

## TOPIC – 4

### ACCOUNTING STANDARD – 10

### PROPERTY, PLANT & EQUIPMENT

#### TOTAL NO. OF QUESTIONS - 20

#### Q.AS10.RMP.01: (RTP Nov18; MTP Nov21)

ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

	Rs
Cost of the plant (cost as per supplier's invoice)	31,25,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Initial Operating losses before commercial production	3,75,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

You are required to compute the costs that can be capitalised for plant by ABC Ltd., in accordance with AS 10: Property, Plant and Equipment.

#### Q.AS10.SM.02

Entity A has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site. The following incremental costs will be incurred:



- a. Setup costs of Rs.5,00,000 to install machinery in the new location.
- b. Rent of Rs. 15,00,000
- c. Removal costs of Rs. 3,00,000 to transport the machinery from the old location to the temporary location.

Can these costs be capitalised into the cost of the new building?

#### Q.AS10.RMP.03: (RTP Nov19)

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 Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin.



The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 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 Shristhi Limited. Internally booked profits should be eliminated in arriving at the cost of machine.

**Q.AS10.SM.04**

On 1st April 20X1, an item of property is offered for sale at Rs. 10 million, with payment terms being three equal installments of Rs.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., Rs. 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 AS 10.

**Q.AS10.SM.05 (Exchange lacks commercial substance)**

Entity A exchanges car X with a book value of Rs 13,00,000 and a fair value of Rs 13,25,000 for cash of Rs 15,000 and car Y which has a fair value of Rs 13,10,000. The transaction lacks commercial substance as the company's cash flows are not expected to change as a result of the exchange. It is in the same position as it was before the transaction. What will be the measurement cost of the assets received?

**Q.AS10.SM.06**

Entity A carried plant and machinery in its books at ₹2,00,000. These were destroyed in a fire. The assets were insured 'New for old' and were replaced by the insurance company with new machines that cost ₹20,00,000. The machines were acquired by the insurance company and the company did not receive ₹20,00,000 as cash compensation. State, how Entity A should account for the same?

**Q.AS10.SM.07**

An entity gave the following Note in its Financial Statements:

'The company chooses not to charge depreciation on Property, Plant and Equipment on account of:

- Annual Maintenance Contracts being expensed thereby ensuring timely repairs of Plant and Machinery.
- Depreciation being a non-cash expense has no impact on cash flows. Accordingly, it is not necessary to depreciate an asset when repairs and maintenance charges are expensed in the Statement of Profit and Loss.
- The values of certain assets like Property increase with passage of time, and hence charging depreciation does not make sense.
- At the end of the useful life, the asset is ultimately sold, and since the asset is at cost due to no depreciation, exact profit or loss on sale of the asset is stated.'

You are required to state the appropriateness of the above accounting policy in line with the relevant Accounting Standards.



**Q.AS10.SM.08**

Arka Ltd. purchased machinery for ₹ 3,000 lakhs. Depreciation was charged at 10% on SLM basis for a useful life of 10 years. At the end of Year 4, the machinery was revalued to ₹ 2,700 lakhs and the same was adopted. What will be the carrying amount of the asset at the end of Year 5 and Year 6? Assume no change in the useful life.

**Q.AS10.SM.09**

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?

**Q.AS10.SM.10**

Akshar Ltd. installed a new Plant (not a qualifying asset), at its production facility, and incurred the following costs:

- Cost of the Plant (as per supplier's invoice): ₹ 30,00,000
- Initial delivery and handling costs: ₹ 1,00,000
- Cost of site preparation: ₹ 2,00,000
- Consultant fee for advice on acquisition of Plant: ₹ 50,000
- Interest charges paid to supplier against deferred credit: ₹ 1,00,000
- Estimate of Dismantling and Site Restoration costs: ₹ 50,000 after 10 years (Present Value is ₹ 30,000)
- Operating losses before commercial production: ₹ 40,000

The company identified motors installed in the Plant as a separate component and a cost of ₹ 5,00,000 (Purchase Price) and other costs were allocated to them proportionately. The company estimates the useful life of the Plant and those of the Motors as 10 years and 6 years respectively and SLM method of Depreciation is used.

