AS 2 - VALUATION OF INVENTORIES

Overview :

- Objective & Scope
- Meaning of Inventory
- Valuation of Inventory
- Absorption Costing - For Fixed Overheads
- Highlights of CENVAT Credit & Excise Duty
- Joint Product & By Product
- Cost Formulae
- Net Realisable Value
- Disclosures

CONCEPT 1 : OBJECTIVES & SCOPE OF AS 2

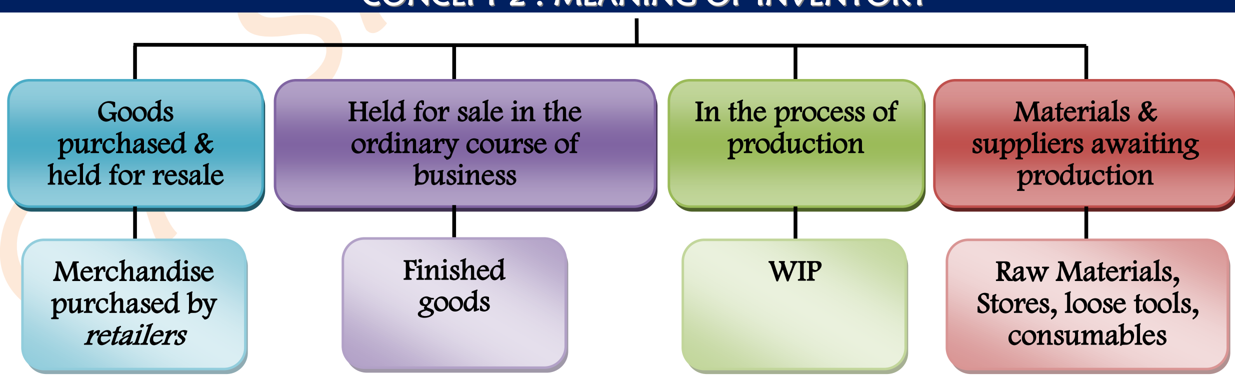
Objective :

- Inventory is said to be "Bread & Butter" for every business concern.
- The reasons emphasized for valuing stock includes :
  - [a] Stock constitutes one of the major parts of total assets employed
  - [b] It determines the amount of profit by valuing closing stock
  - [c] It even shows the financial position of a company, which reflects in the balance sheet.
  - [d] Inventories are subject to obsolescence, spoilage etc

Scope :

- AS 2 excludes within its scope the following :
  - [a] WIP arising out of construction contracts (AS 7).
  - [b] WIP arising out of service providers (AS 9)
    e.g. service contracts of CA firm.
  - [c] Financial instruments like shares, debentures.
  - [d] Livestock, agriculture & forest products & mineral oil & gases to the extent they are measured at net realisable value in according with well established practices in these industries.

CONCEPT 2 : MEANING OF INVENTORY



CONCEPT 3 : VALUATION OF INVENTORY

Calculation of Cost of Purchases

	Particulars	₹
1]	Purchase Price	
2]	Add : Duties & taxes	
	(Except those which are refundable from the tax department)	
3]	Freight Inward	
4]	Any other expenses directly attributable to the acquisition	
5]	Less : Trade Discounts & not Cash Discounts	
	Rebates, Duty Drawbacks or any other similar item	
	Duties & taxes recovered from taxing authorities	

Cost of conversion Refer next Chart

Other Cost (Concept 6)

Cost of conversion

Cost incurred for bringing the inventory to its present condition & location (includes)

- Direct Material
- Direct Labour
- Direct Expenses
- Overheads
  - Variable production OH
    - According to production volume allocated
    - Based on actual units produced
  - Fixed Production OH
    - Constant irrespective of level of Production allocated
    - Based on Normal Capacity Levels

Absorption Costing - For Fixed Overheads

	If Actual Production > Normal	If Actual Production < Normal
FPOH Absorption	100%	Actual Units*Recovery Rate
Inefficiency debited to P&L	Nil	FPOH incurred - FPOH absorbed
Valuation of CS	Based on FPOH/ Actual units	Based on FPOH/ Normal units

CONCEPT 4 : HIGHLIGHTS OF CENVAT CREDIT & EXCISE DUTY (GUIDENCE NOTE)

Guidance Note

- CENVAT Credit should not form
  - Part of cost of Raw Material
  - Reduced from cost of Material
  - CENVAT Credit (INPUT) : Asset Side
- Excise Duty should form the part of cost of production
  - E.D. payable on FG is a direct cost of
  - E.D. payable on FG is included in the value of FG as per AS 2 though E.D. is paid only on clearance of goods

CONCEPT 5 : JOINT PRODUCT & BY PRODUCT

- **Joint Product**
  - Joint Cost
  - Allocated on consistent & rational basis
  - Basis : Sales Value at Split off Point
  - Valued = Joint Cost – NRV of By Product
- **By Products**
  - Reduce from NRV

CONCEPT 6 : ANY OTHER COST

- It includes if incurred to bring the inventory to their present location & condition.
  ☺ Example; Cost of design of Custom made Unit
- Interest & Other Borrowing Costs
  - Generally, treatment is not included in inventory Cost
  - Where inventory takes substantial period to get ready for its intended sale is included. E.g. Wine
- Amortisation of Intangibles related to production.
  It is included in Investment Cost.
  ☺ Example;
  [a] Patent Right of Production.
  [b] Copyright of Publishing
- Exchange difference is not included in Investment Cost.

CONCEPT 7 : EXCLUSION FROM COST OF INVENTORIES

[a] Abnormal amount of wasted materials, labour or other production costs
[b] Interest & storage cost
[c] Administrative overheads (only that part of expenses, which do not contribute to bringing the inventories to its present condition & location)
[d] Selling & distribution overheads (advertisements, after sales services etc)

CONCEPT 8 : NORMAL/ABNORMAL LOSSES

- **Normal Losses**
  - Forms part of cost of production
  - Normal loss is absorbed by good units.
- **Abnormal Loss**
  - Changed to profit & Loss A/c

CONCEPT 9 : COST FORMULAE

- Specific Identification
- FIFO Method
- Weighted Average Method
- Standard Costing
- Retail Price Method

A] <u>Specific Identification Method :</u>

- Practicable only for those items which are purchased for specific goods
- For similar & interchangeable goods, this method is inconvenient.
- Physical tracing is required.
- E.g. Price Tag

B] <u>FIFO Method :</u>

- Closing Stock is recorded at latest purchase price.
- In inflation (rising prices), closing stock is recorded at highest price, so profit is higher.
- In deflation, closing stock is recorded at lower price, so profit is lower.

C] <u>Weighted Average Method :</u>

- $\frac{\text{Total Cost}}{\text{Total units+Fresh units}}$
- This method considers changes in prices.

D] <u>Standard Costing :</u>

- Not an actual cost.
- But considers "Estimated cost"
- Result of closing stock is not actual but approximate.
- It is used widely in industries having non-repetitive process like manufacturer of automobile, boilers, heavy electrical equipment.
- Standard Costing is to be updated & revised periodically.

E] <u>Retail Price Method :</u>

- Large number of innumerable different items in the stock (E.g. cutlery retail shop).
- Unit cost of such items is very low.
- Detailed records of such stock are not kept.
- All the items are having similar margins.
- It is impossible to use any other method.
- Steps of Retail Price Method:
  - Step I : Goods available for sale
  - Step II : Calculation of SP of (sales + closing stock)
  - Step III : GP (if all units sold)
  - Step IV : Calculation of closing stock at cost

CONCEPT 10 : NET REALISABLE VALUE

Finished Goods

Estimated SP in ordinary course of business	xx
Less : Ordinary Costs necessary to make sale	(xx)
NRV	xx

Work in Progress

Estimated SP in ordinary course of business	xx
Less : Estimated Costs of Completion	xx
Less : Ordinary Costs necessary to make sale	(xx)
NRV	xx

Raw Material

1] If FG in which RM& supplies used is sold at cost or above cost then estimated NRV of RM is considered more than its cost

2] If FG in which RM& supplies used is sold at below cost then estimated NRV of RM is considered replacement price

CONCEPT 11 : CONTAINERS AND EMPTIES

- These are neither goods for sale in the ordinary course of business, nor goods in the production process, nor materials or supplies for consumption.
- According to the Expert Advisory Committee of ICAI, these are the items of inventory.
- However, containers & empties having useful life more than one year are treated as depreciable assets.

CONCEPT 12 : DISCLOSURES IN FINANCIAL STATEMENTS

- Accounting Policy used including the cost formulae.
- Carrying amount of inventories viz. WIP, Raw Materials etc.

MODULE EXAMPLES

Example 1 :
Cost of a partly finished unit at the end of 2009-10 is ₹150. The unit can be finished next year by a further expenditure of ₹100. The finished unit can be sold at ₹250, subject to payment of 4% brokerage on selling price. Compute value of inventory.

Example 2 :
ABC Ltd. has a plant with the capacity to produce 1 lac unit of a product per annum and the expected fixed overhead is ₹18 lacs. Fixed overhead on the basis of normal capacity is ₹18 (18 lacs/1 lac).
Case 1 : Actual production is 1 lac units.
Case 2 : Actual production is 90,000 units.
Case 3 : Actual production is 1.2 lacs units.

Example 3 :
A trader purchased certain articles for ₹85,000. He sold some of articles for ₹1,05,000. The average percentage of gross margin is 25% on cost. Opening stock of inventory at cost was ₹15,000.
Compute cost of closing inventory.

Example 4 :
The cost, net realisable value and inventory value of two items that a company has in its inventory are given below :

	Cost ₹	Net Realisable Value ₹
Item 1	50,000	45,000
Item 2	20,000	24,000
Total	70,000	69,000

Calculate value of inventory as per AS – 2 "Valuation of Inventory".

MODULE EXAMPLES - SOLUTIONS

☺ **Example 1 :**
As per AS 2 "Valuation of Inventories", inventories should be valued at lower of cost and net realizable value. Thus, in the given case, the value of unfinished unit will be lower of :
[a] Cost = ₹150
[b] Net realisable value(step 1) = ₹140

➲ Conclusion : Value of closing stock = ₹140.

Step 1 : Calculation of NRV

Sr. No.	Particulars	₹
i]	Net selling price	250
ii]	Less : Estimated cost of completion	100

iii]	Less : Brokerage (4%*250)	10
iv]	Net realisable value	140

✍ Note : The above answer is given on the assumption that partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

☺ **Example 2 :**

➲ Provisions of AS :

As per AS 2 'Valuation of Inventories', the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads is based on normal capacity of the production facilities.

