L2

machine (PPE) : reached factory → Site prepration cost + Installation cost + Net Trial Run cost + Borrowing cost (AS-16) + PV of decommissioning

Marketable Quality

Installation complete → Trial Run : Ready to use → achieve TRX → Top Notch Quality

Trial Run : Ready to use
↓
Cost ← deduct

damaged goods produce
↓
market sold : sale proceeds

Cost=100 → PPE → 100 +

Dep → 10

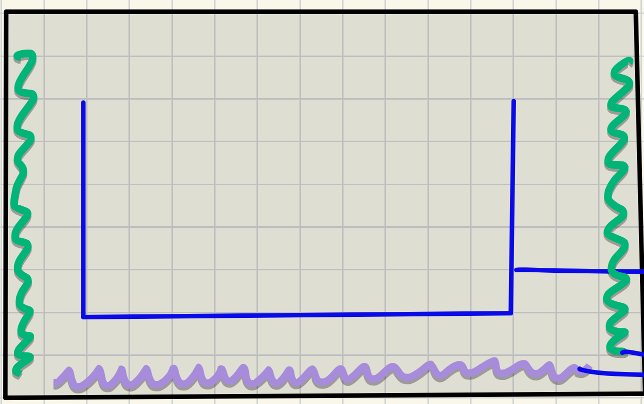
P&L

Dep	10
Act Ex	~~100~~

NP 90

→ Net Trial Run Cost
Trial Run cost
less : Sale proceeds from goods produced during trial run.

Present Value of Decommissioning or Dismantling



→ Rented factory Premises

→ machine : PPE

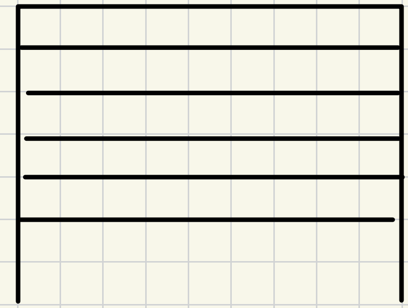
→ changes made to factory premises (Site prepration cost)
↓
on 1 condition
↓
after 10 years restore it back to original conditions
↓
$\boxed{\text{dismantling cost} \quad \text{decommissiong cost}}$
↓
Present Value
↓
$\boxed{\text{PPE cost +}}$

L2

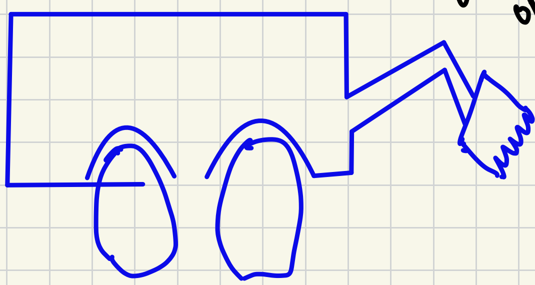
→ **Material** :- Reti
Gitti
Cement
Bricks

→ **Labour** :-

Cost →



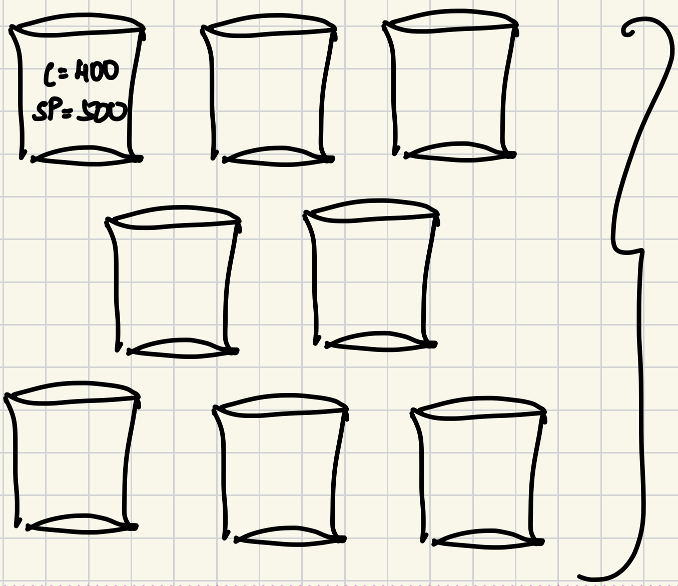
Used for 6 months for construction of building



depreciation will be added to cost of building.