At the end of Year 4, the company replaces the Motors installed in the Plant at a cost of ₹ 6,00,000 and estimated the useful life of new motors to be 5 years. Also, the company revalued its entire class of Fixed Assets at the end of Year 4. The revalued amount of Plant as a whole is ₹ 25,00,000. At the end of Year 8, the company decides to retire the Plant from active use and also disposed the Plant as a whole for ₹ 6,00,000.

There is no change in the Dismantling and Site Restoration liability during the period of use. You are required to explain how the above transaction would be accounted in accordance with AS 10.



**Q.AS10.SM.11**

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%.

**Q.AS10.SM.12: (Also in RTP M22)**

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

**HEADS**

- (i) Purchase Price of Property, plant and Equipment (PPE)
- (ii) Directly attributable cost of PPE or
- (iii) 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) Initial operating losses, such as those incurred while demand for the output of an item builds up.
- (4) 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.
- (5) Trade discounts and rebates.
- (6) Costs of relocating or reorganizing part or all of the operations of an enterprise.
- (7) Installation and assembly costs.
- (8) Administration and other general overhead costs.

**Q.AS10.RMP.13: (EXAM May23)**

In the books of Topmaker Limited, carrying amount of Plant and Machinery as on 1st 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 1st 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 31st March, 2023; and
- Profit/Loss on exchange of Plant & Machinery.



**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 ₹8 million, and pays additional ₹3 million in cash. Show the necessary treatment as per AS 10.

**Q.AS10.RMP.15: (RTP May20)**

- Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?
- Entity A purchased an asset on 1st January 2016 for Rs. 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2020, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.
- The following items are given to you:

**ITEMS**

1. Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);
2. Costs of conducting business in a new location or with a new class of customer (including costs of staff training);
3. Any costs 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
4. Costs of opening a new facility or business, such as, inauguration costs;
5. Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

With reference to AS 10 "Property, Plant and Equipment", classify the above items under the following heads:

**HEADS**

- Purchase Price of PPE
- Directly attributable cost of PPE or
- Cost not included in determining the carrying amount of an item of PPE.

**Q.AS10.SM.16**

Preet Ltd. intends to set up a steel plant, for which it has acquired a dilapidated factor having an area of 5,000 acres at a cost of ₹ 60,000 per acre. Preet Ltd. has incurred ₹ 1.10 crores on demolishing the old Factory Building thereon. A sum of ₹ 63,00,000 (including 5% GST thereon) was realized from the sale of material salvaged from the site. Preet Ltd. incurred Stamp Duty and Registration Charges of 7% of land value, paid legal and consultancy charges ₹ 8,00,000 for land acquisition and incurred ₹ 1,25,000 on title guarantee insurance. Compute the value of the land acquired.

**Q.AS10.SM.17**

Entity A exchanges land with a book value of ₹10,00,000 for cash of ₹20,00,000 and plant and machinery valued at ₹25,00,000. What will be the measurement cost of the assets received. (Consider that the

transaction has commercial substance)?

**Q.AS10.RMP.18: (RTP May21)**

You are required to give the correct accounting treatment for the following in line with provisions of AS 10:

- (a) Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodeling costs (Rs. 18 lakhs), salaries of staff (Rs. 2 lakhs) who will be preparing the store before its opening and related utilities costs (Rs. 1.5 lakhs), is prepared. The cost of salaries of the staff and utilities are operating expenditures that would be incurred even after the opening of the supermarket. What will the treatment of all these expenditures in the books of accounts?
- (b) ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction / development of railway siding, road and bridge. Though ABC Ltd. incurs the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Can ABC Ltd. capitalize expenditure incurred on these items as property, plant and equipment (PPE)?