Amount of Closing Stock & Amount to be written off in P&L

Case	Fixed Cost	Production (in Units)		Consider in Denominator with reason
		Normal	Actual	
1	₹18,00,000	1,00,000	1,00,000	Cost/Unit = ₹18,00,000/1,00,000 Units=₹18/Unit
Actual Production = Normal Production				So Cl Stock = ₹ 18 * 1,00,000 Units = ₹18,00,000
Consider Normal Production in Denominator				Amount to be written off to P&L=18,00,000-(1,00,000*18)=0
2	₹18,00,000	1,00,000	90,000	Cost/Unit = ₹18,00,000/1,00,000 Units=₹18/Unit
Actual Production < Normal Production				So Cl Stock = ₹ 18 * 90,000 Units = ₹16,20,000
Consider Normal Production in Denominator				Amount to be written off to P&L=18,00,000-(90,000*18)=1,80,000
3	₹18,00,000	1,00,000	1,20,000	Cost/Unit = ₹18,00,000/1,20,000 Units=₹15/Unit
Actual Production > Normal Production				So Cl Stock = ₹ 15 * 1,20,000 Units = ₹18,00,000
Consider Actual Production in Denominator				Amount to be written off to P&L=18,00,000-(1,20,000*15)=0

☺ **Example 3 :**

Trading A/c at Selling Price

Particulars	₹	Particulars	₹
To Op Stock (15,000+25%)	18,750	By Sales (Given)	1,05,000
To Purchases (85,000+25%)	1,06,250	By Cl Stock * (At SP)	20,000
Total ₹	1,25,000	Total ₹	1,25,000

➥ As per AS 2 'Valuation of Inventories' Closing Stock is valued at lower of Cost & NRV.

➥ Thus, in present case, closing stock will be valued at cost.

➥ Value of Closing Stock :

Cost	Profit	Selling Price
100	25	125
16,000	4,000	20,000

➥ Value of Closing Stock ₹16,000

☺ **Example 4 :**

As per AS – 2 "Valuation of Inventory" value of inventory is based on the principle of "Cost or NRV (Net realizable value) whichever is lower"

Hence, inventory value of various items is,

Particulars	Inventory value
Item 1	45,000 [NRV < Cost] Therefore valued at NRV
Item 2	20,000 [Cost < NRV] Therefore valued at NRV

ANNUAL REPORTS (EXTRACTS)

WABCO INDIA LTD.

INVENTORIES

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials : Cost includes cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined on weighted average basis.

Finished goods, work in progress & contract work in progress: Cost includes cost of direct materials & labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs. Cost is determined on weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the
estimated costs necessary to make the sale.

INVENTORIES (lower of cost and net realisable value)	March 31, 2018	March 31, 2017
Raw materials *	6,134.45	4,971.05
Work-in-progress	428.53	334.62
Finished goods	5,664.49	8,206.83
Stores and spare parts	1,010.95	1,021.94
Total inventories	13,238.42	14,534.44
Includes goods in transit	2,821.22	3,489.86

During the year ended March 31, 2018: INR 109.57 lakhs (March 31, 2017: INR 93.64 lakhs) was recognised as an expense for inventories carried at net realisable value.

ASIAN PAINTS LTD.

INVENTORIES

INVENTORIES [lower of cost and net realisable value]

Sr. No.	Particulars	As at 31.03.2018	As at 31.03.2017
[a]	Raw materials	570.26	516.78
	Raw materials-in-transit	157.90	81.16
		728.16	597.94
[b]	Packing materials	39.59	36.32
[c]	Work-in-progress	95.60	74.80
[d]	Finished goods	1,016.17	1,231.50
	Finished goods-in-transit	2.91	1.80
		1,019.08	1,233.30
[e]	Stock-in-trade (acquired for trading)	190.83	182.41
	Stock-in-trade (acquired for trading) in-transit	33.85	2.97
		224.68	185.38
[f]	Stores, spares and consumables	71.32	66.10
	Stores, spares and consumables-in-transit		0.25
		71.32	66.35
	Total	2,178.43	2,194.09

The cost of inventories recognised as an expense during the year is disclosed in Note 24.

The cost of inventories recognised as an expense includes ₹14.22 crores (Previous year ₹26.90 crores) in respect of write down of inventory to net realisable value. There has been no reversal of such write down in current and previous years.

[A] COST OF MATERIALS CONSUMED

Particulars	Year 2017-18	Year 2016-17
Raw Materials Consumed		
Opening Stock	597.94	534.34
Add: Purchases	6,041.21	5,629.73
	6,639.15	6,164.07

Less: Closing Stock	728.16	597.94
	5,910.99	5,566.13
Packing Materials Consumed		
Opening Stock	36.32	40.13
Add: Purchases	1,192.44	1,167.51
	1,228.76	1,207.64
Less: Closing Stock	39.59	36.32
	1,189.17	1,171.32
TOTAL COST OF MATERIALS CONSUMED	7,100.16	6,737.45
	742.57	646.53

[B] PURCHASES OF STOCK-IN-TRADE

[C] CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN-TRADE AND WORK IN PROGRESS

Particulars	Year 2017-18	Year 2016-17
Stock at the beginning of the year		
Finished Goods (including goods in transit)	1,233.30	778.41
Work-in-Progress	74.80	64.47
Stock-in-trade- acquired for trading (including goods in transit)	185.38	135.02
TOTAL	1,493.48	977.90
Stock at the end of the year		
Finished Goods (including goods in transit)	1,019.08	1,233.30
Work-in-Progress	95.60	74.80
Stock-in-trade- acquired for trading (including goods in transit)	224.68	185.38
TOTAL	1,339.36	1,493.48
CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN-TRADE AND WORK-IN-PROGRESS	154.12	(515.58)

- STATEMENT OF PROFIT AND LOSS

  EXPENSES

Changes in inventories of Finished goods, Stock-in-trade & work-in-progress	154.12	(515.58)

SS - QUESTIONS

Problem 1 :

SS Ltd. ordered 16,000 kg of certain material at ₹160 per unit. The purchase price includes excise duty ₹10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS-2 and amount of abnormal loss. (CA Final May 2011)(Marks 4)

Problem 2 :

SS Limited is engaged in manufacture of Cement. In the P/L account for the year ended 31/3/2007, it discloses its revenue from sales transactions (turnover) net of excise duty. The excise duty collected & paid on sales transaction and that related to difference between Closing and Opening stock is, however disclosed in the "Notes to Accounts". (Audit CA Final)

Problem 3 :

In a manufacturing process of SS Limited, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:

Item	Unit	Amount	Output (unit)	Closing stock as on 31-3-2012
Raw Material	15,000	1,60,000	MP1 - 6250	800
Wages		82,000	MP2 - 5000	200
Fixed Overhead		58,000	BP -1600	
Variable Overhead		40,000		

Average market price of MP1 and MP2 is ₹80 per unit and ₹50 per unit respectively, by-product is sold @ ₹25 per unit. There is a profit of ₹5,000 on sale of by-product after incurring separate processing charges of ₹4,000 and packing charges of ₹6,000. ₹6,000 was realized from sale of scrap. Calculate the value of Closing Stock of MP1 and MP2 as on 31-3-2012. (CA Final Nov 2012)

Problem 4 :

Particulars	2005	2006
Actual units produced (Kgs.)	40,000	50,000
Normal production at normal capacity (Kgs.)	48,000	48,000
Fixed production overheads (₹)	60,000	60,000
Closing Stock (Kgs.)	3,600	4,000
Cost of Closing Stock per unit excluding FPOH (₹)	@7.2/-	@7.5/-

You are required to : (i) Value Closing Stock, (if) Find the amount debited to P/L A/C.

Problem 5 :

SS Pvt. Ltd. manufactures computers, during the year ended 31st March 2005 the company manufactures 550 computers. It adopts the policy of valuing finished stock of goods at a standard cost of ₹1,80,000 per computer. Details of cost is as follows :

Materials & stores ₹400 lakhs, Direct labour ₹250 lakhs, VPOH 150 lakhs, FPOH ₹290 lakhs. FPOH includes interest and storage cost of ₹100 lakhs. Compute value of stock. (C.A. Final May 2002)

Problem 6 :

Shah & Sons operates a retail shop. Store provides you the following information for valuing closing stock as on 31.03.2013 :

Particulars	Units	Cost price of the goods (₹)	Retail Price of the goods (₹)
Opening inventory	2,59,000	10,50,222	12,64,748
Goods purchased	12,00,000	61,20,000	78,05,923
Goods sold (Sale Value)	8,30,456		55,81,454

Problem 7 :

In all the cases assume Cost of inventories = ₹50/- and Future estimated costs = ₹2

Closing Stock	Contract Stock	Contract Price	General Selling price
10,000 units	8,000 units	55/-	56/-
10,000 units	8,000 units	49/-	53/-
10,000 units	14,000 units	49/-	54/-
10,000 units	14,000 units	49/-	50/-

Problem 8 :

State with reference to accounting standard, how you will value the inventories in the following cases:

[i] Raw material was purchased at ₹100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kgs. of raw material is on stock at the year end. Replacement cost is ₹80 per kg.

[ii] In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting normal wastage of 300 MT. Cost per MT of input ₹1,000. Entire quantity of waste in stock at year end.

[iii] Per kg. of finished goods consisted of:

Material cost	₹100 per kg.
Direct labour cost	₹20 per kg.
Direct variable production overhead	₹10 per kg

Fixed production charges for the year on normal capacity of one lakh kgs. is ₹10 lacs. 2,000 kgs. of finished goods are on stock at the year end. (C.A. Final Nov. 2000)

Problem 9 :

SS Ltd. is manufacturing goods for local sale and exports. As on 31st March, 2013, it has the following finished stocks in the factory warehouse:

[i] Goods meant for local sale ₹100 lakhs (cost ₹75 lakhs).

[ii] Goods meant for exports ₹50 lakhs (cost ₹20 lakhs).

Excise duty is payable at the rate of 16%. The company's Managing Director says that excise duty is payable only on clearance of goods and hence is not a cost. Please advice SS using guidance note, if any issued on this, including valuation of stock. (C.A. Final May 2003/2011/2015)

Problem 10 :

The management of the company tells you that the WIP is not valued since it is difficult to ascertain the same, in view of the multiple processes involved. (C.A. Final May 2001)

Problem 11 :

A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers. Comment on the valuation of the stock by the company.

