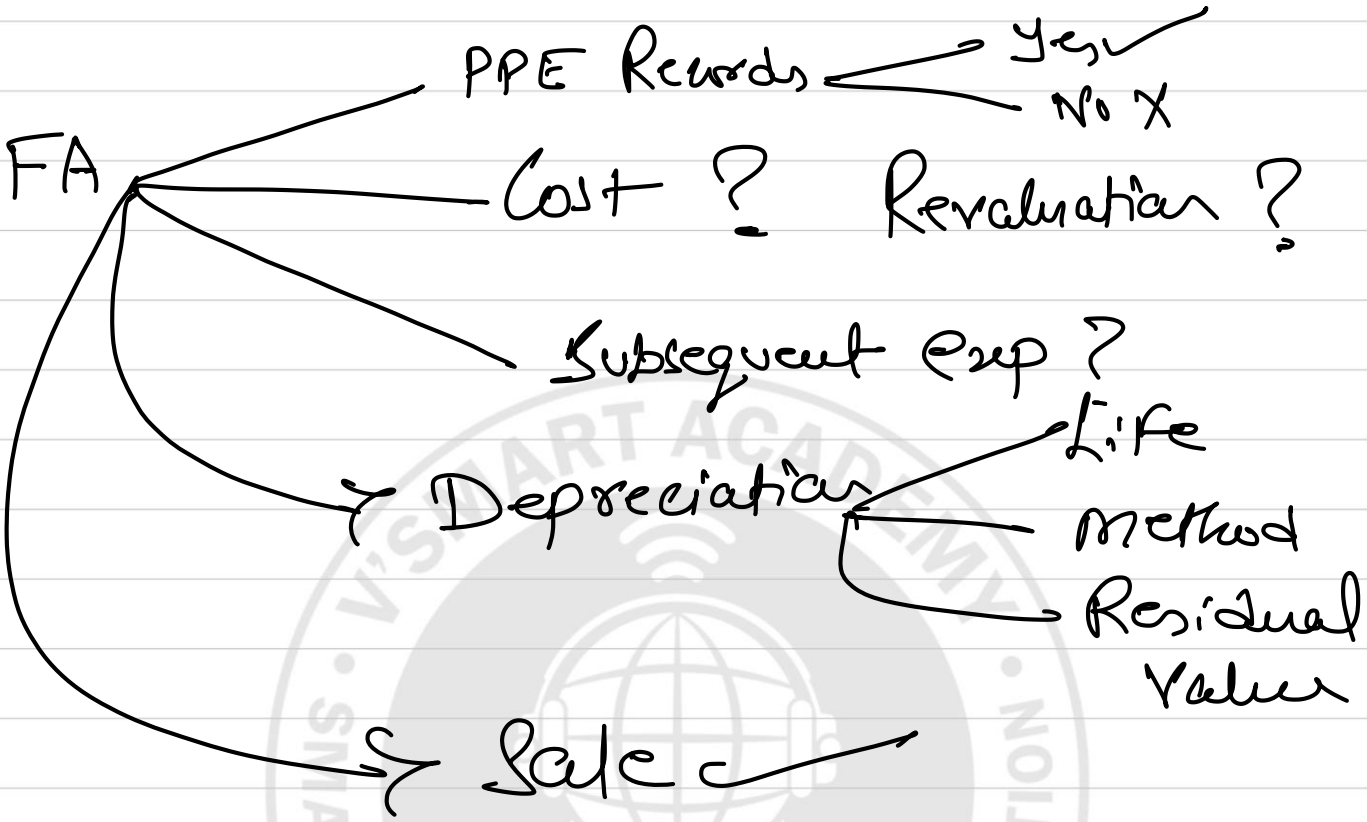
AS 10 - Property Plant & Equipments (PPE)



1) What is PPE ?

↓

Tangible Asset

a) Held For use in the production of Goods or Supply of Goods/service (or)

b) Held For Rental to Others (or)
(if Renting or Leasing is Business Activity)

&

Which is Expected to be Used For more than 12 months.

c) For Administration purpose

2) Biological Asset :- Any Living Animal or plant

If B.A is Used for Agriculture purpose

↓

~~PPE~~

As IAS will not be applicable

Except if it is a Bearer plant

Bearer plant is a PPE

↓

Bearer plant is Held for Use in production of Agriculture produces (Goods)

&

it has life of more than 12 months.

If Animal is Used for Supply of Services or For administrative Purpose

↓

they are PPE

↓

- Dog factory security
- Horse Camels Hathis for Events

3) When to Record PPE in the Books ?

↓

When Two Conditions Will be Satisfied

&

① If Future Economic Benefits are Expected

② When Consideration Can be measured Reliably

4) Spare parts, Tools → PPE ?