**Q.AS10.RMP.19: (EXAM Nov'20)**

A ltd has following assets. Calculate depreciation for the year ending 31st March 2020 for each asset as per AS 10 (revised)

- (a) Machinery purchased for Rs. 10 Lakhs on 1st April 2015 and residual value after useful life of 5 years, based on 2015 price is Rs. 10 Lakhs
- (b) Land for Rs. 50 Lakhs
- (c) A machinery is constructed for Rs. 5,00,000 for its own use (useful life is 10 years). Construction is completed on 1st April 2019, but the company does not begin using the machinery till 31st March 2020.
- (d) Machinery purchased on 1st April 2017 for Rs. 50,000 with useful life of 5 years and residual value is NIL. On 1st April 2019, management decided to use this asset for further 2 years only.

**Q. AS10, RMP, 20:**

Star Limited purchased machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

	₹
Cost of preparation of site for installation	21,200
Total Labour charges (200 out of the total of 500 men hours wored, were spent on installation of the machinery)	56,000
Spare parts and tools consumed in installation	5,000
Total salary of supervisor (Time spent for installation was 25% of the total time worked)	26,000
Total technical expense (1/10 relates to the plant installation)	34,000
Test run and experimental production expenses	18,000
Consultancy charges to architect for plant set up	11,000
Depreciation on assets used for installation	12,000

The machine was ready for use on 15.01.20X1 but was used from 01.02.20X1. Due to this delay further expenses of ₹ 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited.

## SOLUTIONS OF ABOVE QUESTIONS

**SOLUTION Q1**

According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	Rs
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	<u>2,50,000</u>
<b>Total cost of Plant</b>	<b>46,60,000</b>

**Note:** Operating losses before commercial production amounting to Rs. 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

**SOLUTION Q 2**

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 do not meet the requirement of AS 10 and therefore, cannot be capitalised.

**SOLUTION Q3**

### Calculation of Cost of Fixed Asset (i.e., Machinery)

Particulars		Rs.
Purchase Price	Given (Rs. 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 x3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000

Total Cost of Asset		1,45,00,140
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**SOLUTION: Q4**

AS 10 requires that the cost of an item of PPE is the cash price equivalent at the recognition date. Hence, the purchaser that takes up the deferred payment terms will recognise the acquisition of the asset as follows

		(Rs)	(Rs)
<b>On 1st April, 20X1</b>			
Property, Plant and Equipment	Dr.	95,00,000	
To Cash			33,33,333
To Accounts Payable			61,66,667
(Initial recognition of property)			
<b>On 31st March 20X2</b>			
Interest Expense	Dr.	3,30,533	
Accounts payable	Dr.	30,02,800	
To Cash			33,33,333
(Recognition of interest expense and payment of second installment)			
<b>On 31st March 20X3</b>			
Interest Expense	Dr.	1,69,467	
Accounts payable	Dr.	31,63,867	
To Cash			33,33,334
(Recognition of interest expense and payment of final installment)			

**Solution Q5**

The entity recognises the assets received at the book value of car X. Therefore, it recognises cash of Rs 15,000 and car Y as PPE with a carrying value of Rs 12,85,000.

**Solution Q6**

Entity A should account for a loss in the Statement of Profit and Loss on de-recognition of the carrying value of plant and machinery in accordance with AS 10 (Revised).

Entity A should separately recognise a receivable and a gain in the income statement resulting from the insurance proceeds under AS 29 (Revised)\* once receipt is virtually certain. The receivable should be measured at the fair value of assets that will be provided by the insurer.

**Solution Q7**

Depreciation refers to writing off the value of the asset over its useful life. Such write-off is necessitated on account of normal wear-and-tear, usage, or obsolescence. Since items of Property, Plant and Equipment are generally used in generating revenue, the pro-rated write-off in value of such item should be recorded in the books against the income earned by such an asset.

Providing depreciation is mandatory, in spite of the fact that repairs are expensed in the Statement of Profit and Loss, or the value of the Property is appreciating. Depreciation is a systematic allocation of cost of the asset against the income generated from the continued use of the asset. Further, the Companies Act, 2013 mandates depreciation to be charged in order to determine the correct profits. Thus, not charging depreciation would result in non-compliance with the Companies Act provisions as well.

