Q21						
a						

Explanation of Q15:

Even though it is running at less than full capacity (in this case 80% of operating capacity), there is sufficient evidence that the amusement park is capable of operating in the manner intended by management. Therefore, these costs are specific to the startup and therefore should be expensed as incurred.

Student Notes:-