(C.A. Final Nov. 2006)

Problem 12 :

SS Ltd. sells beer to customers, Some of the customers consume the beer in the bars run by SS Limited. While leaving the bars, the Consumers leave the empty bottles in the bars and the Company takes possession of these empty bottles. The Company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the Company by calling for tenders. Keeping this in view:

[a] Decide whether the Stock of Empty Bottles is an Asset of the Company.

[b] If so, whether the Stock of Empty Bottles existing as on the date of Balance Sheet is to be considered as Inventories of the Company and valued as per AS-2, or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'? (CA Final Nov 2010)

Problem 13 :

Calculate the value of Raw Materials & Closing Stock based on the following information :

Raw Material X	
Closing Balance	500 Units
Cost price including excise duty	₹200/Unit
Excise Duty (CENVAT Credit is receivable on the excise duty paid)	₹10/Unit
Freight Inward	₹20/Unit
Unloading Charges	₹10/Unit
Replacement Cost	₹150/Unit
Finished Goods Y	
Closing Balance	1,200 Units
Material Consumed	₹220/Unit
Direct Labour	₹60/Unit
Direct Overhead	₹40/Unit

Total fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 Units.

Calculate the value of closing stock when, [i] NRV of FG Y is ₹400 [ii] NRV of FG Y is ₹300.

SOLUTIONS - SS QUESTIONS

Problem 1:

Step 1 : Calculation of Cost/Kg

Sr. No.	Particulars	Computation	₹
i]	Purchase Price per Kg	[16,000 Kg * ₹160]	25,60,000
ii]	Less: CENVAT Credit	[16,000 Kg * ₹10]	-1,60,000
iii]	Add : Freight	[Given]	1,40,160
iv]	Total Purchase Price	[i-ii+iii]	25,40,160
v]	No of Units Received	[16,000 Kg*98%]	15,680
vi]	Cost/Kg	[iv/v]	162.00

CENVAT credit is admissible then don't consider in purchase price
CENVAT credit is not admissible then consider in purchase price

15,680 Kgs * ₹162 = ₹25,40,160

Received
15,500 Kgs

Abnormal Loss
180 Kgs*162 Per Kg
Value = ₹29,160

Consumed
13,600 Kgs*162 Per Kg
Value = ₹22,03,200

Stock
1,900 Kgs*162 Per Kg
Value = ₹3,07,800

Problem 2 :

- As per AS 14 turnover should be disclosed as follows on the face of P&L.

Particulars	₹
Turnover (Gross)	XXXXX
(-) Excise Duty	XXXXX
Turnover (Net)	XXXXX

- The above excise duty shown above should be the total duty (except duty related to difference between closing stock & op stock which should be recognised separately in the statement of P&L).
- In explanatory note in notes to accounts, explain the nature of 2 amounts of excise duty)
- Conclusion : X ltd has not followed the above ASI 14 the auditor would have to qualify his report.

Problem 3 :

Joint Cost to be allocated in MP1 & MP2

Sr. No.	Particulars	₹
i]	Raw Material	1,60,000
ii]	Wages	82,000
iii]	Fixed OH	58,000
iv]	Variable OH	40,000
v]	Total	3,40,000
vi]	Less :	
	NRV of Byproduct BP (WN 1)	-30,000
	Sale of Scrap	-6,000
	Subtotal	-36,000
vii]	Joint Cost to be allocated	3,04,000

W.N.1 NRV of Byproduct

Sr. No.	Particulars	Computation	₹
i]	Selling Price of the Byproduct	(1,600 Units * ₹25)	40,000
ii]	Packing Charges	(Given)	-6,000
iii]	Separate Processing Charges	(Given)	-4,000
iv]	NRV of Byproduct	(i-ii-iii)	30,000

As per AS 2, most byproducts as well as sale of scrap or waste material are immaterial. So they are measured at NRV .

Calculation of cost/Unit & Closing stock Value

Sr. No.	Particulars	MP1	MP2
i]	Sale Value	5,00,000	2,50,000
		(6,250*80)	(5,000*50)
ii]	Joint Cost to be apportioned (₹304,000 in 50 : 25)	2,02,667	1,01,333
iii]	Output in Units	6,250 Units	5,000 Units
iv]	Cost/Unit	32.43	20.27
v]	No of Units in Closing Stock	800	200
vi]	Value of Cl Stock	25,941	4,053

Problem 4 :

Amount of Closing Stock & amount to be written off in P&L

Year	Fixed Cost	Production (in Units)		Consider in Denominator with reason
		Normal	Actual	
2005	₹60,000	48,000	40,000	Cost/Unit = ₹ 60,000/48,000 Units=₹1.25/Unit
Actual Production < Normal Production				So Cl Stock = ₹ (7.2+1.25) * 3,600 Units = ₹30,420
Consider Normal Production in Denominator				Amount to be written off to P&L=60,000-(40,000*1.25)=10,000
2006	₹60,000	48,000	50,000	Cost/Unit = ₹60,000/50,000 Units=₹1.20/Unit
Actual Production > Normal Production				So Cl Stock = ₹ (7.5+1.2) * 4,000 Units = ₹ 34,800
Consider Actual Production in Denominator				Amount to be written off to P&L = 60,000 - (50,000*1.2) = 0

Problem 5 :

Calculation of Cost/Unit

Sr. No.	Particulars	Computation	₹
i)	Cost of Production		
-	Material & Stores	Given	400
-	Direct Labour	Given	250
-	Variable OH	Given	150
-	Fixed OH	(290-100)	190
-	Subtotal		990
iii)	No of Units Produced	Given	550
iv)	Cost/Unit	(i/ii)	1.80

- The company follows standard costing which is used only if the result approximates the actual cost.
- Incidentally cost/computer as per absorption costing is same as standard costing.

Problem 6 :

Trading A/c at Retail Price

Particulars	Units	₹	Particulars	Units	₹
To Op Stock	2,59,000	12,64,748	By Sales	8,30,456	55,81,454
To Purchases	12,00,000	78,05,923	By Cl Stock *	6,28,544	34,89,217
Total ₹	14,59,000	90,70,671	Total ₹	14,59,000	90,70,671

G.P Ratio $= \dfrac{\text{G.P.}}{\text{Sales incl Cl Stock}} = \dfrac{90{,}70{,}671 - (1050{,}222 + 61{,}20{,}000)}{90{,}70{,}671} = \dfrac{19{,}00{,}449}{90{,}70{,}671} = \boxed{20.96\%}$

At Cost	Profit	Sales
79.0484	20.9516	100
27,58,170		34,89,217

Problem 7 :

Valuation of Inventory

Cases	Cost	NRV		Value of Inventory (Lower)		Total Value
A	B	Contract Price	General S.P	Contract Price	General S.P	
I	50	53	54	4,00,000	1,00,000	5,00,000
		(55-2)	(56-2)	(8,000*50)	(2,000*50)	
II	50	47	51	3,76,000	1,00,000	4,76,000
		(49-2)	(53-2)	(8,000*47)	(2,000*50)	
III	100	47	54	4,70,000	0	4,70,000
		(49-2)	(56-2)	(10,000*47)		
As per AS 29 provisions for onerous contract : [4,000 Units * ₹50 - (49-2)] = ₹3 = ₹12,000 (As manufacturing price is ₹50 & Selling Price 54-2 = 52 so better to manufacturer)						
IV)	100	47	48	4,70,000	0	4,70,000
		(49-2)	(50-2)	(10,000*47)		
As per AS 29 provision for onerous contract : [4000 Units * (₹50-2) - (49-2)] = ₹1 = ₹4,000 (As manufacturing price is ₹50 & Selling Price 50-2 = 48 so better to purchase from outside)						

Problem 8 :

[i] Valuation of RM

FG is recorded at Cost (NRV of FG > Cost of FG) → RM is recorded at Cost

FG is recorded at NRV (NRV of FG < Cost of FG) → RM is recorded at Replacement Value

➲ Conclusion : In the given case stock of RM will be valued at ₹80/Kg* 10,000 kgs = ₹800,000

[ii] Abnormal Cost are excluded from Cost of Inventories & treated as Expenses

Valuation of Closing Stock

Sr. No.	Particulars	Computation	₹
i]	Total Cost	(5,000 MT * ₹1,000)	50,00,000
ii]	Total Input	(5,000 MT - 5%)	4,750
iii]	Cost/MT	(i/ii)	1,052.632
iv]	Value of Cl Stock	[iii*(5,000 MT - 300 MT)]	49,47,368
	Abnormal Loss	[ii*(300 - 5%*5000)]	52,632
	Subtotal		50,00,000

[iii] In accordance with AS 2, Cost of conversion includes a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods.

Cost per kg of finished goods

Sr. No.	Particulars	Computation	₹
i]	Material Cost	Given	100
ii]	Direct Labour	Given	20
iii]	Variable Prod" Overhead	Given	10
iv]	Fixed Prod" Overhead	(10,00,000/1,00,000)	10
v]	Subtotal	(i to iv)	140
vi]	Value of Inventory	(2,000 Kgs*v)	2,80,000

Problem 9 :

- As per Central Excise Rule
  Excise Duty shall be collected at the time of removal of goods from Factory Premises or from approved place of storage
  So the levy of excise duty remains upon the manufacture or production.
  Only Collection part shifted to the stage of removal
- As per GN on Excise Duty
  E.D. is a duty on manufacture/Production of Excisable goods in India
  E.D. is a manufacturing expense like other Manu Exp it is considered in Inventory Valuation
- Conclusion :
  M.D. Contention is not correct as ED is not a cost.
  Excise Duty on goods for local sales should be provided @ 16%.
  Excise Duty on goods for Export should not be provided.

Problem 10 :

- As per AS 2
  Inventories include RM, WIP & FG
- As per GN
  Need to calculate stage of completion
- Conclusion :
  Stock is valued at Cost/NRV whichever is lower
  Co must take help of technical valuation
  So valuation is mandatory for WIP
  Otherwise qualify the audit report.

Problem 11 :

- As per AS 2
  Inventory should be value at cost or NRV whichever is lower
- As per AS 9
  In specific industries (agricultural crops have been harvested or Mineral ores have been extracted) performance may be substantially complete prior to the execution of the transaction.
  In such cases, when sale is assured under forward contract or Government guarantee the goods invoiced are often valued at NRV
- Conclusion :
  Terry Towel do not fall in above category so valued at cost.
  Further export incentives should be recorded only in the year of export sales.
  So valuation is not correct to record at NRV.