The argument laid down by the company and the reasons for the same being invalid are discussed below.

(a) Annual Maintenance Contracts being expensed thereby ensuring timely repairs of Plant and Machinery:

The fact that the company enters into Annual Maintenance Contracts for timely repairs can be regarded as a running cost. Such expense is incurred in order to ensure that the machine continues to run as intended. Thus, it implies that because the machine is being utilized, it will need regular repairs. In other words, continuous use is resulting in normal wear-and-tear which is the reason why depreciation should be charged by the company. By stating that the company incurs Annual

Maintenance Expenses, the company is recording only the 'maintenance expenses', but not the wear-and-tear requiring the maintenance in the first place. Hence, this argument put forth by the company is not valid.

- (b) Depreciation being a non-cash expense has no impact on cash flows. Accordingly, it is not necessary to depreciate an asset when repairs and maintenance charges are expensed in the Statement of Profit and Loss.

When viewed from the prism of depreciation alone, it appears that the fact that depreciation is a non-cash item is correct. However, it must be noted that at the time of procurement of the asset, the company would have paid cash. Depreciation is after all writing off this amount over the life of the asset. Hence the argument that depreciation is a non-cash item is not valid. Depreciation is writing off the cost of the asset (which was already paid for) over the useful life of the asset, and hence is mandatory.

- (c) The values of certain assets like Property increase with passage of time, and hence charging depreciation does not make sense.

Certain assets like immovable property do increase in value with the passage of time. However, such assets are 'used for the purposes of business' and are not 'held for sale' or held as investment property. Accordingly, since the asset is being used for carrying on business, providing depreciation will give a true and fair view of the results of the company, and hence the argument that the value of the property appreciates is not valid.

If the company wants to show the fair market value of the PPE, then it has the option to apply Revaluation model. However, depreciation is mandatory to be charged in Revaluation model also.

- (d) At the end of the useful life, the asset is ultimately sold, and since the asset is at cost due to no depreciation, exact profit or loss on sale of the asset is stated.'

The value of any asset, after usage, will reduce. Accordingly, the argument that the 'exact profit or loss on sale of the asset' will be obtained is incorrect. Due to usage of the asset, the value of the asset would be lower than the cost. Charging depreciation would seek to bring the book value approximating to such reduced value. Thereafter, on sale of the asset, the true profit or loss would be available. Accordingly, this argument is also invalid.

It may be pertinent to note that Accounting Standard 1, Disclosure of Accounting Policies states that Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts. In other words, the company cannot be absolved of the fact that it has not complied with the relevant accounting standards merely by giving a disclosure of incorrect policies or practices being followed.

Thus, the company's stand of disclosing the incorrect policy as a remedy is not correct. The company is suggested to charge depreciation on a systematic basis over the useful life of the asset thereby complying with the Accounting Standards.

### Solution Q8

Particulars	₹ in lakhs
Original Cost of the Asset	3,000.00
Less: Depreciation for 4 years (₹ 3,000 lakhs x 10% x 4 years)	(1,200.00)
Book Value at the end of Year 4	1,800.00
Add: Revaluation Surplus (balancing figure)	900.00
Revalued Amount as given (= revised depreciable value)	2,700.00
Less: Depreciation for Year 5 (₹ 2,700 lakhs ÷ 6 years)	450.00
Carrying Amount at the end of Year 5	2,250.00
Less: Depreciation for Year 6 (₹ 2,700 lakhs ÷ 6 years)	450.00
Carrying Amount at the end of Year 6	1,800.00

### Solution Q9

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 ( $\text{₹ } 3,00,00,000 \div 8 \text{ yrs} \times 3 \text{ yrs}$ )	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 =	₹ 1,87,50,000 - ₹ 1,12,50,000 = ₹	₹ 1,87,50,000 - ₹ 42,50,000 =
Loss recognized in Profit or Loss	75,00,000 (Loss)	= ₹ 1,45,00,000 (Loss)
Revaluation Surplus directly transferred to Retained Earnings	₹ 1,00,00,000	₹ 1,00,00,000

