

TOPIC 5.

ACCOUNTING STANDARD – 10 **PROPERTY, PLANT & EQUIPMENT**

NON APPLICABILITY OF AS 10 (REVISED)

1. When any other Standard specifically applied to a particular item or transaction such as AS 19 on Leases of Fixed Assets.
2. Biological Assets related to Agricultural activity (IND AS 41 is applicable on such assets)
However AS 10 – PPE is applicable on Bearer Plants.

DEFINITIONS:

1. PROPERTY PLANT AND EQUIPMENT

Any *Tangible item* will be called as PPE if it satisfies the following Conditions:

Condition – 1	Condition – 2
Held for Use in <ul style="list-style-type: none">• Production or Supply of goods and services• For Rental to Others• For Administrative Purposes	Expected to be Used for more than 12 Months.

Items of PPE may also be acquired for safety or environmental reasons:

Although not directly increasing the future economic benefits, Such items of PPE qualify for recognition as assets because they enable an enterprise to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.

2. Biological Assets: It means Living Plants and Animals. INDAS 16 applies on Bearer Plants only.

3. Bearer Plant: a plant that satisfies all the 3 conditions:

Bearer Plant is a plant which	Is used in the production or supply	Of Agricultural produce
	Is expected to bear produce	• For more than a period of 12 months

Has a remote likelihood of being sold as Agricultural produce	• Except for incidental scrap sales
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Note: When bearer plants are no longer used to bear produce they might be cut down and sold as scrap. For example - use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a Bearer Plant.

Example of bearer plant is Mango Tree, Coconut Tree etc

RECOGNITION CRITERIA FOR PPE

The **cost of an item of PPE** should be recognised as an asset **if, and only if:**

- (a) It is probable that future economic benefits associated with the item will flow to the enterprise, and
- (b) The cost of the item can be measured reliably

Treatment of Spare Parts, Standby Equipment and Servicing Equipment

Case I: If they meet the definition of PPE as per INDAS 16: Recognised as PPE as per INDAS 16

Case II: If they do not meet the definition of PPE as per INDAS 16: Such items are classified as Inventory as per AS 2.

Treatment of different subsequent expenditure on PPE:

1. **Cost of day to day servicing:** This cost is directly recognised in the Statement of Profit and Loss.

Example 1-

Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for in store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers. State whether the remodeling cost will be capitalized or not.

Answer:

The expenditure in remodeling the store will create future economic benefits (in the form of 15% of increase in sales) and the cost of remodeling can be measured reliably, therefore, it should be capitalised.

2. **Replacement of parts of PPE:** Capitalise in the carrying amount of PPE if the recognition criteria are met.

Examples

- a. Aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe.
- b. Replacing the interior walls of a building, or to make a non-recurring replacement.

3. Regular Major Inspection or Overhaul: When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement, if the recognition criteria are satisfied.

Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized.

Example 2:

A shipping company is required by law to bring all ships into dry dock every five years for a major inspection and overhaul. Overhaul expenditure might at first sight seem to be a repair to the ships but it is actually a cost incurred in getting the ship back into a seaworthy condition. As such the costs must be capitalised.

A ship which cost ₹ 20 million with a 20 year life must have major overhaul in every five years. The estimated cost of the overhaul at the five-year point is ₹ 5 million.

The depreciation charge for the first five years of the assets life will be as follows:

	Overhaul Component (Million)	Ship (other than overhaul component) Million
Cost	5	15
Years	5	20
Depreciation per year	1	0.75

Total accumulated depreciation for the first five years will be Rs. 8.75, and the carrying amount of the ship at the end of year 5 will be Rs. 11.25 million.

The actual overhaul costs incurred at the end of year 5 are Rs. 6 million. This amount will now be capitalised into the costs of the ship, to give a carrying amount of Rs. 17.25 million.

The depreciation charge for years 6 to 10 will be as follows:

	Overhaul Component (Million)	Ship (other than overhaul component) Million
Cost	6	11.25
Years	5	15
Depreciation per year	1.2	0.75

Annual depreciation for years 6 to 10 will now be Rs.1.95 million. This process will be continued for years 11 to 15 and years 16 to 20. By the end of year 20, the capital cost of ₹ 20 million will have been depreciated plus the actual overhaul costs incurred at years 5, 10 and 15.