Problem 12 :

➲ As per AS 10 :

Meaning of Asset

Tangible objects or intangible right carrying probable future benefits, owned by an enterprise are called assets.

Night Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale. So empty bottles are assets for the company.

➲ As per AS 2 "Valuation of Inventories" :

[a] Inventories are assets held for sale in the ordinary course of business.

[b] Stock of bottles existing on the Balance Sheet date is the inventory.

[c] Night Ltd. has detailed control on recording and accounting of Inventory.

[d] Hence stock of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

Problem 13 :

Case of Material & other supplies held for use in Production of Inventories

Sr. No.	Cases	Explanation
1]	Input should be recorded at cost	Finished Product in which Input is to be used is expected to be sold at or above cost.
2]	Input should be recorded at NRV i.e. Replacement Cost	Finished Product in which Input is to be used is expected to be sold below cost.

Case I : Closing Stock of if NRV of FG is ₹400

Compare Cost of Finished Product Y (Step I) with NRV ₹400

Step I : Cost of Finished Product

Sr. No.	Particulars	Computation	₹
i]	Material Consumed	(Step II)	220
ii]	Labour	Given	60
iii]	Direct OH	Given	40
iv]	Fixed OH	2,00,000/20,000 Units	10
v]	Total Cost	(i+ii+iii+iv)	330

✍ Note : As NRV (₹400) > Cost/Unit (₹300) of Final Product. So Material should be considered ₹ 220 & not replacement cost (₹150).

Step II : Cost of Material Consumed X

Sr. No.	Particulars	Computation	₹
i]	Cost Price	Given	200
ii]	Less: CENVAT Credit	Credit available so don't cons	-10
iii]	Freight Inward	Given	20
iv]	Unloading Charges	Given	10
v]	Total Cost	(i+ii+iii+iv)	220

Value of Closing Stock

Sr. No.	Particulars	Computation	₹
i]	Raw Material	(500 units * ₹220)	1,10,000
ii]	Finished Goods	(1,200 units * ₹ 330)	3,96,000
iii]	Total		5,06,000

Case II : Closing Stock of if NRV of FG is Rs. 300
Compare Cost of Finished Product Y (Step I) with NRV Rs. 300

✍ Note : As NRV (₹300) < Cost/Unit (₹330) of Final Product. So Material should not be considered ₹220 but replacement cost (₹150)

Value of Closing Stock

Sr. No.	Particulars	Computation	₹
i]	Raw Material	(500 units * Rs. 150)	75,000
ii]	Finished Goods	(1,200 units * Rs. 300)	3,60,000
iii]	Total		4,35,000

✍ Note : It has been considered that RM X has been used in the production of FG Y.

EXERCISE

Illustration 1 :

The company X Ltd., has to pay for delay in cotton clearing charges. The company up to 31.3.2014 has included such charges in the valuation of closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from closing stock for the year 2014-15. This would result in decrease in profit by ₹ 5 lakhs. Comment.

Illustration 2 :

Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	₹ per unit
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	
Closing Balance	1200 units
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units.
Calculate the value of the closing stock, when
[I] Net Realizable Value of the Finished Goods X is ₹400.
[II] Net Realizable Value of the Finished Goods Y is ₹300.

Illustration 3 :

An enterprise ordered 13,000 Kg. of certain material at ₹90 per unit. The purchase price includes excise duty ₹5 per Kg., in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹80,600. Normal transit loss is 4%. The enterprise actually received 12,400 Kg and consumed 10,000 Kg. Compute calculation of cost per kg & allocation of material cost.

AS 10 - PROPERTY, PLANT & EQUIPMENT

CONCEPT	
1	Why AS 10? Objective
2	Definition of Property, Plant And Equipment (PPE)
3	Scope of AS 10
4	Other Definitions [A] Biological Asset, [B] Agriculture Activity, [C] Bearer Plant [D] Agriculture Produce And
5	Recognition Criteria For PPE ➜ Meaning ☺ Example – Treatment of Subsequent Costs (3 Costs) – Treatment of Spare Parts, Stand By Equipment And Servicing Equipment (2 Cases) – Safety & Environmental Equipment
6	Measurement of PPE Situation I : Measurement At Recognition – Cost of an Item of PPE Includes – Measurement of Dismantling/Decommissioning – Cost of an Item of PPE Includes – Cost of a Self Constructed Asset – Measurement of Cost(A to E) Situation II : Measurement After Recognition [a] Cost Model [b] Revaluation Model [i] Revaluation for Entire Class of PPE [ii] Frequency of Revaluations [iii] Determination of Fair Value [iv] Accounting Treatment of Revaluations [v] Revaluation - Increase or Decrease [vi] Treatment of Revaluation Surplus
7	Retirements
8	De-Recognition ➜ Meaning ➜ Accounting Treatment ➜ Exception

9	Disclosure [a] General Disclosures [b] Additional Disclosures [c] Disclosures related to Revalued Assets

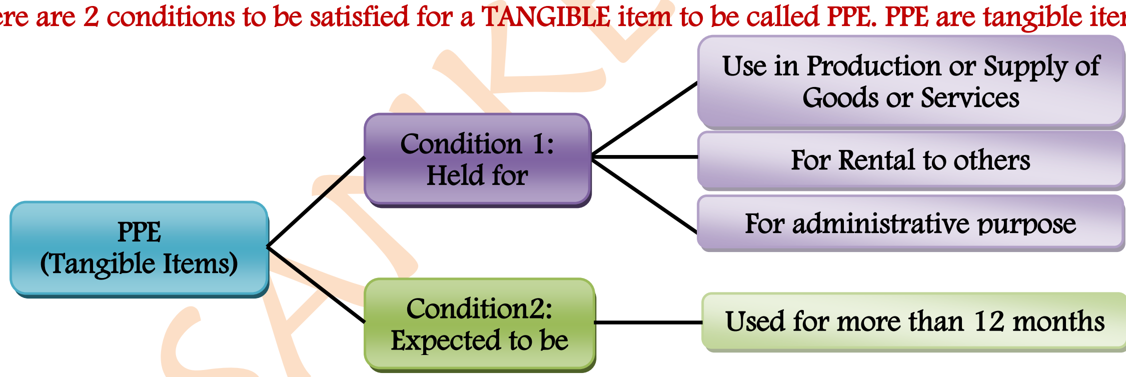
CONCEPT 1 : WHY AS 10?

- The objective of this Standard is to prescribe Accounting treatment for Property, Plant and Equipment (PPE).
- Objective :
  [a] The recognition of the assets,
  [b] Determination of their carrying amounts, and
  [c] The depreciation charges and
  [d] Impairment losses to be recognized in relation to them.

CONCEPT 2 : DEFINITION OF PROPERTY, PLANT AND EQUIPMENT (PPE)

- The Property, Plant and Equipment (PPE) also generally known as fixed assets; these fixed assets are tangible property in contrast to the intangible property which is dealt by another AS-26.
- These tangible assets are :
  [a] Held for use in production or supply of goods and services, for rental to others, or for administrative purposes.
  [b] Expected to be used during more than one period.
  [c] Not held for sale in the normal course of business.
- The examples are land, building, plant and machinery, furniture and fitting and office equipment etc.

- There are 2 conditions to be satisfied for a TANGIBLE item to be called PPE. PPE are tangible items that:



- PPE would include assets used for :
  [a] Selling and distribution
  [b] Finance and accounting
  [c] Personnel and other functions of an Enterprise.

CONCEPT 3 : SCOPE OF AS 10

- As a general principle, AS 10 should be applied in accounting for PPE.
- Exception: When another Accounting Standard requires or permits a different accounting treatment.
- ☺ Example :

  AS 19 on Leases, requires an enterprise to evaluate its recognition of an item of leased PPE on the basis of the transfer of risks and rewards. However, it may be noted that in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

This Standard does not apply to:

AS 10 Not Applicable to

- *Biological Assets* (other than Bearer Plants) Related to agricultural activity
- *Wasting Assets* including Mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources

Clarifications :

[i] AS 10 applies to PPE used to develop or maintain the assets described above.

[ii] Investment property (defined in AS 13), should be accounted for only in accordance with the Cost model prescribed in this standard.

CONCEPT 4 : OTHER DEFINITIONS

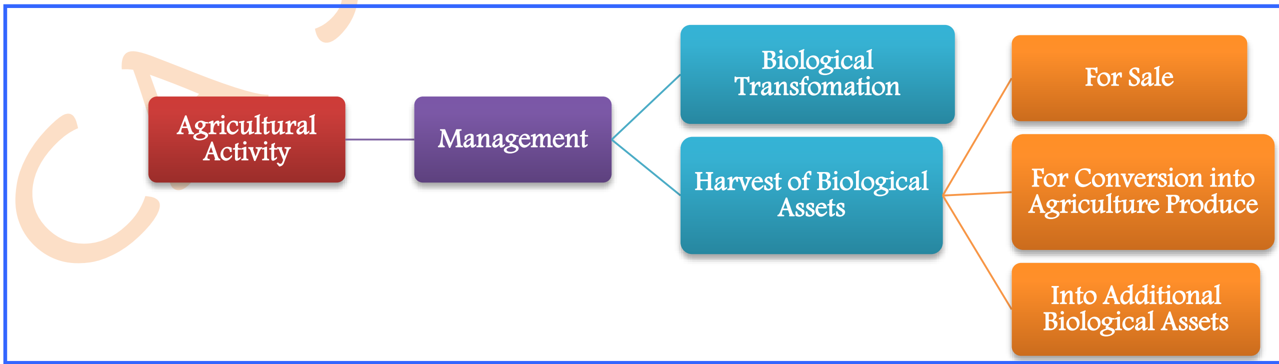
[a] Biological Asset,
[b] Agriculture Activity,
[c] Bearer Plant
[d] Agriculture Produce and

[a] Biological Asset :

- Biological Asset is a living animal or plant and is core income producing asset of agricultural activity, therefore not covered by PPE.