### Solution Q 10

#### 1. Cost at Initial Recognition:

Particulars	₹
Cost of the Plant (as per Invoice)	30,00,000
Initial Delivery and Handling Costs	1,00,000
Cost of Site Preparation	2,00,000
Consultants' Fees	50,000
Estimated Dismantling and Site Restoration Costs	30,000
Total Cost of Plant including Motors	33,80,000
Less: Cost of Motors identified as a separate component (1/6)*	5,63,333
<b>Cost of the Plant (excluding Motors - balance 5/6)</b>	<b>28,16,667</b>

\* Purchase price of Motors = ₹ 5,00,000 out of ₹ 30,00,000 i.e., 1/6 of value of Plant

**Note:** Since the asset is not a qualifying asset, payment of interest to the supplier is not capitalized. Further, operating losses of ₹ 40,000 incurred before commercial production is not a directly attributable cost, and hence excluded from cost of asset. These costs are expensed to the P/L as and when they are incurred.

#### 2. Recognition of Motors Replacement

Particulars	₹
Cost of Motors determined above	5,63,333
Less: Depreciation for 4 years (as per SLM)	3,75,555
$5,63,333 \div 6 \text{ years} \times 4 \text{ years}$	
<b>Carrying Amount of Motors at the end of Year 4</b>	<b>1,87,778</b>

**Accounting:** The company should derecognize the existing Carrying Amount of Motors replaced of ₹ 1,87,778. Further, the acquisition cost of new motors of ₹ 6,00,000 would be capitalized as a separate component. This amount will be depreciated over the next 5 years at  $\text{₹ } 6,00,000 \div 5 \text{ years} = \text{₹ } 1,20,000$  p.a.

#### 3. Revaluation

Particulars	₹
Cost of the Plant at initial recognition [from (1) above]	28,16,667
Less: SLM Depreciation for 4 years: $\text{₹ } 28,16,667 \div 10 \text{ years} \times 4 \text{ years}$	11,26,667
Carrying Amount of Plant at the end of Year 4	16,90,000
Revalued Amount of Plant (Excluding Motors, since the same is treated as a separate component: $\text{₹ } 25,00,000 - \text{₹ } 6,00,000$ )	19,00,000
Therefore, Gain on Revaluation credited to Revaluation Reserve	2,10,000
Revised Depreciation Charge p.a.: $19,00,000 \div 6 \text{ years}$	3,16,667

4. Derecognition

Particulars	Motors	Plant (excluding Motors)
Cost / Revalued Amount at end of Year 4	6,00,000	19,00,000
Less: Depreciation for Years 5-8	1,20,000 x 4 = 4,80,000	3,16,667 x 4 = 12,66,668
Carrying Amount before Disposal / De- recognition	1,20,000	6,33,332
Less: Disposal Proceeds ₹ 6,00,000 allocated in ratio of carrying amount	95,575	5,04,425
Loss to be written off to P/L	24,425	1,28,907

**Notes:**

(a) The Revaluation Surplus of ₹ 2,10,000 would be transferred directly to Retained Earnings.

(b) The allocation of disposal proceeds of ₹ 6,00,000 for the plant as whole is apportioned based on carrying amount of motors and plant (excluding motors)

Alternatively, it may be apportioned as 1/6 towards motors and 5/6 plant (excluding motors) based on the reasoning that the initially, motors amounted to 1/6 of the entire plant. This approach may not be preferable because there has been a revaluation of the plant (excluding motors) and a disposal and subsequent acquisition of the Motor, which is not in the initial proportion of 5/6 and 1/6 respectively.

**Solution Q11**

As per AS 10, Property, Plant and Equipment, the derecognition of the carrying amount of components of an item of Property, Plant and Equipment occurs regardless of whether the cost of the previous part / inspection was identified in the transaction in which the item was acquired or constructed. If it is not practicable for an enterprise to determine the carrying amount of the replaced part/ inspection, it may use the cost of the replacement or the estimated cost of a future similar inspection as an indication of what the cost of the replaced part/ existing inspection component was when the item was acquired or constructed.