↓

depends on Life

Expected to be Used For 1 yr. or more (or) Expected to be Used for less than 1 yr.

↓ ↓

they are also treated as PPE

Then they are treated as Expense first & if at B/s date they are having remaining life then treated as Inventory

Ex:- 50000 Spare parts purchased life = 6 month
1/Jan/24

1/Jan ⇒ Purchase a/c Dr. 50000
To Bank 50000
(Transfer to Trading a/c)

31/3 ⇒ Since they still can be used in next year
Hence treated as Inventory :-

Closg Stock 25000
To Trading a/c 25000

5) Cost of PPE :- $PC + DAC + DC_{at\ PV}$

25 Jan.

Dis. Rate = 10%

10 yr.

↓

PV = 963858

Q3 Calculation of Cost of PPE

Particulars		Amt.
1) Purchase Cost (excluding GST)	$\frac{15834000}{112} \times 100$	1,41,37,500

2) Directly attributable cost :-

Cost of Site preparation	141870
Technician's Fees (45000 x 3)	135000
Transportation fees	55,770
Archit. fees	30,000

Total Cost of Machine = 1,45,00,140

* Since input Tax Credit is available Hence GST shall not be treated as Cost.

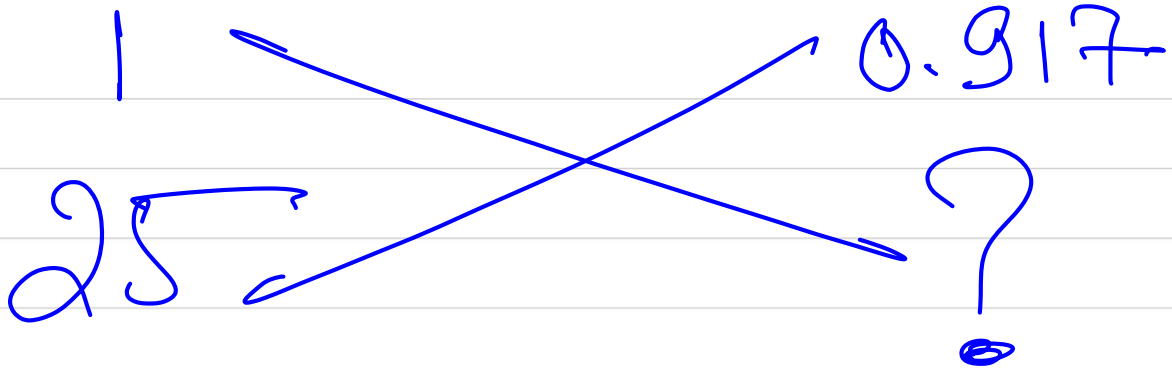
$\frac{1}{1.07}$ = 0.934 — 7% — 1

= 0.873 — 1

Loan @ 9% Int.

		PVF	PV
1	25 lac ×	0.917	= 229250
2	25 lac ×	0.841	= 210250
3	25 lac ×	0.772	= 193000
4	25 lac ×	0.708	= 177000
			809500

$\frac{1}{1.09}$ =



Interest Schedule :-

Year	Loan O/s	Int. @ 9%	Paymt.	Closg Loan
1	8095000	728550	(2500000)	6323550
2	6323550	569120	(2500000)	4392670
3	4392670	395340	(2500000)	2288010
4	2288010	211990	(2500000)	0
		(B/F)		

Beg. PPE a/c Dr. 8095000
To Creditors 8095000

Yr End Creditors Dr. 2500000
To Bank 2500000

Inter. (P&L) 728550
To Creditors. 728550

Mr. Jai — Purc. Building

BV 12 lacs.

Consideration ⇒ Machine
Cash 2

Build FV = 18 lac.

Building a/c Dr. 18
To Machine 12
To Ex. Gain (P&L) 4
To Cash 2

Jai: → Car (Black Car) BV 2 lacs.