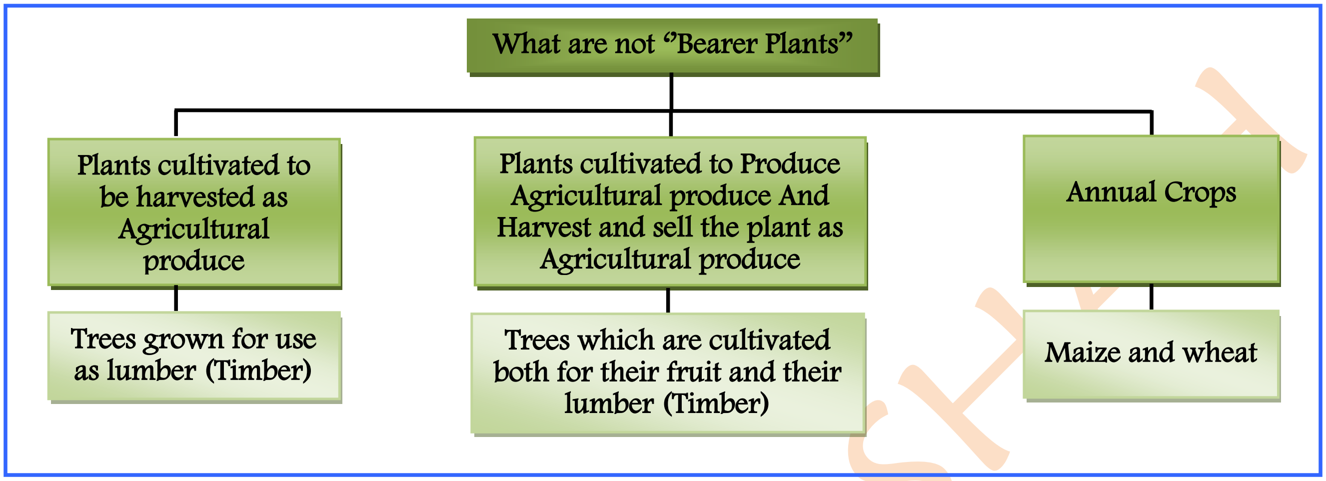
[b] Agricultural Activity :

- Agricultural Activity is the management by an enterprise of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.



[c] Bearer Plant :

- Bearer plant is a plant that :
  [a] is used in the production or supply of agricultural produce;
  [b] is expected to bear produce for more than a period of twelve months; and
  [c] has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.



☺ **Example :**

Mango tree is a bearer plant and it covered by AS-10 PPE, however mango grown in tree is a producer of bearer plant and is not covered by this Standard.

Further in wheat crop the plant of the wheat is not a bearer plant because it is cut down and sold as scrap.

[d] Agricultural Produce :

- Agricultural Produce is the harvested product of biological assets of the enterprise.

CONCEPT 5 : RECOGNITION CRITERIA FOR PPE

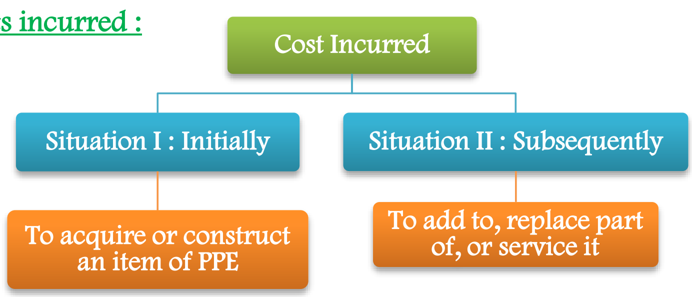
- The cost of an item of PPE should be recognized as an asset if, and only if:

[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.

☺ **Example :**

A plant and machinery is purchased for ₹20 lakhs.
It satisfied the recognition criteria:
[a] Future economic benefits will flow to the entity in the form of the capability to produce goods using the machinery, sell them and earn profits.
[b] Similarly, its price can be measured reliably from the purchase invoice. Therefore, it qualifies to be recognized as property, plant and equipment (PPE).

- When do we apply the above criteria for Recognition?
- An enterprise evaluates under this recognition principle all its costs on PPE at the time they are incurred.
- These costs include costs incurred :



TREATMENT OF SUBSEQUENT COSTS

[1] Cost of day-to-day servicing

Meaning :

- Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts.
- The purpose of such expenditures is often described as for 'Repairs & Maintenance' of the item of PPE.

Accounting Treatment :

- These costs are recognised in the Statement of Profit and Loss as incurred.

[2] Replacement of Parts of PPE

- Parts of some items of PPE may require replacement at regular intervals.

☺ **Examples:**

[a] A furnace may require relining after a specified number of hours of use.
[b] Aircraft interiors such as seats may require replacement several times during the life of the airframe.
[c] Major parts of conveyor system, such as, conveyor belts, wire ropes, etc.
[d] Replacing the interior walls of a building, or to make a non-recurring replacement.

Accounting Treatment:

- The cost of such regular replacement is capitalized, if the recognition criteria are met.
- The carrying amount of replaced parts (old parts) is derecognized (i.e., treated as a disposal)

[3] Regular Major inspections :

Meaning :

- Performing regular major inspections for faults, regardless of whether parts of the item are replaced, may be a condition of continuing to operate an item of PPE (e.g. an aircraft).

Accounting Treatment :

- The cost of each major inspection performed is capitalized, if the recognition criteria are met.
- Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized.

TREATMENT OF SPARE PARTS, STAND BY EQUIPMENT AND SERVICING EQUIPMENT

Case I : If they meet the definition of PPE as per AS 10 :

Situation	Explanation	Example
I	Major spare parts & standby equipment are treated as PPE when they are expected to be used over more than 1 period.	SS Ltd purchased an item of machinery for ₹ 2 lakhs, together with major spare parts worth ₹ 25,000 not readily available in the market. It should recognise the total of ₹ 2.25 lakhs & PPE.
II	Those which can be used exclusively with an item of PPE are accounted for as PPE.	Z Ltd purchases a 'made to order' machine for ₹ 5 lakhs and alongside also purchased spare parts worth ₹ 60,000 which can be used only on this machinery and not any machinery elsewhere. Along with the cost of machinery, the cost of spares should also be capitalized i.e., recognized in the carrying value, thus, the total carrying value is ₹ 5.60 lakhs.

Case II : If they do not meet the definition of PPE as per AS 10 :		
I	Such items are classified as Inventory as per AS 2	Small spare parts for machinery are purchased at a cost of ₹ 1.25 lakhs and stored by the entity. These are regularly issued whenever required by the maintenance department. The balance of the spares on hand at the Balance Sheet date was worth ₹ 70,000. The consumed part of ₹ 55,000 should be shown as an expense in the Statement of Profit and loss. The balance of ₹ 70,000 should be carried forward as inventory it accounting should be as per AS-2.

SAFETY & ENVIRONMENTAL EQUIPMENT

Meaning :

- The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of PPE, may be necessary for an entity to obtain the future economic benefits from its other assets.

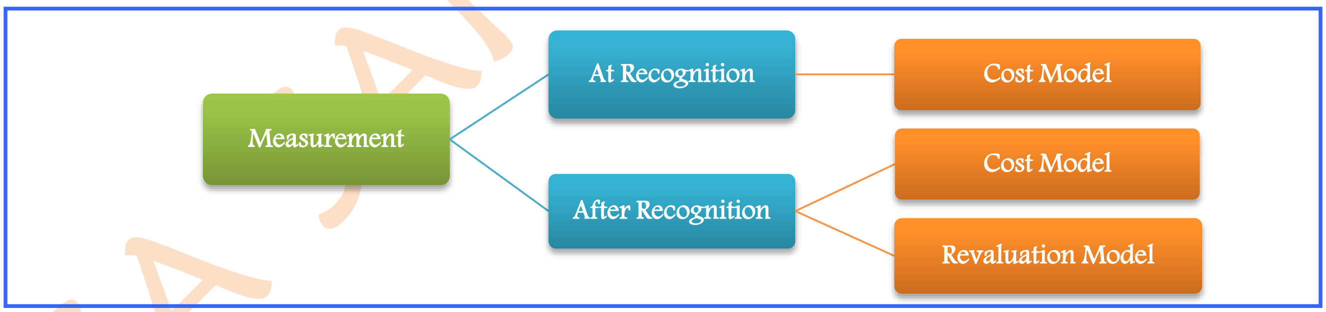
Accounting Treatment :

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

Example :

A chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognized as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with AS-28, Impairment of Assets.

CONCEPT 6 : MEASUREMENT OF PPE



SITUATION I : MEASUREMENT AT RECOGNITION

- An item of PPE that qualifies for recognition as an asset should be measured at its cost.
- What are the elements of Cost?

Cost of an item of PPE includes

Purchase Price

- It includes import duties and non - refundable purchase taxes.
- It requires deduction of Trade discounts and rebates

Any Directly Attributable Costs

- Any costs 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

Examples of directly attributable costs are :

[a] Costs of employee benefits (as defined in AS 15) arising directly from the construction or acquisition of the item of PPE
[b] Costs of site preparation
[c] Initial delivery and handling costs
[d] Installation and assembly costs
[e] Professional fees
[f] Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)

Decommissioning, Restoration and similar Liabilities

Meaning :

[a] Initial estimate of the costs of dismantling,
[b] Removing the item &
[c] Restoring the site on which it is located,

Explained in detail below

MEASUREMENT OF DISMANTLING/DECOMMISSIONING

- Initial estimates of cost of dismantling/decommissioning, removing, and site restoration at present value if the entity has an obligation that it incurs on acquisition of the asset or as a result of using the asset other than to produce inventories.
- AS-29 prescribes the discounting of such provisions and provision is made at present value by applying pretax discount rate.

Example :

NDA Ltd has put plant in 2010 on leasehold land; the leasehold period is 15 yrs. NDA Ltd has to dismantle the plant removing from the leasehold land and restore the leasehold land at the same position at the time of inception of lease. The estimated cost of dismantling the plant after 15 years will be ₹ 20 crores.

The pretax rate of the time value of money and risk specific to the liability is 10%.

The PV of cost of dismantling of the plant to be paid after 15 years = 20 crores/$(1.10)^{15}$ = ₹ 4,78,78,410.

COST OF AN ITEM OF PPE EXCLUDES

[a] Costs of opening a new facility (often referred to as preoperative expenses)
[b] Costs of introducing a new product or service including Advertising and promotional costs
[c] Costs of conducting business in a new location or with a new class of customer

[d] Training costs
[e] Administration and other general overheads
[f] Costs incurred while an asset, capable of being used as intended, is yet to be brought into use, is left idle, or is operating at below full capacity.
[g] Initial operating losses
[h] Costs of relocating or reorganizing part or all of an entity's operations
[i] The income and related expenses of operation that are incidental to the construction or development of an item of PPE should be recognized in the income statement.

☺ For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognized in profit or loss and included in their respective classifications of income and expense.