In the given case, the new turbine will produce economic benefits to Bharat Infrastructure Ltd. and the cost is measurable. Since the recognition criteria is fulfilled, the same should be recognised as a separate item of Property, Plant and Equipment. However, since the initial breakup of the components is not available, the cost of the replacement of ₹ 450 lakhs can be used as an indication based on the guidance given above, 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 Depreciation at 10% (10 year life) 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>

**SOLUTION Q12****Heads**

- Purchase price of PPE
- Directly attributable cost of PPE
- Cost not included in determining the carrying amount of an item of PPE

Items	Classified under Head	
1	Import duties and non-refundable purchase taxes	(i)
2	Initial delivery and handling costs	(ii)
3	Initial operating losses, such as those incurred while demand for the output of an item builds up	(iii)
4	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.	(iii)
5	Trade discounts and rebates (deducted for computing purchase price)	(i)
6	Costs of relocating or reorganizing part or all of the operations of an enterprise.	(iii)
7	Installation and assembly costs	(ii)
8	Administration and other general overhead costs	(iii)

**Solution: Q 13****(i) Depreciation to be charged in the profit & Loss Account**

Particulars	Amount in ₹
Depreciation on old machinery [10% on ₹ 56,30,000 for 3 months (01.04.2022 to (30.06.2022)]	1,40,750
<b>Add:</b> Depreciation on Machinery acquired on 01.06.2022 (₹21,12,000 × 10% × 10/12)	1,76,000
<b>Add:</b> Depreciation on machinery after adjustment of exchange [10% of ₹ 56,30,000 – 9,60,000 +15,65,000) for 9 months]	4,67,625
<b>Total Depreciation to be charged in Profit &amp; Loss A/c</b>	<b>7,84,375</b>

**(ii) Book Value of Plant & Machinery as on 31.3.2023**

Particulars		Amount in ₹
Balance as books on 01.04.2022		56,30,000
<b>Add:</b> Included in purchases on 01.06.2022	21,12,000	
<b>Add:</b> Purchase on 30.06.2022	15,65,000	36,77,000
		93,07,000
<b>Less:</b> Book Value of Machine Sold on 30.06.2022		(9,60,000)
		83,47,000
<b>Less:</b> Depreciation on Machinery in use ₹ (7,84,375-24,000)		(7,60,375)
<b>Book Value as on 31.03.2023</b>		<b>75,86,625</b>

**Note:** The computation of depreciation and book value of plant and machinery can be presented in the following alternative manner

Particulars	Book value or Cost or Acquisition	Period	Depreciation	Book value as on 31.03.2023
Opening Value	46,70,000 (56,30,000-9,60,000)	01.04.2022 To 31.03.2023	4,67,000 (46,70,000×10%)	42,03,00
Sold	9,60,000	01.04.2022 to 30.06.2022	24,000 (9,60,000 × 10% × 3/12)	19,36,000
Purchases	21,12,000	01.06.2022 To 31.03.2023	1,17,375 (15,65,000 × 10%×9/12)	14,47,625
<b>Total</b>			<b>7,84,375</b>	<b>75,86,625</b>

**(iii) 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 × 10/100 × 3/12)	(24,000)
W.D.V. as on 30.06.2022	9,36,000
Less: Exchange Value	(8,25,000)
<b>Loss on exchange on Machinery</b>	<b>1,11,000</b>

**SOLUTION Q14**

Private Jet shall be recognized at FV of private jet if it is clearly evident otherwise at FV of L&B  
The required journal entry is therefore as follow:

Property, Plant and Equipment (Private Jet) Dr.	18,000	
To Property, Plant and Equipment (Land and Building)		10,000
To Cash		3,000
To Profit on exchange of assets		5,000