↓

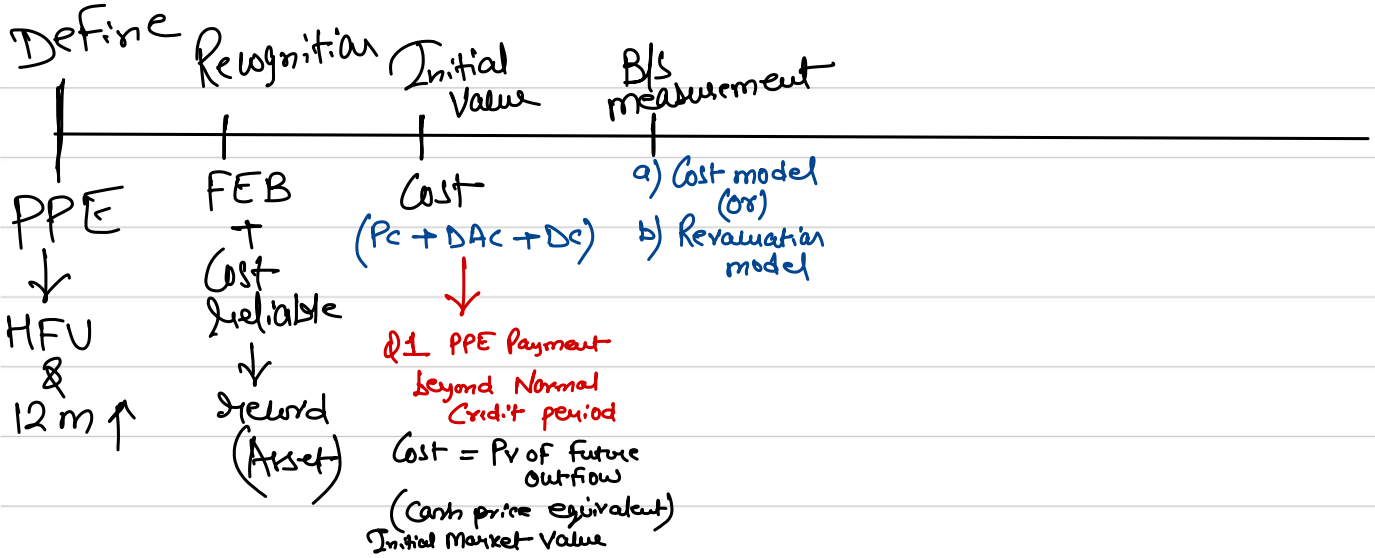
Exchange

White Car Pay 50,000

Wh. Car Dr. (B/F)

To B. Car 2

To Cash 0.5



Q1 PPE Payment Beyond Normal Credit period

Cost = Pv of future outflow (Cash price equivalent)

Initial Market Value

Q2 Exchange Transaction

Cost = ?

Cost ⇒ Fv of Asset given (I^st priority)

(or)

Fv of Asset acquired (II^nd priority)

(or)

CA of Asset given (if Both Fv are not available)

1,00,00,000

Build 75 lac. Fv
mach. 30 lac Fv
furn. 10 lac Fv

Q3 Multiple PPE at Single price

Cost of Each PPE :- in Ratio of Fv of each PPE

Q4 PPE (Free of cost) Govt. Grant

Cost = 1/- or 10/- as per AS 12 (Nominal value)

Building a/c Dr. 60

To Machine 45

To Bank 10

To Gain on Exch. 5 (P&L)

Q5

Entity A → given → Car X BV 1300000

→ Received Car y

→ Cash 15000

Car y a/c Dr. 1285000

Cash a/c Dr. 15000

To Car X 1300000

Cost at Initial Recog = 1000000

1st Dep 10% = (100000)

900000

Fv 980000

(+) Upward Revaluat 80000 Gain

B/S date 980000 (fv)

Asset Dr. To RR

directly in R&S

2nd yr. Dep 10% 98000 (P&L)

882000

Fv = 820000

Downward Revaluation (62000) Loss

B/S = 820000

RR 62000

To Asset 62000

III rd year Dep 10% (82000)

738000

Fv = 700000

Downward Rev. (38000) Loss

700000 B/S

RR 18

P&L 20

~~To Asset~~ 38

IV Dep 10%. 70000

630000

60000

690000 B/S

FV 690000

Upward Rev. Gain

Asset 60000

To P&L 20000

To RR 40000

V Dep 10%. (69000)

621000

Asset Sold 635000

(1) Bank 635000

To Asset 621000

To Gain (P&L) 14000

(2) RR 40000

To GR 40000

1st upward 50000 ⟶ RR 50000

2nd downward 30000 ⟶ RR Dr. 30000

RR 20000

3rd Upward 15000 ⟶ RR 35000

4th downward 40000 ⟶ RR 0

P&L 5000

5th downward 20000 ⟶ P&L 20000

Total P&L 25000

6th Upward 60000 ⟶ P&L 25000

⟶ RR 35000 Cr. Bal.

Asset org Cost 500,000

Prov. for Dep 200,000

Fair Value = 450000

Revaluation upward = 150000

I^st Alternative (net method)

Eliminate Prov. for Dep from Asset

(Gross method) II^nd alternative

I don't want to eliminate provision

↓

① Provision Dr. 20 / 20
To Asset

Asset Bal = 30

% Change = 150000 / 300000 × 100

= 50%

② New Revalue upward

Asset 15 / 15
To RR

Org Cost ↑ 50%

provision ↑ 50%

Asset at 45 (B/s)

Asset Dr. 25
To provision 10
To RR 15

B/S

Asset 75	45
(-) Prov. for Dep (30)	

Revision

1) PPE ⟶ Tangible item.

