

Property, Plant & Equipment (AS-10)

Meaning

Tangible items that are

- * held for use in prodⁿ/supply/ rental / administrative purposes
- * & expected use > 1 Year

Non Applicability

Biological assets
(living animal/plant)
Other than Bearer plant*

Wasting Assets

- * used in prodⁿ/supply of agricultural produce
- Expected > 12 Months
- Remote chances of being sold as agricultural produce

Recognition criteria

Cost to be recognised as asset if

- * Future Economic benefits will flow
- * Cost can be reliably measured

Note: May be appropriate to aggregate individually insignificant items.

Spare Parts/Standby Eq./Servicing Eq.
[Whether definition of PPE met]

Yes

Apply AS10

No

Apply AS2

Subsequent costs

- * Day to Day Servicing
Described as Rep. & Maint.
Exp. Recognised in P&L A/c

- * Replacement of Parts

Old Part

DeRecognise

New Part

Recognise if
Criteria met

- * Regular Major Inspections

Previous Insp.

DeRecognise

New Insp.

Recognise if
Criteria met

Measurement of PPE

Initial Recognition (Cost Model)

Direct Purchase

- Incl.
- Purchase Price
 - + Non Refundable Taxes
 - + Directly Attributable costs
(Site Prep., Installation, Prof. fees)
 - + Decommissioning, Restoration & Liab.

Excl.

- * Cost of opening New Facility
- * Cost of Introducing New Prod./Service
- * Cost of Staff Training
- * Cost of Relocating

Self constructed

Internal Profits eliminated

Special cases

1) Deferred credit

Total Payment - Cash Price
Recognised as interest

2) Exchange

Measured at Fair value unless

- * F.V. not measurable
 - * Transⁿ lacks commercial substance
- Measured at carrying Amt. of Asset given

3) Consolidated Price

Apportioned on Fair value basis

Subsequent Recognition

Choose Either

Cost Model

Revaluation Model

Apply to Entire class of PPE
(Assets of similar nature & use)

Revaluation Frequency

Significant &
volatile changes
in Fair value

Annual

Insignificant

Interval
of 3-5 years

Revaluation : Accounting Treatment

First Revaluation

Upward

Use

Revaluation surplus (R/s)

Downward

Use

P&L A/c

Method 1:

Proportionate Increase in both cost & Acc. Dep.

PPE A/c - Dr.

To Acc. Dep. A/c

To Rev. surplus A/c

Method 2:

Acc. Dep. is eliminated & balance through cost

Acc. Dep. A/c - Dr

PPE A/c - Dr

To Rev. surplus A/c

Subsequent Revaluation

Ist

Use

IInd

Use

↑

R/s

↑

R/s

↓

P&L

↓

P&L

↑

R/s

↓

R/s & then P&L

↓

P&L

↑

P&L & then R/s

Transfer of Rev. surplus to Revenue Reserve

During use of Asset

Some may be t'fd. as

Dep. (on Revolved Amt.)

(-) Dep. (on original cost)

When asset is derecognised

Whole surplus is transferred

Depreciation

Meaning: Systematic allocation of depreciable amount of asset over its useful life.

Component Method: Each part of PPE that is significant in relation to total cost of item should be depreciated separately. E.g.: Airframe & Engine of Aircraft

Depreciable Amount: $\text{Cost / Revalued Amount} - \text{Residual value}$

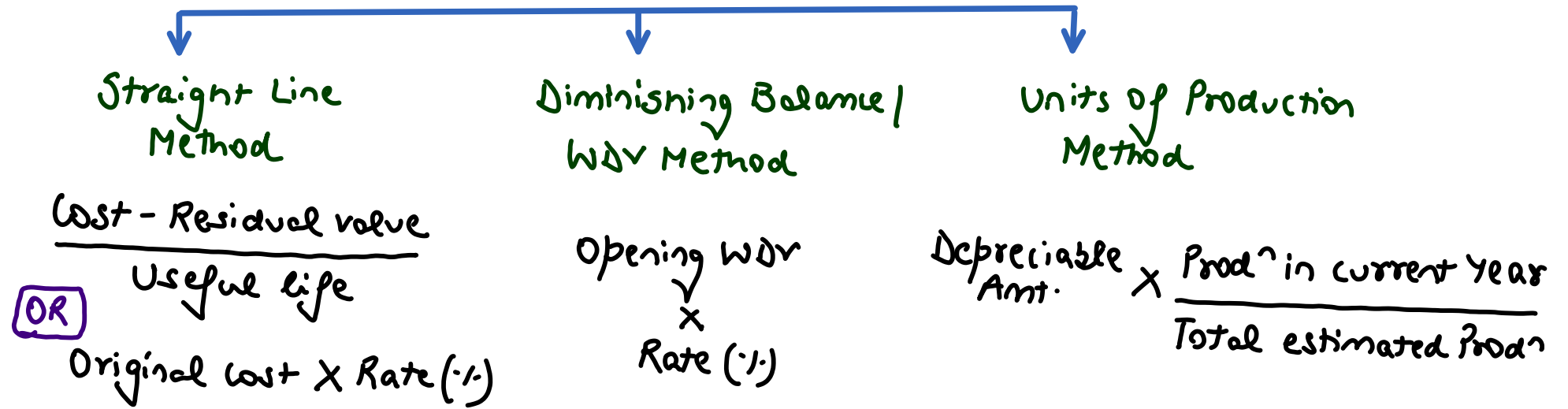
Useful life: On the basis of Period: Period over which asset is expected to be used
On the basis of units: No. of units expected to be obtained.

Commencement: When asset is available for use.

Cessation of Dep.:
① Asset's Residual value $\geq$ Carrying Amount
② Earlier of
* Asset retired from active use & held for disposal
* Asset is derecognised

Depreciation Method

Method should reflect pattern in which future economic benefits are expected to be consumed by the enterprise.



Review of Depreciation Method: Change in Accounting Estimate (Prospective Effect)

Review of Residual value & useful life: Change in Accounting Estimate (Prospective Effect)

Change in Historical cost: Cost may undergo subsequent changes due to exchange rate fluctuations, Price Adjustments, Change in Duties, etc.

(Included in cost of Asset - Prospective Effect)

Land & Buildings: separable assets & accounted separately even when acquired together

Land: Whether Depreciable

No since unlimited useful life.

Exception: If Land has limited useful life.

Retirement: Asset retired from active use & held for disposal
Recorded at Lower of Carrying Amt. or NRV.
Expected loss to be immediately recognised

Derecognition: On Disposal by sale/donation OR When no future benefits expected
Profit/Loss on it to be transferred to P&L A/c

Exchange

Ex:1

Acquire
Old PAM

Give
Equity shares
of company
(FV=10 MP=30)
No: 10000

$$\text{Value} = 10000 \times 30 = 300000$$

Ex:2

Acquire
New PAM

Give
Equity shares
of company
(unlisted)
(Fair value = 400000)

$$\text{Value} = 400000$$

Ex:

Acquire
New PAM

Give
Equity shares
of company
No: 10000
(FV=10 MP=30)
(Fair value = 400000)

$$\text{Value} = 30/40 \text{ w.e. is more clearly evident}$$

Ex:4

Acquire
Old PAM
~~FX~~

Give
Old car ~~FX~~
(Book value = 200000)

$$\text{Value} = 200000$$

Ex:5

Acquire
Car X
(FV=6L)

Give
Car Y
(FV=7L)
(Book value = 680000)

Transaction lacks commercial substance.

$$\text{Value} = 680000$$