

Accounting Standard-10
Property, Plant and Equipment
(part-2)

Measurement after Recognition

An enterprise should choose either the **cost model** or **the revaluation model** as its accounting policy and **should apply** that policy **to an entire class** of property, plant and equipment.

Cost Model

After recognition as an asset, an item of PPE should be carried at its

Cost
Less : Accumulated Depreciation	(.....)
Less : Accumulated Impairment Losses	<u>(.....)</u>
Carrying Amount	<u>.....</u>

Revaluation Model

After recognition as an asset, an item of PPE whose fair value can be measured reliably should be carried at a revalued amount, which is,

Fair value at the date of the revaluation
Less : Any subsequent accumulated depreciation	(.....)
Less : Any subsequent accumulated impairment losses	<u>(.....)</u>
Carrying Amount	<u>.....</u>

- If an item of PPE is revalued, the **entire class** of PPE to which that asset belongs should be revalued.
- The **frequency of revaluations** depends upon the changes in fair values of the items of PPE being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.

Adjustments From Revaluation

- If an Asset's carrying amount is increased as a result of revaluation;
 - *the increase should be credited directly to owners' interests under the heading of revaluation surplus.*
 - *the increase should be recognised in the profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit and loss account.*
- If an Asset's carrying amount is decreased as a result of revaluation;
 - *the decrease should be recognised in the profit and loss.*
 - *the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.*

Depreciation

- **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
- **Depreciable amount** is the cost of an asset, or other amount substituted for cost, less its residual value.
- **Component cost approach is to be followed.** i.e., Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately. Eg. it may be appropriate to depreciate separately the airframe and engines of an aircraft.

- The **depreciation charge** for each period should be **recognised in the statement of profit and loss** unless it is included in the carrying amount of another asset. (when the future economic benefits embodied in that asset are absorbed in producing the other asset).
- Eg, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (AS 2).

Review of Useful Life and Residual Value

- The depreciable amount of an asset should be allocated on a systematic basis over its useful life.
- The residual value and the useful life of an asset should be **reviewed at least at each financial year end** and,
- If expectations differ from previous estimates, the change should be accounted for as a change in an accounting estimate in accordance with AS-5, 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

Beginning & Cessation of Depreciation

Beginning

- Depreciation of an asset **begins when it is available for use**, *i.e.*, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Cessation

- Depreciation of an asset ceases at the **earlier** of the **date that the asset is retired from active use and is held for disposal** and the **date that the asset is derecognised**.
- Therefore, depreciation does not cease when the asset becomes idle or is retired from active use (but not held for disposal) unless the asset is fully depreciated.

Factors to be considered while determining useful life

The useful life of an asset is defined in terms of its expected utility to the enterprise whilst considering the following factors

- i. expected usage of the asset(expected capacity or physical output)
- ii. expected physical wear and tear (depends on operational factors such as the number of shifts for which the asset is to be used, the repair and maintenance programme, the care and maintenance of the asset while idle)

- i. technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the output of the asset.
- ii. legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Methods of Depreciation

- *The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.*
- The depreciation method applied to an asset should be reviewed at least at each financial year-end.
- The depreciation methods given in AS itself are;
 - *Straight-line method*
 - *The diminishing balance method*
 - *The units of production method*

Impairment

An **impairment loss** is the amount by which the *carrying amount of an asset exceeds its recoverable amount*.

To determine whether an item of PPE is impaired, an enterprise **applies AS 28, Impairment of Assets**.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable.

Retirements

Items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down in this regard should be recognised immediately in the statement of profit and loss.

De-recognition

- *The carrying amount of an item of property, plant and equipment should be derecognised*
 - *on disposal; or*
 - *when no future economic benefits are expected from its use or disposal.*
- The **gain or loss** arising from the derecognition of an item of property, plant and equipment should be **included in the statement of profit and loss** when the item is derecognised and shall be determined as follows:

Net Disposal Proceeds
Less: Carrying Amount	<u>(.....)</u>
Gain (Loss)	<u>.....</u>

Important Disclosure Requirements

- The financial statements should disclose, for each class of property, plant and equipment:
 - i. *The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount.*
 - ii. *The depreciation methods used.*
 - iii. *The useful lives or the depreciation rates used.*
 - iv. *The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.*

Continues..

- A reconciliation of the carrying amount at the beginning and end of the period showing:
 - i. *additions;*
 - ii. *assets retired from active use and held for disposal;*
 - iii. *acquisitions through business combinations ;*
 - iv. *increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in revaluation surplus in accordance with AS 28;*
 - v. *impairment losses recognised in the statement of profit and loss in accordance with AS 28;*
 - vi. *impairment losses reversed in the statement of profit and loss in accordance with AS 28;*
 - vii. *depreciation;*
 - viii. *the net exchange differences arising on the translation of the financial statements of a non-integral foreign operation in accordance with AS 11, The Effects of Changes in Foreign Exchange Rates; and*
 - ix. *other changes.*

Continues..

- The financial statements should also disclose:
 - i. *the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;*
 - ii. *the amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;*
 - iii. *the amount of contractual commitments for the acquisition of property, plant and equipment;*
 - iv. *if it is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of profit and loss; and*
 - v. *the amount of assets retired from active use and held for disposal.*

Continues..

- If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:
 - i. the effective date of the revaluation;*
 - ii. whether an independent valuer was involved;*
 - iii. the methods and significant assumptions applied in estimating fair values of the items;*
 - iv. the extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and*
 - v. the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.*

Difference between IndAS 16 and AS 10

Basis	Ind AS 16	AS 10
Fixed Assets retired from active use and held for sale	It does not deal with the assets held for sale because the treatment of such assets is covered under Ind AS 105, Non-current assets held for sale and discontinued operation.	It deals with the accounting for items of fixed assets retired from active use and held for sale.
Stripping cost in the production process of a surface mine (SC- cost of removing mine waste materials to gain access to mineral ore deposits)	It provides guidance on measuring stripping cost in the production process of a surface mine.	It does not contain any guidance.