Held For Use
- production of goods
- Red. of Services
- Admst. purpose
- Rental to others.

&

Expected to be used for More than 12 m.

→ Ordinary Business activity

2) Biological Assets ⇒ Living Animals & Plants

Animals
- Animals for admnst. purpose (PPE)
- all others not PPE

Plants
- Bearer → PPE
- non-Bearer → Not a PPE

3) Recognition Criterial :- PPE should be recorded as an Asset

&

- Expected FEB
- Cost can be measured reliably

4) Initial Recog. :- At Cost

- PC
- DAC
  - Labour
  - Installation
  - professional
  - Transport
  - Testing.
- PV of DC

5) Cost of PPE

- Payment beyond normal Credit period
  - Cost = Cash price equivalent (PV of Outflow)
  - (Initial MV)
- Exchange purchase
  - fair value Given (Ist) received (IInd)
  - (or)
  - CA if No fv or Lacks Commercial Subst.
- Consolidated price multiple PPE
  - Cost of each PPE in ratio of FV

Cost in case of GG :-

- Free → Cost = Nominal Value
- Cash Grant → Cash paid (PPE) (-) GG received → Cost

6) Subsequent Measurement (PPE at B/s date)

Cost model	Revaluation model
Org. Cost	Fair Value
(-) Acc. Dep till date	(-) Acc. Dep.
(-) Impairment Loss (AS 28)	(-) Impair. Loss
B/s Value	B/s Value

7) Revaluation model (Imp)

a) Technique of Revaluation :-

- **Gross** → No elimination of provision for Dep.
- **net** → Eliminate Prov. for Dep.

& then apply Revaluation

- % of Change :-

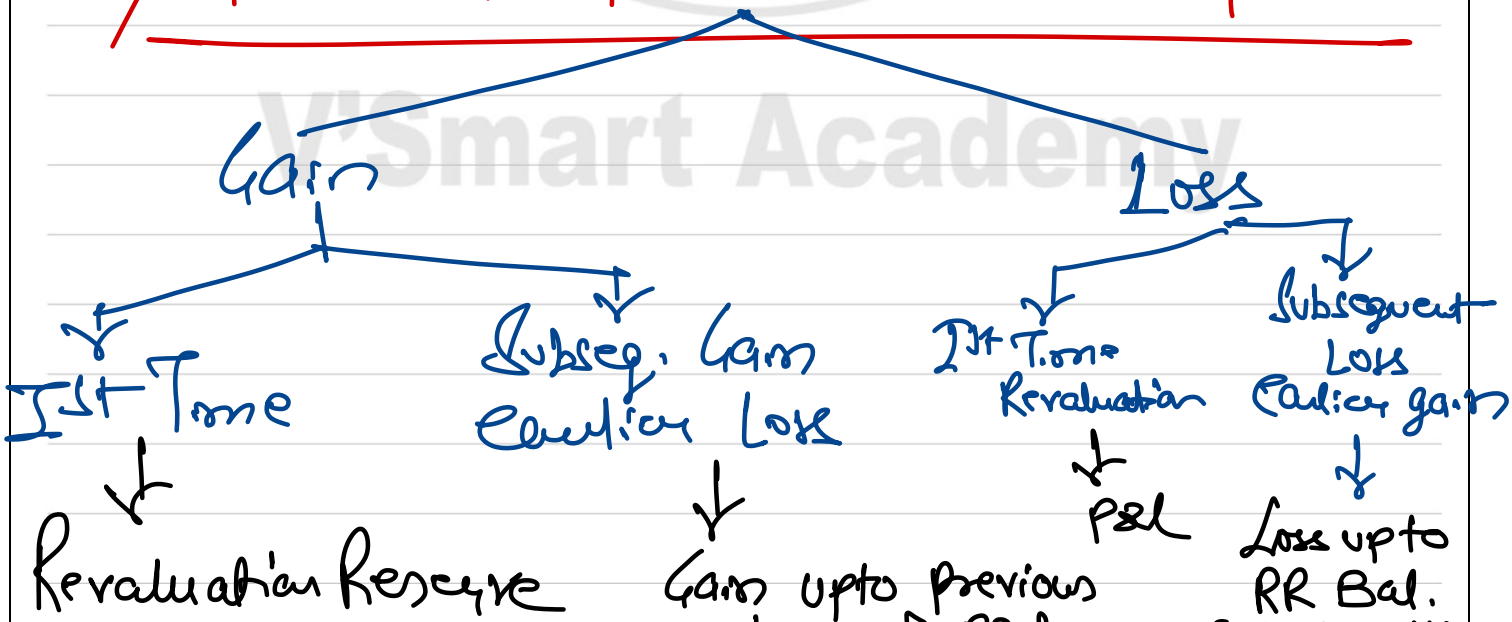
$$\frac{\text{Rev. Gain/Loss}}{\text{WDV}} \times 100$$