MEASUREMENT OF PPE

At Initial Recognition	After Initial Recognition
COST MODEL	COST MODEL or REVALUATION MODEL

Cost of an item of PPE comprises:

COST Includes	COST Excludes
<p>(a) Purchase Price including Import duties and Non-refundable Taxes</p> <p>(b) Any Directly attributable Costs bringing the Asset to its 'location and condition' Eg. Cost of Employee benefits on construction or acquisition of PPE Installation Cost Cost of Testing the PPE Professional Fees Initial delivery Cost etc</p> <p>(c) Decommissioning Restoration and Similar Liabilities Initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as 'Decommissioning, Restoration and similar Liabilities'</p>	<ul style="list-style-type: none"> • Cost of Opening new business such as inauguration cost • Startup Costs • Cost of introducing a new product including advertising • Initial operating losses • Cost of relocating or reorganizing part or all the operations of an enterprises. • Administrative and other general overheads • Abnormal Cost/Losses (eg. Loss due to strike)

Question 1

ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

	<i>Rs</i>
Cost of the plant (cost as per supplier's invoice)	31,25,000
Estimated dismantling costs to be incurred after 5 years	2,50,000

Initial Operating losses before commercial production	3,75,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

You are required to compute the costs that can be capitalised for plant by ABC Ltd., in accordance with AS 10: Property, Plant and Equipment.

Solution:

According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	Rs
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting to ₹ 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit & Loss in the period they are incurred.

Question 2

Entity A has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site. The following incremental costs will be incurred:

1. Setup costs of Rs. 5,00,000 to install machinery in the new location.
2. Rent of Rs. 15,00,000
3. Removal costs of Rs.3,00,000 to transport the machinery from the old location to the temporary location. Can these costs be capitalised into the cost of the new building?

Answer:

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The costs to be incurred by the company do not meet the requirement of INDAS 16 and therefore, cannot be capitalised.

MEASUREMENT AT INITIAL RECOGNITION

(a) If payment is deferred beyond normal credit terms:

Cost of an item of PPE is the **CASH PRICE EQUIVALENT** at the recognition date.

Total payment - Cash price equivalent:

- ◆ Is recognised as Interest over the period of credit.
- ◆ unless such interest is capitalised in accordance with AS 16

Question 3

On 1st April 20X1, an item of property is offered for sale at Rs. 10 million, with payment terms being three equal installments of Rs. 33,33,333 over a two years period

(payments are made on 1st April 20X1, 31st March 20X2 and 31st March 20X3).

The property developer is offering a discount of 5 percent (i.e. Rs. 0.5 million) if payment is made in full at the time of completion of sale. Implicit interest rate of 5.36 percent p.a.

Show how the property will be recorded in accordance of AS 10.

Solution:

AS 10 requires that the cost of an item of PPE is the cash price equivalent at the recognition date. Hence, the purchaser that takes up the deferred payment terms will recognise the acquisition of the asset as follows

		(Rs)	(Rs)
On 1st April, 20X1			
Property, Plant and Equipment	Dr.	95,00,000	
To Cash			33,33,333
To Accounts Payable			61,66,667
(Initial recognition of property)			
On 31st March 20X2			
Interest Expense	Dr.	3,30,533	
Accounts payable	Dr.	30,02,800	
To Cash			33,33,333
(Recognition of interest expense and payment of second installment)			
On 31st March 20X3			
Interest Expense	Dr.	1,69,467	
Accounts payable	Dr.	31,63,867	
To Cash			33,33,334
(Recognition of interest expense and payment of final installment)			

(b) PPE acquired in Exchange for a Non-monetary Asset or Assets or a combination of Monetary and Non-monetary Assets:

Cost of such an item of PPE is measured at fair value of Asset given including cash if any (1st Priority) or Asset received (2nd Priority) unless:

- (i) Exchange transaction lacks commercial substance; Or
- (ii) Fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.

If the PPE acquired is not measured at Fair Value, its cost is measured at the **carrying amount of**

the asset given up.

Question 4

Pluto Ltd owns land and building which are carried in its balance sheet at an aggregate carrying amount of ₹10 million. The fair value of such asset is ₹15 million. It exchanges the land and building for a private jet, which has a fair value of ₹18 million, and pays additional ₹3 million in cash. Show the necessary treatment as per IND AS 16.