COST OF A SELF-CONSTRUCTED ASSET

[a] If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale. Therefore, any internal profits are eliminated in arriving at such costs.
[b] Cost of abnormal amounts of wasted material, labour, or other resources incurred in self constructing an asset is not included in the cost of the asset.
[c] AS 16 on Borrowing Costs, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of PPE.
[d] Bearer plants are accounted for in the same way as self-constructed items of PPE before they are in the location and condition necessary to be capable of operating in the manner intended by management.

MEASUREMENT OF COST

	Situations
A	If payment is deferred beyond normal credit terms
B	PPE acquired in Exchange for a Non-monetary Asset or Assets Or A combination of Monetary and Non-monetary Assets
C	PPE purchased for a Consolidated Price
D	PPE held by a lessee under a Finance Lease
E	Government Grant related to PPE

❈ Cost of an item of PPE is the cash price equivalent at the recognition date.

[A] If payment is deferred beyond normal credit terms:

✷ Cost of an item of PPE is the cash price equivalent.
✷ Interest = Total payment - Cash price equivalent & recognised over the period of credit (Unless such interest is capitalised in accordance with AS 16).

[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.
✷ Exceptions (Carried at Book Value of Asset given up) :
  [i] Exchange transaction lacks commercial substance – (Explained below)
  [ii] Fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable

Exchange transaction lacks commercial substance

Meaning :

Extent to which the reporting entity's future cash flows are expected to change as a result of the transaction.

Case I :

If the transaction does not have commercial substance, or the fair value of neither the asset received nor the asset given up can be measured reliably, then the asset acquired is valued at the carrying amount of the asset given up less settle-up paid or received in cash or a cash equivalent, this is often referred to as boot.

Example :

SS Ltd exchanges car X with a book value of ₹13,000 having a fair value of ₹ 13,250 for cash of ₹ 150 and car Y which has a fair value of ₹13,100. 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.

The SS Ltd recognizes the assets received at the book value of car X. Therefore, it recognizes cash of ₹ 150 and car Y as property, plant and equipment with a carrying value of ₹12,850.

Case II :

If the expected cash flows after the exchange differ from what would have been expected without this occurring, the exchange has commercial substance and is to be accounted for at fair value.

Example :

SS & Co. exchanges an automobile with a carrying value of ₹ 2,500 with GG & Co. for a tooling machine with a fair market value of ₹ 3200. No boot is exchanged in the transaction. The fair value of the automobile is not readily determinable.

In this case, SS & Co. has recognized a gain of ₹ 700 (3,200 – 2,500) on the exchange, and the gain should be included in the determination of net income. The entry to record the transaction would be as follows :

Particulars		₹	₹
Machine	Dr	3,200	
To Automobile			2,500
To Gain on exchange of automobile			700

[C] **PPE purchased for a Consolidated Price:**

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).

SITUATION II : MEASUREMENT AFTER RECOGNITION

- An enterprise should choose

  [a] Either Cost model, or

  [b] Revaluation model

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

☺ 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

Measurement subsequent to initial recognition

Cost Model

Sr. no.	Particulars	₹
i)	Cost	xxx
ii)	Less: Any Accumulated Depreciation	(xxx)
iii)	Less: Any Accumulated Impairment losses	(xxx)
iv)	Carrying value	xxx

Revaluation Model

Sr no.	Particulars	₹
i)	Fair value at the date of the revaluation	xxx
ii)	Less: Any subsequent accumulated depreciation	(xxx)
iii)	Less: Any subsequent accumulated impairment losses	(xxx)
iv)	Carrying value	xxx

[i] 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.
* Reason : The items within a class of PPE are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the Financial Statements that are a mixture of costs and values as at different dates.

[ii] Frequency of Revaluations

* Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using Fair value at the Balance Sheet date.

Frequency of Revaluations (Sufficient Regularity)

- Items of PPE experience significant and volatile changes in Fair value → Annual revaluation
- Items of PPE with only insignificant changes in Fair value → Revalue the item only every 3 or 5 years

[iii] Determination of Fair Value

[1] Fair value of items of PPE is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers.

[2] If there is no market-based evidence of fair value because of the specialised nature of the item of PPE and the item is rarely sold, except as part of a continuing business, an enterprise may need to estimate fair value using an income approach.

☺ Example :
Based on
[a] Discounted cash flow projections, Or
[b] A depreciated replacement cost approach (which aims at making a realistic estimate of the current cost of acquiring or constructing an item that has the same service potential as the existing item).

[iv] 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 :

[A] Technique 1:

- 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.

Case Study on Technique I :

➥ PPE is revalued to ₹1,500 consisting of ₹ 2,500 Gross cost and ₹ 1,000 Depreciation based on observable market data.

Details of the PPE before and after revaluation are as follows:

Particulars	Cost/Revalued Cost	Accumulated depreciation	Net book value
PPE before revaluation	1.000	400	600
Fair Value	-	-	1,500
Revaluation Gain	-	-	900
Gain allocated proportionately to cost and depreciation	1,500	600	900
PPE after revaluation	2,500	1,000	1,500

➥ The increase on revaluation is ₹ 900 (i.e., ₹ 1,500 - ₹ 600).

[B] Technique 2 :

- Accumulated depreciation Is eliminated against the Gross Carrying amount of the asset.

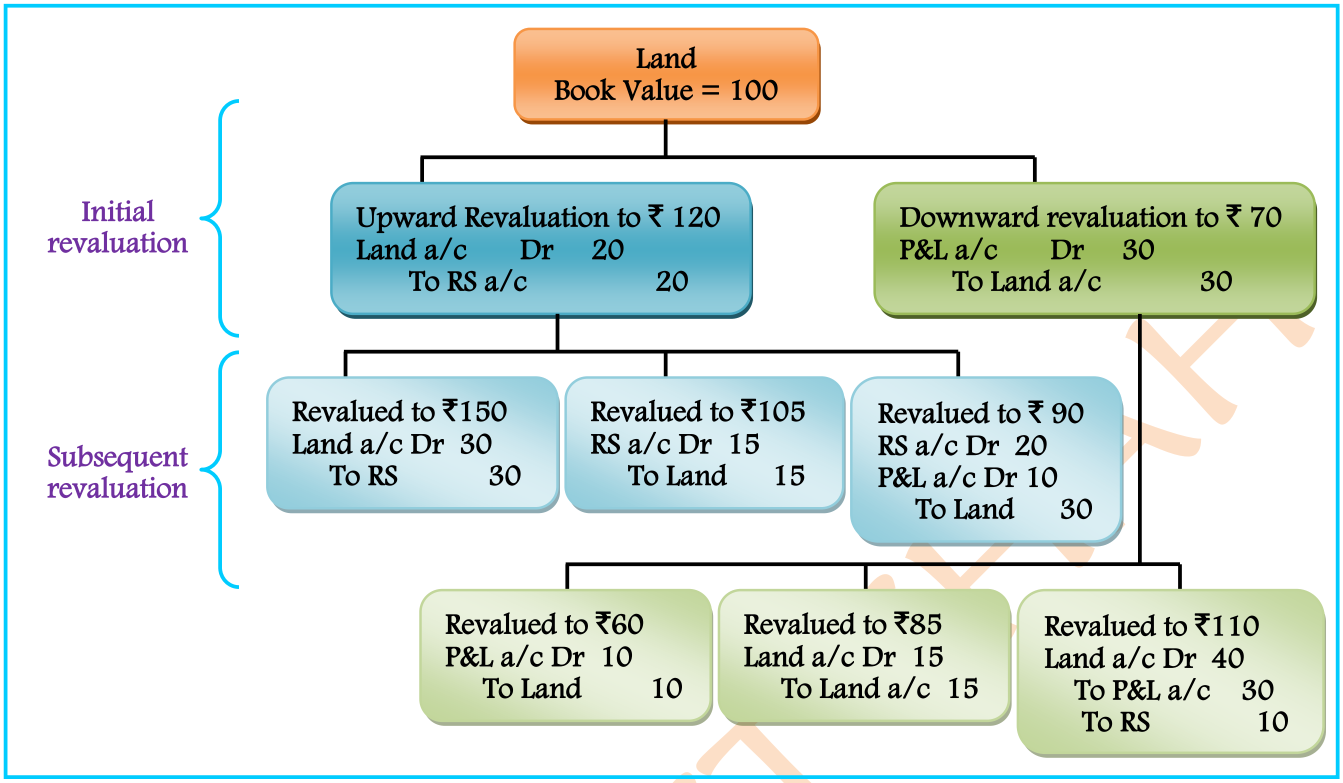
Case Study on Technique II : (Taking the information given in the above Example)

Details of the PPE before and after revaluation are as follows :

Particulars	Cost/Revalued Cost	A.D.	Net book value
PPE before revaluation	1,000	400	600
PPE after revaluation	1,500	-	1,500
Revaluation gain	500	400	-900

➥ The increase on revaluation is ₹ 900 (i.e., ₹ 500 + ₹ 400).

[v] Revaluation - Increase or Decrease



[vi] Treatment 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 derecognised.

Case I : When whole surplus is transferred :

- When the asset is :
  - Retired; Or
  - Disposed off

Case II : Some of the surplus may be transferred as the asset is used by an enterprise :

- In such a case, the amount of the surplus transferred would be :
  - Depreciation (based on Revalued Carrying amount) - Depreciation (based on Original Cost)
  - Transfers from Revaluation Surplus to the Revenue Reserves are not made through the Statement of Profit and Loss.

CONCEPT 7 : RETIREMENTS

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

  [a] Carrying Amount, and

  [b] Net Realisable Value

Note : Any write-down in this regard should be recognised immediately in the Statement of P&L

CONCEPT 8 : DE-RECOGNITION

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

[i] On disposal

  [a] By sale

  [b] By entering into a finance lease, or

  [c] By donation, Or

[ii] 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,
  Gain/loss arising from de-recognition of an item of PPE= Net disposal proceeds (if any) - Carrying Amount of the item

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

- Exception :
- An enterprise that in the course of its ordinary activities, routinely sells items of PPE that it had held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale.
- The proceeds from the sale of such assets should be recognised in revenue in accordance with AS 9 on Revenue Recognition.
- Determining the date of disposal of an item : An enterprise applies the criteria in AS 9 for recognising revenue from the sale of goods.

CONCEPT 9 : DISCLOSURE

- Disclosures
  - General
  - Additional
  - Disclosures related to Revalued Assets

[A] General Disclosures :

[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] In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;

[v] The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

[vi] A reconciliation of the carrying amount at the beginning and end of the period showing:

[B] Additional Disclosures :

[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.