- Org. Cost ⟶ % Change
  Prov. For Dep ⟶ % Change

① Asset Dr.
Upward — To Prov.
— To RR

② Provision
Downward — P&L/RR
— To Asset

b) Treatment of Revaluation Gain/Loss



Excess Loss in P&L

c) Treatment of Revaluation Reserve

- Mandatory Treatment
  - On Sale of PPE Trnfer RR to GR
    - Rev. Res. Dr. To GR
    - Never Trnfer RR to P&L
- Optional Treatment (at the discretion of Entity)
  - Trnfer RR to GR annually equal to excess Depreciation (even though PPE is not sold)

8) Depreciation :-

- No method provided in AS 10
- Dep. is mandatory
- Dep is based on pattern of FEB
- Dep on Component Wise
  - if
    - a) Comm. diff life
    - &
    - b) Comm. have Signf. Cost
- Commencement
  - Asset is available for use

Change in Dep method → Change in A/c Estimate → Prospective effect

Cessation
1. CA = RV
2. Dispose
3. Retired from active use & HFS

PPE abandoned → Dep Continue

Why Dep is mandatory
- Normal Usage (wear & tear)
- Capitalised Exp. on PPE → D & Amt. (matching principle)

9) Retired from Active Use & HFS
→ measure at lower of
a) CA or
b) NRV
→ Difference → P&L

10) De-Recognition (Eliminate from Books)

Leased / Sold / disposed / Donate

→ further No Expectation of getting FEB

Gain/Loss ⇒ P&L always

(Gain/Loss on De-Recog. never to be transfer to RR)

11) Changes in Decomm./Dism. Liabilities.

⇓

Compare CA of Provision with Revised provision

=

Gain/Loss

(Decrease or Increase in Liability)

Cost model

→ directly adjust in PPE (+/−)

→ Depreciation will be revised

Revaluation model

① Gain ↓

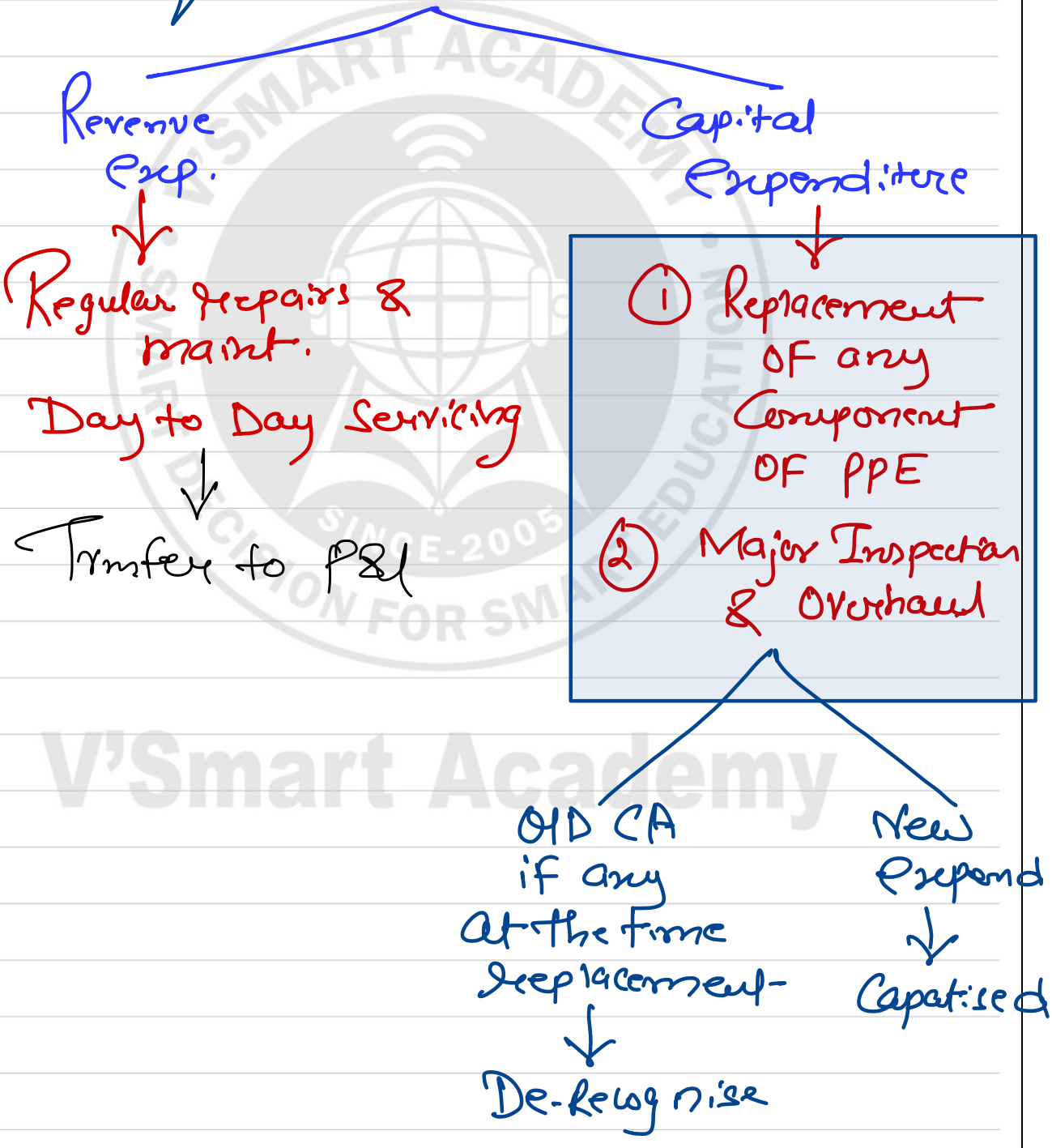
Transfer to P&L to the extent of earlier Loss