Building
(Self constructed - PPE)

Business - Cement manufacturing



cement cost
+ Building cost

= ~~500~~ × 8
= 4000

= 400 × 8
= 3200

Internal Profits will not be added to cost of PPE.

PPE ACQUIRED THROUGH EXCHANGE

Commercial Substance

PPE acquired

Risk Amount Timing

of Cashflows

1
2
3
4

Asset given up

Risk Amount Timing

of Cashflows

Significantly Different
+
Commercial substance exists

Commer Substance exists

YES

Cost of PPE acquired is

1. Fair Value of asset given up
2. Fair Value of PPE acquired

w.e. is more clearly evident

NO

Cost of PPE acquired is

Carrying amount of asset given up.

SUBSEQUENT EXPENDITURE ON PPE

PPE (machine)

Ready to Use → Put to use

machine changes → expenditure (subsequent expenditure)

Production capacity increased
Efficiency increased
Quality increased
Cost reduction

↓

Future Economic Benefits Increased

↓

Such subs. exp. is added to cost of PPE

Performance level is maintained

↓

No incremental FEBs

↓

Such subsequent expenditure will not be added to cost of PPE. It will be debited to P&L.

COMPONENT ACCOUNTING

Plane :- Plane Dr. 350 crores ✗

↓

Depreciation → 350/5 = 70 crores.

Plane :- Significant Components :-

		Useful life
Engine × 2	→	15 years
Outer body	→	10 years
Interiors	→	5 years
Air cooling sys.	→	10 years

Significant components with different useful life

Engine — Outerbody + Aircooling Sys — Interior

↓

Recorded Separately
& Depreciated Separately

JE :-

Airplane Engine	Dr.	xx		
Airplane OB + ACS	Dr.	xx	350	
Airplane Interiors	Dr.	xx		
To, Bank				350

Depreciation :- Airplane Engine = xx / 15

OB + ACS = xx / 10

Interiors = xx / 5

STUDENT NOTES

QUESTION 9

B/S: amount

On March 31, 2018, Dalal Ltd. traded an old car having a carrying amount of ₹ 16,800 and paid cash difference of ₹6,000 for new machine having a total cash price of ₹20,500. On March 31, 2018, what amount of loss should the company recognize on this exchange?

Car | Machine

C.F → RAT | C.F. → RAT

Sig. Diff → Comm. Subs → Mach. cost

Answer

Quote: *As per AS-10, when a PPE is acquired in exchange or part exchange for another asset, the cost of the asset acquired should be recorded either at its fair market value or the fair market value of the asset given up, whichever is more clearly evident, adjusted for balance payment or receipt of cash or other consideration.*

1. FV of car
2. FV of mach.

W.e. evident

20500

Analysis& Conclusion: *In the given case the cash price of the PPE acquired is known. Hence it can be said that the fair value of the asset acquired is more clearly evident. Hence the PPE acquired should be valued at 20,500.*

Also, we need to calculate the profit/loss on the disposal of old Car. The difference between the FV of new Car and amount payable is treated as FV of the old machine i.e.₹14,500 (₹20,500 - 6,000). This can be treated as sale value of old machine and the difference between the selling price of old machine and book value is recognized as loss i.e.₹2,300 (16,800 - 14,500).

Mach.	Dr.	20500
P&L	Dr.	2300
To, car		16800
To cash		6000

Car = ₹ 14,500 (bal.)

Cash given = ₹ 6,000

Car Sold

Value = ₹ 20,500

Machine Acquired

Carrying Amount = ₹ 16,800
Exchange Value = ₹ 14,500
Loss incurred = ₹ 2300

Fair Value = ₹ 20,500
(Cash Prize)

Answer :-

L2

Quote :- As per AS-10 : Property, Plant & Equipment, when a PPE is acquired in exchange of another asset, the cost of PPE will be determined on basis of fair value of Asset given up or fair value of PPE acquired w.e. is more clearly evident, if commercial substance exists.
Commercial Substance exists when the Risk, Amount & Timings of Cashflows of PPE acquired and the asset given up are significantly different.

Analysis :- In this question, a machine is acquired in exchange of a car. The Risk, amount, timing of cashflow of machine is significantly different then that of a car. Hence commercial substance exists.
Also, the cash price of the machine is clearly evident. This can be considered as its fair value and hence can be considered as its cost.

Conclusion :- This exchange will be recorded as follows :-

Machine (PPE acquired)	Dr.	20500	
P&L	Dr.	2300	
To Car			16800
To Cash			6000

Loss incurred of 2300 on the above transaction will be debited to P&L a/c.