[C] Disclosures related to Revalued Assets:

[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.

SCHEDULE II – DEPRECIATION AS PER COMPANIES ACT, 2013

Key Highlights

Difference between Companies Act, 1956 & Companies Act, 2013

Sr. No.	Old Act	New Act
1)	% of Depreciation is considered	Life of Asset is considered
2)	No limit on Salvage Value	Maximum limit on Salvage Value
3)	SLM & WDV Methods	SLM,WDV & Production Unit Methods
4)	No concept of Component Accounting	Component Accounting is mandatory
5)	Different from IAS 16	Schedule II is almost adhering to the principles of IFRS - IAS : 16

Part of Schedule II

PART	Explanation
A	Deals with main provisions relating to depreciation of tangible and intangible assets.
B	Deals with provisions relating to depreciation of assets covered by the act of the parliament.
C	It provides the list of the useful life of an asset. It also provides some relevant notes related to the calculation of depreciation.

PART A OF SCHEDULE II

[A] TANGIBLE FIXED ASSETS

Meaning :

- Systematic allocation of depreciation over the useful life. Method permitted can be SLM, WDV or even production / unit method.
- Depreciation amount will be (Cost - residual value).
- Useful life :
  Schedule II does not provides rates but has provided the maximum useful life. The useful life given in PART C is the maximum life (minimum rates of depreciation).
- Residual Value :
  The New Schedule related to depreciation casts a cap on the RV to be 5% on original cost.
- Different Useful life and Residual Value :
  The useful life of an asset shall not be longer than the useful life specified in Part C and the residual value of an asset shall not be more than 5% of the original cost of the asset.
  (Provided that where a company uses a useful life or residual value of the asset which is different from the above limits, justification for the difference shall be disclosed in its financial statement.)

[B] INTANGIBLE FIXED ASSETS

- Schedule II covers only one type of intangible asset for amortisation i.e. Toll rights.
- All other intangible assets are to be covered by AS-26.
- We can conclude that amortization of Patents, Copyrights, Licenses, Brand, etc are still all covered by AS-26 except" Service Concessions arrangements".

PART B OF SCHEDULE II

- The useful life or residual value of any specific asset, as notified for accounting purposes by a Regulatory Authority constituted under an Act of Parliament or by the CG shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of this Schedule II.

☺ Example : Depreciation rates for Electricity Supply Company has to follow the old Schedule.

PART C OF SCHEDULE II

- Here, useful life of assets is given [no need to remember the same].
- NESD : Means No Extra Shift Depreciation.

OTHER IMPORTANT NOTES

1] Asset costing ₹ 5000 or less:

- There is no specific requirement to charge 100% depreciation on assets whose actual cost does not exceed ₹ 5,000.
- So any asset sir respective of value should be categorized based on Schedule II and depreciated based on useful life of assets.
- However, Para 12 of AS 6 says that in respect of depreciable assets which do not have material value, depreciation is often allocated fully in the accounting period in which they are acquired.

This means irrespective of the cost price of the asset schedule II wants the asset to be depreciated as per the useful life.

2] Additions and Dispositions:

- Where during any financial year, any addition has been made or sold, discarded, demolished or destroyed, the depreciation on such assets shall be calculated on pro rata basis.

3] Only one Intangible assets covered :

- All Intangible Assets are covered by AS-26 except Toll road under BOT (Build, Operate &Transfer System).
- Amortization in such case is based on Revenue basis.

4] Depreciation for double, triple shift assets :

Shift	Companies Act, 1956	Companies Act, 2013
Double	Shift wise different rates are prescribed	Depreciation will increase by 50%
Triple		Depreciation will increase by 100%

- Increase in depreciation means decrease in life.
- The above provisions are not applicable to NESD assets (No Extra Shift Depreciation).

5] Component Accounting - Note No 4 of Schedule II: (supported by AS-10 as well as IAS - 16)

- Meaning :

Where cost of a part of the asset is significant to the total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part will be determined separately.

It requires companies to separately depreciate parts of an asset that are significant and have a useful life different from the useful life of the asset as a whole.

- Treatment :

The component approach is already allowed in current Accounting Standard 10 - "Accounting for Fixed Assets" in Paragraphs 8.3, but it seems to be a choice of matter. Now it seems as per the note 4 it is mandatory in Companies Act, 2013. Previously companies use to charge component replacement to P/L A/c. But now it will be separately capitalised.

☺ Example :
Building and its Elevator can be treated as a separate component. Also Aircraft body and its engine can be treated as 2 separate assets.

6] Effect of Schedule II on Revaluation of assets :
- Schedule II has no effect on Revaluation provisions.
- Whenever an asset is upward revalued the depreciation on the excess portion is charged to the "Revaluation Surplus Account".

DEPRECIATION AS PER AS 10

- Is Grouping of Components possible?
- Yes.
A significant part of an item of PPE may have a useful life and a depreciation method 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.

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) less Residual value
The depreciable amount of an asset should be allocated on a systematic basis over its useful life.

- 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.

Cessation of Depreciation

- Depreciation ceases to be charged when asset's residual value exceeds its carrying amount.
- The residual value of an asset may increase to an amount equal to or greater than its carrying amount.
- If it does, depreciation charge of the asset is zero unless and until its residual value subsequently decreases to an amount below its carrying amount.

Depreciation of an asset ceases

- Depreciation of an asset ceases at the earlier of :
  [a] The date that the asset is retired from active use and is held for disposal, &
  [b] The date that the asset is derecognized
- Therefore, depreciation does not cease when the asset becomes idle or when only retired from active use (but not held for disposal) unless the asset is fully depreciated.
- However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

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.

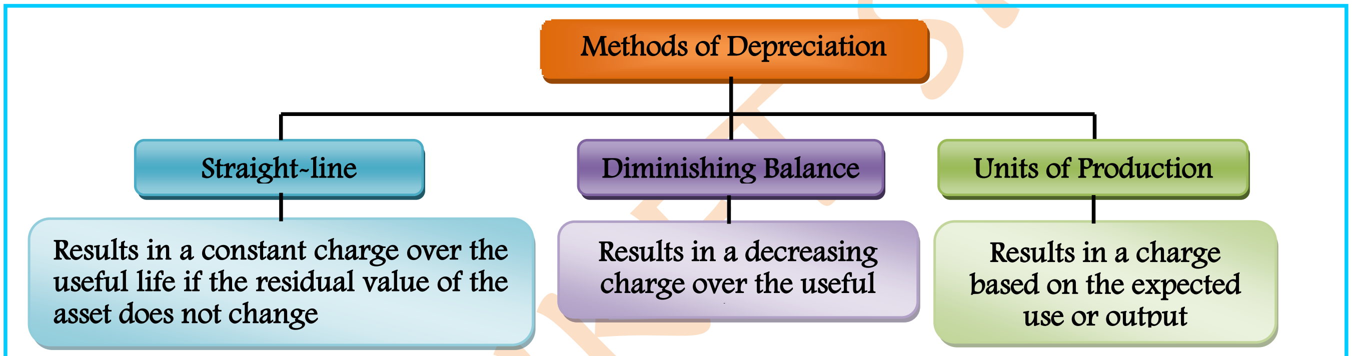
✍ An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

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.



Review of Depreciation Method

➥ The depreciation method applied to an asset should be reviewed at least at each financial year-end and, 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.

⌘ Depreciation Method based on Revenue :

➥ A depreciation method based on revenue which is generated by an activity that includes the use of an asset is not appropriate.

TRANSITIONAL PROVISIONS

✷ From the date of Companies Act coming into effect, the carrying amount of the asset as on that date : shall be depreciated over the remaining useful life of the asset according to the act.
This means by shifting from the old provisions to the new one, the remaining carrying amount is to be just spread over the remaining useful life as per the new provisions on a systematic basis.

✷ After retaining the residual value, balance in the asset shall be recognized in the opening balance of retained earnings where the remaining useful life of an asset is nil.

☺ Example : If the remaining useful life as per the new provisions is Nil, then the balance in the asset after keeping aside 5% on original cost is adjusted in the opening reserves [free reserves].

Disclosures in Schedule II

- The following information shall also be disclosed in the accounts, namely:
  - [i] Depreciation methods used; and
  - [ii] The useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule.

Amortization of Service Concession Arrangement:

- In certain countries construction or maintenance of infrastructure for public services (roads, bridges, and water distribution facilities) is contracted out to private-sector operators.
- The private sector operators are usually paid for their services over the term of the arrangements.
- Such arrangements are often described as "build-operate-transfer" (BOT) or a "public-to-private service concession arrangement."
- Consideration given by the grantor to the operator:
  If the operator renders construction or upgrade services, the consideration received or receivable by the operator shall be recognized at its fair value.
  The consideration may be treated as an intangible asset.
  Recognizing an "intangible asset"— the operator shall recognize an intangible asset to the extent that it receives a right or a license to charge users of the public service.