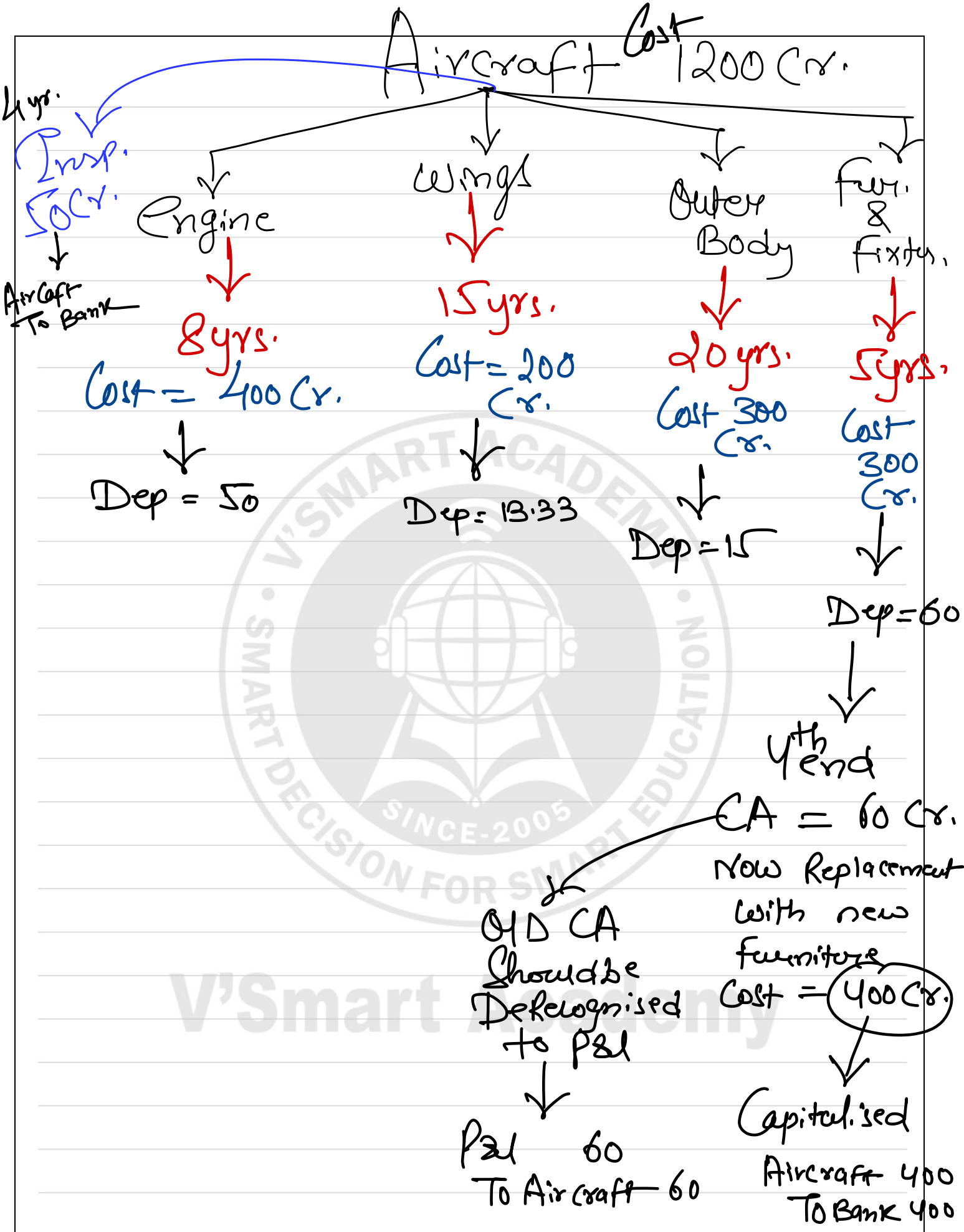
Balance fig. in

RR

(2) Loss :-
W/off with RR if any
& Remaining Loss in P&L

12) Subsequent Expenditure on PPE





Ex:-14

1/4/21 Cost ₹5,00,000
PV of DC 178372
₹178372

→ PPE Dr. ₹178372
To Bank ₹5,00,000
To provision 178372

6 years Accumulated Depreciation

$\frac{5178372}{20} \times 6 = 15,53,512$

PPE CA 31/3/27 ⇒ 36,24,860

Balance of provision as on 31/03/27 :—

Year	Opng	Int 10%	Closg
21-22	178372	17837	196209
22-23	196209	19621	215830
23-24	215830	21583	237413
24-25	237413	23741	261154
25-26	261154	26115	287269
26-27	287269	28727	315996

CA of provision as on 31/03/27 = 315996

Modification :- at 7th yr. Beg.

Revised Value of provision based on Revised Terms ⇒ PV of 1000000 @ 11% for 14th yr.

⇒ 231,995/-

Change in provision ⇒ 315996 − 231995

(Decrease → Gain) ⇒ 84000/-

7th yr. Beg ⇒ Provision for Dec. Liab Dr. 84000
To Gain a/c 84000

Treatment of Gain

OR

PPE is Under Cost model

↓

to be adjusted in PPE

Gain a/c Dr. 84000
To PPE a/c 84000

↓

PPE is Under Revaluation model

↓

Trnf Gain to P&L to the extent of earlier Revaluation Loss and Remaining

Revised CA of PPE = 3624860
(-) 84000
3540860

Gain transfer to RR

↓

Gain Dr.
To P&L (1st Priority)
To RR

Depreciation on Revised Value ⇒ 3540860 / 14

⇒ 252919 P.a.

Treatment of Loss