Solution:

Private Jet shall be recognized at FV of private jet if it is clearly evident otherwise at FV of L&B

The required journal entry is therefore as follow:

Property, Plant and Equipment (Private Jet) Dr.	18,000	
To Property, Plant and Equipment (Land and Building)		10,000
To Cash		3,000
To Profit on exchange of assets		5,000

Question 5

(ICAI Module) (Exchange lacks commercial substance)

Entity A exchanges car X with a book value of Rs 13,00,000 and a fair value of Rs 13,25,000 for cash of Rs 15,000 and car Y which has a fair value of Rs 13,10,000. The transaction lacks commercial substance as the company's cash flows are not expected to change as a result of the exchange. It is in the same position as it was before the transaction. What will be the measurement cost of the assets received?

Solution

The entity recognises the assets received at the book value of car X. Therefore, it recognises cash of Rs 15,000 and car Y as PPE with a carrying value of Rs 12,85,000.

(c) PPE purchased for a Consolidated Price:

Where several items of PPE are purchased for a consolidated price, the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition.

Note: In case the fair values of the items acquired cannot be measured reliably, these values are estimated on a fair basis as determined by competent valuers.

(d) PPE held by a lessee under a Finance Lease

The cost of an item of PPE held by a lessee under a finance lease is determined in accordance with AS 19 (Leases).

(e) Government Grant related to PPE:

The carrying amount of an item of PPE may be reduced by government grants in accordance with AS 12 (Accounting for Government Grants).

MEASUREMENT AFTER RECOGNITION

An enterprise should choose

- ◆ **Either** Cost model,
- ◆ **Or** Revaluation model

as its accounting policy and should apply that policy to an entire **class of PPE**.

Class of PPE: A class of PPE is a grouping of assets of a **similar nature and use** in operations of an enterprise.

Examples of separate classes:

- (a) Land
- (b) Land and Buildings
- (c) Machinery
- (d) Ships
- (e) Aircraft
- (f) Motor Vehicles
- (g) Furniture and Fixtures
- (h) Office Equipment
- (i) Bearer plants

Cost Model

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

Cost - Any Accumulated Depreciation - Any Accumulated Impairment losses

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.

Fair value at the date of the revaluation	-
Less: Any subsequent accumulated depreciation	(-)
Less: Any subsequent accumulated impairment losses	(-)
Carrying value	=

Revaluation for entire class of PPE

If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.

Example 3:

Entity A is a large manufacturing group. It owns a number of industrial buildings, such as factories and warehouses and office buildings in several capital cities. The industrial buildings

are located in industrial zones, whereas the office buildings are in central business districts of the cities. Entity A's management want to apply the revaluation model as per INDAS 16 to the subsequent measurement of the office buildings but continue to apply the historical cost model to the industrial buildings.

State whether this is acceptable under INDAS 16 or not with reasons?

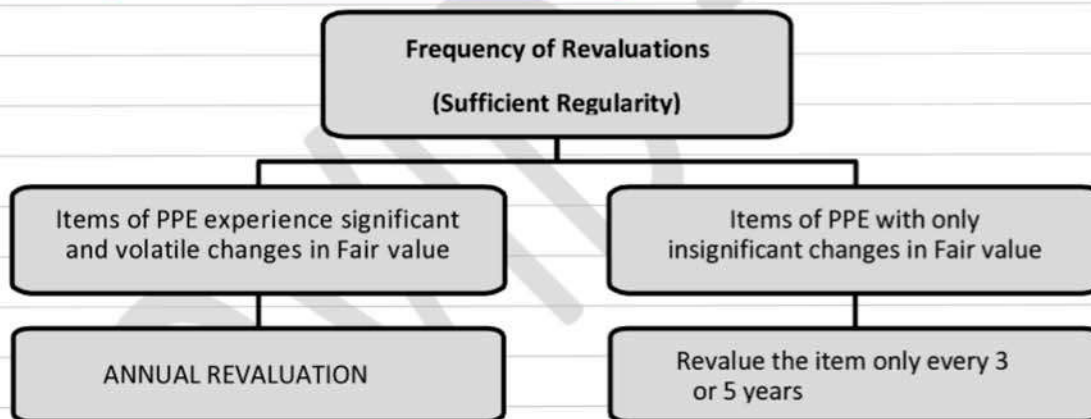
Answer:

Entity A's management can apply the revaluation model only to the office buildings. The office buildings can be clearly distinguished from the industrial buildings in terms of their function, their nature and their general location. INDAS 16 permits assets to be revalued on a class by class basis.

The different characteristics of the buildings enable them to be classified as different PPE classes. The different measurement models can, therefore, be applied to these classes for subsequent measurement.