**SOLUTION Q15**

- (a) The depreciable amount of a tangible fixed asset should be allocated on a systematic basis over its useful life. The depreciation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Useful life means the period over which the asset is expected to be available for use by the entity. Depreciation should commence as soon as the asset is acquired and is available for use. Thus, the policy of Entity A is not acceptable.
- (b) The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e. (1,00,000/10 years). On 1st January 2020, the asset's net book value is [1,00,000 – (10,000 × 4)] = Rs. 60,000.  
The remaining useful life is 4 years. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of four years. Consequently, it should charge depreciation for the next 4 years at Rs. 15,000 per annum i.e. (60,000 / 4 years). Depreciation is recognized even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.
- (c)
- (1) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment) will be classified as **“Directly attributable cost of PPE”**.
  - (2) Costs of conducting business in a new location or with a new class of customer (including costs of staff training) will be classified under **head (iii)** as it will not be included in determining the carrying amount of an item of PPE.
  - (3) Any costs 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 will be included in determination of **DAC of PPE**
  - (4) Costs of opening a new facility or business, such as, inauguration costs will be classified under **head (iii)** as it will not be included in determining the carrying amount of an item of PPE.
  - (5) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates will be included in determination of **Purchase Price of PPE**.

**Solution Q 16**

Particulars	₹
Purchase Price: 5,000 acres x ₹ 60,000 per acre	3,000.00
Stamp Duty and Registration Charges at 7%	210.00
Legal and Consultancy Fees	8.00
Title Guarantee Insurance	1.25
Demolition Expenses (Net of Salvage Income) [₹ 110 lakhs (-) ₹ 60 lakhs (₹ 63 lakhs x 100/105)]	50.00
<b>Cost of Land</b>	<b>3,269.25</b>

**SOLUTION: Q17**

Since the transaction has commercial substance the plant and machinery would be recorded at ₹25,00,000, which is equivalent to the fair value of the land of ₹45,00,000 less the cash received of ₹20,00,000.

**SOLUTION Q18**

(a)

Trozen Ltd. should capitalize the costs of construction and remodeling the supermarket, because they are necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended. The supermarket cannot be opened without incurring the remodeling expenditure. Therefore, this construction and remodeling expenditure of Rs. 18 lakhs should be considered as part of the cost of the asset. However, the cost of salaries of the staff Rs. 2 lakh and utilities cost Rs. 1.5 lakh are operating expenditures that would be incurred even after the opening of the supermarket. Therefore, these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by the management and should be expensed.

(b) AS 10 states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

- (i) it is probable that future economic benefits associated with the item will flow to the entity; and
- (ii) The cost of the item can be measured reliably.

Further, the standard provides that the standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. The cost of an item of property, plant and equipment comprise any costs 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.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalization of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is 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.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalized as a part of overall cost of the project. From this, it can be concluded that, in the given case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalized as part of the items of property, plant and equipment of the refinery.

**SOLUTION Q19****COMPUTATION OF AMOUNT OF DEPRECIATION AS PER AS 10**

		Rs.
(i)	Machinery purchased on 1/4/15 for Rs. 10 lakhs (having residual value of Rs. 10 lakhs) Reason: The company considers that the 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) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (Rs. 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e., 1st April, 2019. 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 Reason: The entity has charged depreciation using the straight-line method at Rs. 10,000 per annum i.e. (50,000/5 years). On 1st April, 2019 the asset's net book value is [50,000 - (10,000 x 2)] i.e., Rs. 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at Rs. 15,000 per annum i.e. (30,000/2 years).	15,000

**SOLUTION: Q20****Calculation of cost of Plant**

Particulars		₹
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200
Labour Charges	(56,000 x 200/500) Given	22,400
Spare Parts		5,000
Supervisor's Salary	25% of ₹ 26,000	6,500
Technical costs	1/10 of ₹ 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		7,79,500
Less: GST Credit receivable		(40,000)
Value to be capitalized		7,39,500

**Note:** Further Expenses of ₹ 8,900 from 15.1.20X1 to 1.2.20X1 to be charged to profit and loss A/c plant was ready for production on 15.1.20X1



Student Notes:-