(When provision amt. Increases)

↓

Loss a/c Dr.
To provision a/c

Cost model

↓

Adjust in PPE
PPE a/c Dr.
To Loss a/c

Revaluation

↓

Set off the Loss with available RR if any & then Excess Loss transfer to P&L

↓

RR Dr. (1st priority)
P&L Dr.
To Loss a/c

Technique of Revaluation

Gross :-

Org Cost PPE = 30 lacs.

Acc. Dep = 12 lacs.

Fair value = 24 lacs.

% of Change $\Rightarrow \frac{FV - CA}{CA} = \frac{6}{18} \times 100$

$= 33.33\%$ i.e $\frac{1}{3}$

Org. Cost	Increase	New Revised
30	10	40

Acc. Dep Org.	Increase	New Bal
12	4	16

Journal entry.

PPE a/c Dr. 10

To prov. For Dep 4

To Rev. Res. 6

Initially Recog.:- PPE Dr. Cost
To Bank
To prov. for Dismantling Liab

Total life = 15 yr.

PV of future outflow
30 lacs.

Every year Interest Recog.

Int. Cost Dr.
To provision

6th yr. end ⇒ Provision Bal. = Carrying Amt. = 12 lacs.

Modification

Change in actual outflow
40 lacs.

Change in Term
7 yr.

Change in Dis. Rate
12%

18,09,397

Q8

Life = 10 yrs.

Cost of Machine = ₹ 3000 lacs.

Annual Dep @ 10% (SLM) = ₹ 300 lacs.

CA of Machine at 4th yr. end =	3000
	(-) 1200 Acc. Dep.
	1800 Lacs.
(+) Revaluation Upward	900 Lacs
Revised CA at 4th yr. end	= 2700 lacs.

FV = 2700

Annual Dep as per 6 yr. life = $\frac{2700}{6}$ = 450 lacs.

CA of 5th yr. = 2700 − 450 = 2250 lacs.

CA of 6th yr. = 2250 − 450 = 1800 lacs.

