Summary of PPE (AS 10)

1) Meaning of PPE — Tangible Item

- Held For Use
  - in production or supply of Goods/Services
  - in Rental
  - in administrative purpose
- &
- Expected to be Used for more than 12m

* Safety Equipments are also PPE

2) Biological Assets :-

Living Plants

- Bearer plant → PPE ✓
- Non Bearer Plant → Ind AS 41

Animals

- Used in Agriculture activity → Ind AS 41
- Used in Business → PPE (Ind AS 16)

3) When to Record the PPE in Books?

When FEB are expected to flow from use of PPE

&

Cost can be measured reliably

(if PPE acquired in exchange of any other Asset / shares / services)

4) Initial Recognition — at Cost

Cost includes:-

PC
(+) Non Ref. Taxes
(+) DAC
↳ pre prod. Testing
Installation
Labour / material
Delivery Cost
(+) PV of Decomm. Cost
(+) BC (if PPE is QA)

if Credit period is beyond Normal
↓
Cost = PV of agreed Amt. to be paid

Interest Cost (P&L)

PPE Purchased in Exchange of another Asset or Assets (with Cash)
↓
Case 1:-
Transaction has Commercial Substance (&) FV can be measured
↓
Cost = FV of Assets Given (1st priority)

(or)

(–) Net Sale proceeds OF Goods produced during Testing

Fv OF Assets received (2nd priority)

Cost OF Bearer plant
↓
all Expense relating to Cultivation & For available For Use.

Case 2:- Transaction has No Commercial substance
(OR)
Fair Values are not measurable
↓
Cost = B/F in Journal entry

Never recognise any Ex. Gain | Loss

5) PPE at B/s date (Subsequent measurement)

Cost model ⟵ Accounting Policy ⟶ Revaluation model

Cost model
↓
Org. Cost
(–) Acc. Dep
(–) Impairment
Carrying Amt.

Revaluation model
B/s Fair value
(–) Subseq Acc. Dep
(–) Subseq Impair.
Carrying Amt.

6)

Revaluation

- Revaluation Gain (Rev. Reserve)
- Revaluation Loss (P&L)
- Subsequent Gain/Loss → Set off earlier P&L/RR

Techniques of Revaluation
- Gross
- Net

% of Change → $\frac{\text{Revaluation Gain}}{\text{WDV}} \times 100$

Utilization of RR
- Annual Transfer to GR equal to Excess Dep → (Optional)
- Final Transfer from RR to GR in Case of Sale of Asset (Mandatory)

Frequency of Revaluation

- Significant & Volatile Changes in Fair value every year → Annual Revaluation
- Insignificant Changes in FV every year → Revaluation in 3-5 Years.

7) Depreciation on PPE (B/s date)

Component approach
↓ Separate Depreciation on Parts
↓
if Cost of that part is significant with different Useful life

A/c Treatment
- Dep = P&L
- Dep = Inventory Capitalised
- Dep = Other PPE / I. Asset

→ Capitalised

Change in Useful life, RV or method of Dep.
↓
Change in A/c estimates
↓
prospective effect

Commencement of Charging Dep.
↓
When the Asset is available for Use

Cessation of Depreciation
↓
- When CA = RV
- When PPE is SOLD
- When PPE is retired from active use & HFS

⇓

(Continue to Charge Dep even when Asset is idel but not HFS)

Dep. on L & B
- Land part = No Dep. ✗
- Building part = Dep ✓

Method of Dep.
↓
Should be based on Pattern of FEB from PPE

8) Major Inspection & Overhauling OF PPE

At the Time OF Purchase; Divide the Asset in Two Components

- Tangible PPE part → Separate Depreciation
- OverHauling part → Separate Depreciation

At the time of next Overhauling (major Repair & Inspection) On Same PPE

- DeRecognise the CA of Old Overhauling Cost if any
- Capitalised the Cost of New Overhauling.

9) Replacement of Any Part OF PPE

Carrying Amt OF Old part
↓
DeRecognised the value of PPE & recognise Loss

if Carrying Amt is missing For that Old Part
↓
PV of Cost of New Part
(−) Accumulated Dep From Beg. till date of replacement

(Refer Q104 OF Book)

New Part purchased
⇓
entire Cost to be Capitalised

10) Retirement & Held For Sale

Stop Charging Depreciation

&

Remeasure the PPE at Lower of :-

a) CA

or

b) FVLCTS

(Difference ⇒ P&L)

11) DeRecognition of PPE

General Rule → Gain/Loss (P&L)

Sale & Lease Back → apply Ind AS 116 (Leases)

12

Revised Liab. vs. CA of Existing Liab.

Change in Existing De-Comm. Liability

Calculate Revised Liability as per revised estimates on date of Change

PPE is Under Cost model

OR

PPE is Under Revaluation Model

Do not adjust the CA of PPE (PPE is at FV it will be distrubed)

(A) Increase in Liability (Loss)

PPE A/C Dr.
To Provision for De-comm. Liab A/C

Depreciation as revised Value of PPE

(B) Decrease in Liability (Gain)

Prov. for De-comm. Liab A/C Dr.
To PPE A/C

(If Decrease is More than C.A. of PPE than difference in P&L A/C)

(C) Increase in Liability (Loss)

Setoff the loss with Revaluation Surplus if available & if loss exceeds the available Surplus then transfer the Excess loss to P&L A/c

Revaluation Surplus A/c Dr. I[st] Priority
Profit and Loss A/c Dr. II[nd] Priority
To Prov. for De-Comm. Liab. A/c

(D) Decrease in Liability (Gain)

Transfer the Gain First to P&L to the extent of any earlier Revaluation Loss which was Transferred to P&L A/C.

Remaining Gain transfer to Revaluation surplus

Provision A/c Dr.
To Profit and Loss A/c I[st]
(to the extent of earlier loss)
To Revaluation Surplus A/c II[nd]

(Refer Practical Example No. 7)

(13) Key points :-

1) Any Expense such as Staff Salary or any other recurring nature Exp. incurred during Construction (or) Remodelling of any Asset, Shall not be Capitalised if such Exp. is incurred irrespective of Construction (or) Remodelling.

Because these Cost are not necessary of bring the Asset into Useable Condition

2) Any Expenditure incurred to Construct any public utility (Such as Roads, Railway sidings etc) may be Capitalied to the Cost of the Overall project & not Separately if they Can affect the future Economic Benefit of Overall project.

3) When Purchase Cost = Residual value then NO Depreciation is Charged Since there is NiL Depreciable Amt.

4) How to identify if Commercial Substance is not available? (Refer Q 110)

FV of Asset given (+) Cash given	=	FV of Asset received (+) Cash received

- If Both are equal then Cash flows are not expected to Change Significantly.
- Also, if Assets Subject to exchange are located in Same Vicinity.