All properties within the class of office buildings must, therefore, be carried at revalued amount.

ACCOUNTING TREATMENT OF REVALUATIONS



When an item of PPE is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

Technique 1: Change in Gross Carrying amount and Accumulated depreciation amount

Gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

Gross carrying amount -

- May be restated by reference to observable market data, or
- May be restated proportionately to the change in the carrying amount.

Accumulated depreciation at the date of the revaluation is -

- Adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

Technique 2: Accumulated depreciation is eliminated against the gross carrying amount of the asset.

Question 6

Jupiter Ltd. has an item of plant with an initial cost of Rs. 100,000. At the date of revaluation accumulated depreciation amounted to Rs. 55,000. The fair value of asset, by reference to transactions in similar assets, is assessed to be Rs. 65,000. Find out the entries to be passed?

Solution:

Method – I: Accumulated Depreciation is eliminated

Accumulated depreciation	Dr.	55,000	
To Asset Cost			55,000
Asset Cost	Dr.	20,000	
To Revaluation reserve			20,000

The net result is that the asset has a carrying amount of ₹ 65,000 (100,000 – 55,000 + 20,000).

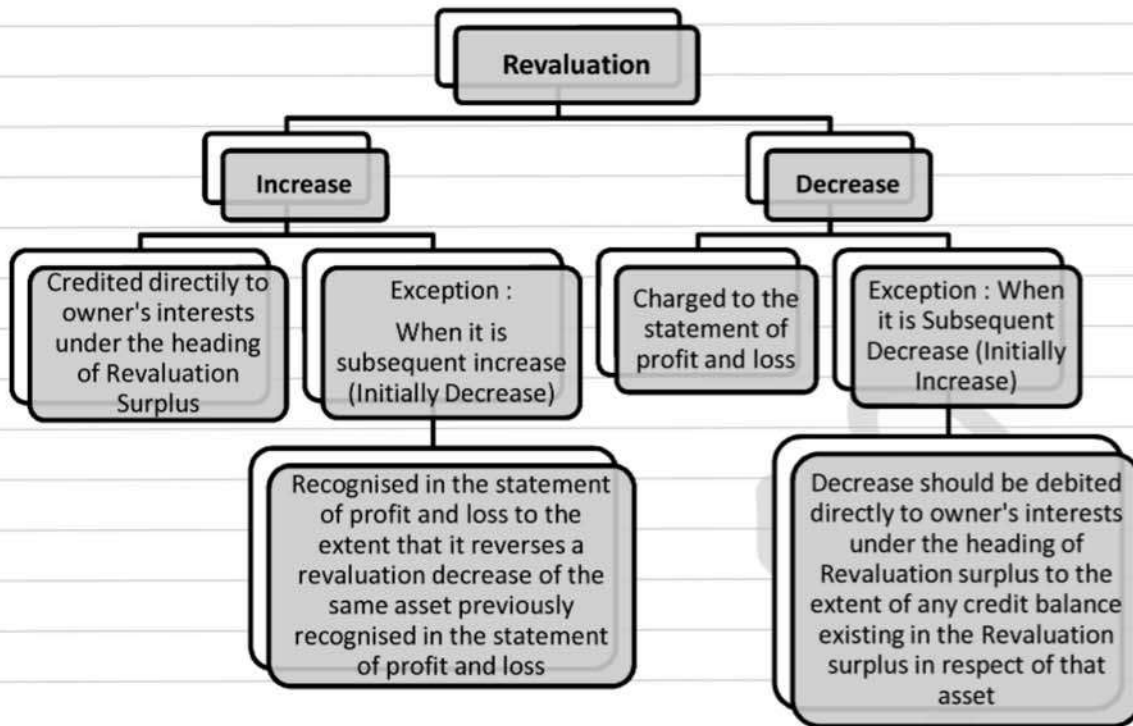
Method – II: Change in gross carrying amount and accumulated depreciation

Carrying amount (100,000 – 55,000)	45,000
Fair value (revalued amount)	65,000
Surplus	20,000
% of surplus (20,000/ 45,000)	44.44%

Entries to be Made:

Asset (1,00,000 x 44.44%)	Dr.	44,444
To Accumulated Depreciation (55,000 x 44.44%)		24,444
To Surplus on Revaluation		20,000

Revaluation – Increase or Decrease



Utilisation of Revaluation Surplus

The revaluation surplus included in owners' interests in respect of an item of PPE may be transferred to the **Revenue Reserves when the asset is de-recognised.**

Case I: When we will transfer whole surplus?