Q9

Orig. Cost = 2,50,00,000

Life = 10 yr.

Annual Dep = 25,00,000

CA at yr. 3 beginning ⇒ 2,00,00,000

FV at yr. 3 beg. ⇒ 3,00,00,000

Rev. Reserve = 1,00,00,000

Yr 3 Beg. Revised CA = 3,00,00,000

Use Life = 8 yrs.

Annual Dep = 37,50,000

Accumulated Dep for further 3 yrs = 1,12,50,000

Yr. 5th End ⇒ CA = 3,00,00,000 − 1,12,50,000

= 1,87,50,000

Case 1:- Sale Value = 1,12,50,000

Loss (P&L) = 75,00,000

Revaluation Surplus transfer to GR = 1,00,00,000

Case 2:- Sale Value = 42,50,000

Loss (P&L) = 1,45,00,000

Revaluation Surplus transfer to GR = 1,00,00,000

Q10 Calculation of Cost of New Plant

Particulars	Amt.
Cost of Plant	30,00,000
Delivery & Handeling Cost	1,00,000
Site preparation	2,00,000
Consultant fees	50,000
Pr of Dismentling Cost	30,000

Total Cost of Plant = 33,80,000

Main Cost 30,00,000

Other Cost 380000

a) Cost of Motor 500000 5,63,333
(+) 380000 × 1/6

b) Cost of Other Component of plant 28,16,667
3380000
− 563333

Calculation of Annual Dep. & CA

	Motor	Other Component
Total Cost	563333	28,16,667
Life	6 yrs.	10 yrs.
Annual Dep	93,889	281667
CA at 4th yr. end	1,87,777	16,90,000

Note:- CA of motor (₹ 187777) shall be De-Recognised & transfer to P&L.

New Motor Cost shall be added to Existing plant.

∴ Total Revised CA of plant = 16,90,000 + 600000 = 22,90,000

Revalued Amt = 25,00,000

	Motor part	Other Component
	600000	19,00,000
Revaluation Gain	–	210000

Calculation of further Annual Dep & CA

	Motor	Other Component
CA at 4th yr.	600000	19,00,000
Remaining life	5 yr.	6 yrs.
Annual Dep	1,20,000	3,16,667
Acc. Dep for 4 years	480000	12,66,668
CA at 8th yr. end	120000	633332

Sale = 600000
(-) Total CA = 753332
153332 Loss (P&L)

Note:-

1) Interest on deferred Credit shall be directly transfer to P&L.

2) Initial operating Losses are not DAC, Hence no need to Capitalised.

3) Revaluation Reserve at the time of Sale of Asset is transferred to General Reserve.

Q11 (₹ in lakhs)

Cost of Machine = 1000

Life = 10 yrs.

Annual Dep = 100

∴ CA at end of 6th yr. = 400 lakhs.

Old Turbine CA is included in above CA of 400 lacs, which needs to be de-Recognised due to replacement.

Calculation of CA of Old Turbine

Cost of New Turbine = 450 lacs.

Discount Rate = 8%.

Cost of Turbine 6 yr. ago = $450 \times PVF^{6yr.}$

= 283.576 lacs.

CA of Old Turbine

Considering 10 yr. total life (at 6th yr. end) => $\frac{283.576}{10} \times 4$

=> 113.43

Final A/c Treatment

New Turbine Cost shall be Capitalised & Depreciation shall be Charged accordingly.

Old Turbine CA shall be De-Recognised

Revised CA is as Under:—

Existing CA	= 400
(-) Derecognition	= (113.43)
(+) New Turbine	= 450

Revised CA = 736.57

How to Find out the CA of any Component if No Breakdown is provided in Question

a) Take Current Cost of that Component (Purchase Cost) ——— XXX

b) Present Value factor at Dis. Rate ——— XXX

a x b = Cost of Old Component which needs to be replaced XXX

(-) Accumulated Depr. till date based on Org. Life of Asset (XXX)

CA of Old Component

Q15 (a)

Commencement of Dep :-

Entity shall start Charging Dep when Asset is available for use.

Cessation of Dep :-

Entity shall Stop Charging Dep when :-

a) Asset is Derecognised or
b) FEB are lapsed or
c) CA is equal to Residual Value

Conclusion :- As per the give Question, the accounting policy is not Correct.

Q6

Old Machine :- When FEB are lapsed then Entity should derecognise the Asset & Charge to P&L as Under :-

P&L a/c Dr. 2 lacs
To Old Machine 2 lacs.

New Machine :- When ppE is acquired in exchange of any other asset (non Cash Consideration), then it should be recognised at Fair value.

New Mach. Dr. 20 lacs.
To P&L 20 lacs.