When the asset is:

- ◆ Retired; or
- ◆ Disposed of

Case II: When we will transfer partial surplus?

When the asset is still used by an enterprise not yet sold.

In such a case, the amount of the surplus transferred would be the excess depreciation
 Depreciation (based on Revalued Carrying amount) – Depreciation (based on Original Cost)

Note: Transfers from Revaluation Surplus to the Revenue Reserves are not made through the Statement of Profit and Loss.

Question 7

An item of PPE was purchased for Rs. 9,00,000 on 1 April 20X1. It is estimated to have a useful life of 10 years and is depreciated on a straight line basis. On 1 April 20X3, the asset is revalued to Rs. 9,60,000. The useful life remains unchanged at ten years. Show the necessary treatment as per IND AS 16.

Solution:

Calculation of Additional Depreciation:

Actual depreciation for 20X3-X4 based on revalued amount	1,20,000
Depreciation for 20X3-20X4 on historical cost (9,00,000/10)	(90,000)
Additional Depreciation	30,000

In the profit or loss for 20X3-20X4, a depreciation expense of Rs 1,20,000 will be charged. A reserve transfer, which will be shown in the statement of changes in equity, may be undertaken as follows:

Revaluation surplus	Dr.	30,000	
To Retained earnings			30,000

The closing balance on the revaluation surplus on 31st March, 20X4 will therefore be as follows:

Balance arising on revaluation (9,60,000 – 7,20,000)	240,000
Transfer to retained earnings	(30,000)
	210,000

DEPRECIATION

Component Method of Depreciation:

Each part of an item of PPE with a cost that is **significant in relation to the total cost** of the item should be depreciated separately.

Example: It may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

Is Grouping of Components possible?

Yes.

A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts **may be grouped** in determining the depreciation charge.

Accounting Treatment:

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.

Question 8

(RTP May18)

In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for Rs 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost (Rs)
Land	Infinite	20,00,000
Roof	25	10,00,000
Lifts	20	5,00,000
Fixtures	10	5,00,000
Reminders of building	50	<u>50,00,000</u>
		<u>90,00,000</u>

You we required to calculate depreciation for the yew 2016-17 as per componenzation method.

Solution:

Statement showing amount of depreciation as per Componentization Method

Component	Depreciation (Per annum)
	(Rs)
Land	Nil
Roof	40,000
Lifts	25,000
Fixtures	50,000
Remainder of Building	1,00,000
	<u>2,15,000</u>

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognized as a new component.

Depreciable Amount and Depreciation Period

What is "Depreciable Amount"?

Depreciable amount is:

Cost of an asset (or other amount substituted for cost i.e. revalued amount) – Residual value

The depreciable amount of an asset should be **allocated on a systematic basis** over its useful life.

Review of Residual Value and Useful Life of an Asset:

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(s) 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'.

Commencement of period for charging Depreciation

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 the management.

Depreciation on Land and Buildings

Land and buildings are separable assets and are accounted for separately, **even when they are acquired together.**

A. Land: Land has an unlimited useful life and therefore is not depreciated.

Exceptions: Quarries and sites used for landfill.

Depreciation on Land:

I. If land itself has a limited useful life:

It is depreciated in a manner that reflects the benefits to be derived from it.

II. If the cost of land includes the costs of site dismantlement, removal and restoration:

That **portion of the land asset** is depreciated over the period of benefits obtained by incurring those costs.

B. Buildings:

Buildings have a limited useful life and therefore are depreciable assets.

An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

DEPRECIATION METHOD

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 method selected is applied **consistently from period to period** unless:

- There is a change in the expected pattern of consumption of those future economic benefits; Or
- That the method is changed in accordance with the statute to best reflect the way the asset is consumed.

A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include:

a) Straight-line depreciation method results in a constant charge over the useful life if the asset's residual value does not change

b) Diminishing balance method results in a decreasing charge over the useful life.

Units of production method results in a charge based on the expected use or output.

REVIEW OF DEPRECIATION METHOD:

The depreciation method applied to an asset should be reviewed at **least at each financial year-end** & if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern.

Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

Question 9**(ICAI Module)**

Entity A purchased an asset on 1st January 2013 for ₹ 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil.

On 1st January 2017, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years.

Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

Solution

The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e. (1,00,000/10 years).

On 1st January 2017, the asset's net book value is [1,00,000 - (10,000 x 4)] ₹ 60,000. The remaining useful life is 4 years.

The company should amend the annual provision for depreciation to charge the unamortised cost over the revised remaining life of four years.

Consequently, it should charge depreciation for the next 4 years at ₹ 15,000 per annum i.e. (60,000 / 4 years).

Note: Depreciation is recognised even if the Fair value of the Asset exceeds its Carrying Amount. Repair and maintenance of an asset do not negate the need to depreciate it.

RETIREMENTS

Items of PPE retired from active use and held for disposal should be stated at the lower of:

- ◆ Carrying Amount, and
- ◆ Net Realisable Value

Note: Any write-down in this regard should be recognised immediately in the Statement of Profit&Loss.

DE-RECOGNITION

The carrying amount of an item of PPE should be derecognised:

- ◆ On disposal
 - By sale
 - By entering into a finance lease, or
 - By donation, Or
- ◆ When no future economic benefits are expected from its use or disposal

Accounting Treatment:

Gain or loss arising from de-recognition of an item of PPE should be included in the **Statement of Profit and Loss when the item is derecognized** unless AS 19 on Leases, requires otherwise on a sale and leaseback (AS 19 on Leases, applies to disposal by a sale and leaseback.)

Where,

$$\begin{aligned} & \text{Gain or loss arising from de-recognition of an item of PPE} \\ & = \text{Net disposal proceeds (if any)} - \text{Carrying Amount of the item} \end{aligned}$$

Note: Gains should **not** be classified as revenue, as defined in AS 9 'Revenue Recognition'.

CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND OTHER LIABILITIES

Basic Meanings

Decommissioning – Withdrawal

Restoration – Action of bringing something back to original condition

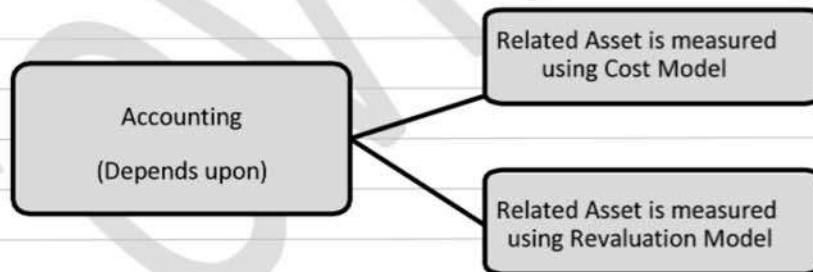
Other Liabilities – Changes in Duties payable on PPE, Changes in Foreign Exchange Liability on purchase of PPE, Change in price of PPE after purchase.

Cost of PPE may change subsequent to its acquisition on account of changes in initial estimate of amount provided for dismantling, restoration and other Liabilities.

The cost of PPE may undergo changes subsequent to its acquisition or construction on account of:

- ◆ Changes in Liabilities
- ◆ Price Adjustments
- ◆ Changes in Duties
- ◆ Changes in initial estimates of amounts provided for Dismantling, Removing, Restoration, &
- ◆ Change in Discount rate used to make provision for cost of Decommissioning & Restoration.

The above are included in the cost of the asset. Accounting for the above changes:



A. If the related asset is measured using the Cost model:

Changes in the Liability should be added to, or deducted from, the cost of the related asset in the current period.

Note: Amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess should be recognised immediately in the Statement of Profit and Loss.

B. If the related asset is measured using the Revaluation model:

Changes in the liability **alter the revaluation surplus or deficit previously recognized** on that asset, so that:

(i) Decrease in the liability credited directly to revaluation surplus in the owners' interest

Exception:

- It should be recognised in the Statement of Profit and Loss **to the extent** that it reverses a revaluation deficit on the asset that was previously recognised in the Statement of Profit and Loss.

Note: In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess should be recognised immediately in the Statement of Profit and Loss.

(ii) Increase in the liability should be recognised in the Statement of Profit and Loss

Exception:

- It should be debited directly to Revaluation surplus in the owners' interest **to the extent** of any credit balance existing in the Revaluation surplus in respect of that asset.

What happens if the related asset has reached the end of its useful life?

All subsequent changes in the liability should be recognised in the Statement of Profit and Loss as they occur.

Note: This applies under both the cost model and the revaluation model.



Student Notes:-

COVID-19