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ANNUAL REPORTS (EXTRACTS)

TATA TECHNOLOGIES LTD

PROPERTY, PLANT AND EQUIPMENT

Particulars	Building	Plant & Machinery & Equipments Owned	Plant & Machinery & Equipments Leased	Computers	Furniture and fixtures	Vehicles	Leasehold Improvements	Total
Gross carrying value as of April 1, 2016	14.82	17.09	0.07	62.25	15.44	1.73	13.36	124.76
Additions	2.53	17.00	0.03	23.74	1.91	0.10	10.59	55.90
Currency translation differences			(0.03)	(3.65)	(0.93)	(0.03)	(0.47)	(5.11)
Disposals		(0.09)		(0.11)		(0.29)		(0.49)
Gross carrying value as of March 31, 2017	17.35	34.00	0.07	82.23	16.42	1.51	23.48	175.06
Accumulated depreciation as of April 1, 2016	1.21	1.96	0.03	20.58	3.82	0.61	2.53	30.74
Depreciation for the year	1.21	2.26	0.03	23.11	2.75	0.49	2.09	31.94
Currency translation differences		(0.02)	(0.02)	(2.84)	(0.86)	(0.04)	(0.48)	(4.26)
Accumulated depreciation on disposals		(0.01)		(0.08)		(0.29)		(0.38)

Accumulated depreciation as of March 31, 2017	2.42	4.19	0.04	40.77	5.71	0.77	4.14	58.04
Net carrying value as of March 31, 2017	14.93	29.81	0.03	41.46	10.71	0.74	19.34	117.02
Gross carrying value as of April 1, 2017	17.35	34.00	0.07	82.23	16.42	1.51	23.48	175.06
Additions	0.40	2.05		16.06	10.50	1.23	2.81	33.05
Acquisitions through business combinations		0.21		0.21	0.28		0.10	0.80
Currency translation differences		2.19	0.02	4.89	0.85	0.01	1.88	9.84
Disposals		(0.06)		(0.72)	(0.31)		(0.80)	(1.89)
Other adjustments*		(0.91)		0.91				
Gross carrying value as of March 31, 2018	17.75	37.48	0.09	103.58	27.74	2.75	27.47	216.86
Accumulated depreciation as of April 1, 2017	2.42	4.19	0.04	40.77	5.71	0.77	4.14	58.04
Depreciation for the year	1.28	4.14		26.08	3.04	0.48	2.60	37.62
Acquisitions through business combinations		0.07		0.17	0.14		0.03	0.41
Currency translation differences		0.15	0.02	1.59	0.79	0.20	0.51	3.26
Accumulated depreciation on disposals		(0.05)		(0.66)	(0.05)		(0.80)	(1.56)
Other adjustments*		(0.51)		0.51				
Accumulated depreciation as of March 31, 2018	3.70	7.99	0.06	68.46	9.63	1.45	6.48	97.77
Net carrying value as of March 31, 2018	14.05	29.49	0.03	35.12	18.11	1.30	20.99	119.09

Property, plant and equipment

[a] Recognition and measurement :

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment, if any. Cost includes expenditures directly attributable to the acquisition of the asset. General and specific borrowing costs directly attributable to the construction of a qualifying asset are capitalized as part of the cost. Costs directly attributable to acquisition are capitalized until the property, plant and equipment are ready for use, as intended by management.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Subsequent expenditure relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Company and the cost of the item can be measured reliably.

The carrying amount of any component accounted for as a separate asset is derecognised when discarded/scrapped.

All other repairs & maintenance costs are charged to P&L in the reporting period in which they occur.

Deposits and advances paid towards the acquisition of property, plant and equipment outstanding as of each reporting date and the cost of property, plant and equipment not available for use before such date are disclosed under capital work- in-progress.

As asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

[b] Depreciation:

The Company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets are as follows:

Type of Asset	Useful life
Lease hold improvements	Lower of Lease period or estimated useful life
Buildings	15 to 25 years
Plant and machinery	1 to 21 years
Computer equipment's	1 to 4 years
Vehicles	3 to 11 years
Furniture & fixtures	1 to 21 years
Software	1 to 4 years

Depreciation methods, useful lives and residual values are reviewed periodically, including at each financial year end with the effect of any changes in the estimate accounted for on a prospective basis.

CENTURY ENKA

PROPERTY, PLANT AND EQUIPMENT (PPE)

Particulars	Leasehold Land	Freehold Land	Buildings (Refer Note a & b below)	Plant & Machinery (Refer Note c)	Furniture & Fixtures	Office equipments	Vehicles	Total
For the year 16-17 as at 1st April, 2016	224	336	8513	55508	38	26	234	64879
Add: Additions			141	1898	6	6	33	2084
Less: Disposals			4	2660			13	2677
As at 31st March, 2017	224	336	8650	54746	44	32	254	64286
Accumulated Depreciation: as at 1st April, 2016	4		648	4044	2	4	26	4728
Add: Depreciation during the year	4		422	3748	12	15	36	4237
Less: Disposals				2505			9	2514
Add: Write down/				958				958

Impairment Loss (Refer note 43)								
As at 31st March, 2017	8		1070	6245	14	19	53	7409
Net carrying amount as at 31st March, 2017	216	336	7580	48501	30	13	201	56877
For the year 17-18 as at 1st April, 2017	224	336	8650	54746	44	32	254	64286
Add: Additions			157	4266	24	62	28	4537
Less: Disposals			281	160	7	2		450
As at 31st March, 2018	224	336	8526	58852	61	92	282	68373
Accumulated Depreciation: as at 1st April, 2017	8		1070	6245	14	19	53	7409
Add: Depreciation during the year	4		348	3740	12	15	39	4158
Less: Disposals			19	19	7	2		47
As at 31st March, 2018	12		1399	9966	19	32	92	11520
Net carrying amount as at 31st March, 2018	212	336	7127	48886	42	60	190	56853

[a] Includes Land ₹2 Lacs and ₹500 being the cost of 5 shares in a co-operative housing society held in the name of a nominee of the Company

[b] Includes ₹2000 being the cost of 40 shares in co-operative societies.

[c] Rupee Term Loans are secured by hypothecation of specific Plant and Machinery against which Loans have been taken.

✦ Property, Plant and Equipment (PPE):

The initial cost of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing an asset to working condition and location for its intended use, including relevant borrowing costs and any expected costs of decommissioning. Expenditure incurred after the PPE have been put into operation, such as repairs and maintenance, are charged to the Statement of Profit and Loss in the period in which the costs are incurred.

If significant parts of an item of PPE have different useful lives, then they are accounted for as separate items (major components) of PPE.

Material items such as spare parts, stand-by equipment and service equipment are classified as PPE when they meet the definition of PPE as specified in Ind AS 16 - Property, Plant and Equipment.

✦ Expenditure during construction period:

Expenditure/ Income during construction period (including financing cost related to borrowed funds for construction or acquisition of qualifying PPE) is included under Capital Work-in-Progress, and the same is allocated to the respective PPE on the completion of their construction. Advances given towards acquisition or construction of PPE outstanding at each reporting date are disclosed as Capital Advances under "Other non-current Assets"

✦ Depreciation:

Depreciation is the systematic allocation of the depreciable amount of PPE over its useful life and is provided on a straight-line basis over the useful lives as prescribed in Schedule II to the Act or as per technical assessment.

Depreciable amount for PPE is the cost of PPE less its estimated residual value. The useful life of PPE is the period over which PPE is expected to be available for use by the Company, or the number of production or similar units expected to be obtained from the asset by the Company.

In case of certain classes of PPE, the Company uses different useful lives than those prescribed in Schedule II to the Act. The useful lives have been assessed based on technical advice, taking into account the nature of the PPE and the estimated usage of the asset on the basis of management's best estimation of obtaining economic benefits from those classes of assets.

Such classes of assets and their estimated useful lives are as under:

No.	Nature	Useful life
1	Leasehold Assets	Lease Period
2	Stores and Spares Parts in the nature of PPE	03 Years
3	Assets individually costing less than or equal to ₹5,000	Fully Depreciated in the year of purchase

Depreciation on additions is provided on a pro-rata basis from the month of installation or acquisition and in case of Projects from the date of commencement of commercial production. Depreciation on deductions/disposals is provided on a pro-rata basis up to the month of deduction/disposal.

Residual value for Air Conditioners, Furniture and Fittings, Office Equipment's, Computers and servers is considered Nil.

ADDITIONAL QUESTIONS & SOLUTIONS

Question 20 (A) – May 17 RTP

Entity Hello 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 :

Setup costs of ₹5,00,000 to install machinery in the new location.

Rent of ₹15,00,000; Removal costs of ₹3,00,000 to transport the machinery from the old location to the temporary location. You are required to advise can these costs be capitalised into cost of 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 be included in the cost of the asset if they are not directly attributable to bringing the asset to the location & condition necessary for it to be capable of operating in the manner intended by management.
- Conclusion :

  The costs to be incurred by the company do not meet that requirement of AS 10 & cannot, therefore, be capitalized.

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AS 13 – ACCOUNTING FOR INVESTMENTS

CONCEPT 1 : INTRODUCTION

- Investments are assets
  held by an enterprise
  for earning income by way of :
  [a] dividends,
  [b] interest and rentals,
  [c] for capital appreciation,
  or for other benefits to the investing enterprise.
- Investment accounting is done as per AS-13 except:
- Operating or Finance leases (Operating & Finance lease –covered by AS 19)
- Bases for recognition of Dividend, Interest, Rentals earned on Investment. (AS-9)
- Investment of retirement benefit plans and life insurance enterprises (covered by AS 15 and IRDA Act)
- Assets held as Stock-in-trade.

CONCEPT 2 : CLASSIFICATION OF INVESTMENTS AS PER AS 13

Current Investments

- It is readily realizable.
- It is intended to be held for not more than one year.
- The carrying amount :
  Lower of Cost and Fair value.
- Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and seller in an arm's length transaction.
- Market value or net realisable value provides an evidence of fair value.
  Market Value is obtainable from open market, net of expenses.
- Any reduction to fair value is included in the statement of profit and loss.

Long Term Investments

- It is an investment other than a current investment.
- It is usually carried at cost.
- If there is a permanent decline; the carrying amount is reduced to recognize the decline.
- The reduction is charged to the statement of profit and loss.
- The reduction is reversed when there is a rise in the value of the investment.

Investment Properties

- An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.
- The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.
- The investment properties are valued as per the cost model given in AS 10.(RTP MAY 2017)

Carrying Amount of Investments
- Current Investments
  - Lower of cost or fair value
- Long Term Investments
  - Cost

CONCEPT 3 : COST OF INVESTMENTS

[a] The cost of an investment includes acquisition charges such as brokerage, fees and duties.

✍ NOTE: Pre acquisition dividend is to be subtracted while calculating investment cost.

❋ Meaning of Pre Acquisition Dividend :

↳ Amount of dividends for the period,
for which the shares were not held by the investor,
should not be treated as revenue receipt
but they should be treated as capital receipt,
so as to reduce the acquisition cost.

[b]

If an investment is acquired by way of
- Issue of shares or other securities
  - The acquisition cost is the fair value of the securities.
- In exchange, for *another asset*
  - The acquisition cost is determined by fair value of the asset given up. (It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident.)

[c] A separate Investment Account should be made for each scrip purchased.

Categories of Investment on the basis of Income
- Fixed income bearing scrip.
  - E.g. Government securities; debentures or bonds
- Variable income bearing scrip.
  - E.g. Equity shares, preference shares

❋ The entries in Investment Account for these two broad categories of scrips will be made as under:

[i] Fixed income Bearing Securities:

↳ The investment in Government securities or debentures comes under this category.

↳ In this type of scrip, the interest accrued
from the date of last payment
to the date of transaction can be easily calculated.

Transactions

- **Ex-Interest**
  - Amount of interest has to be paid in addition to the price of security.
- **Cum-Interest**
  - A part of purchase price includes the interest accrued from the date of the last interest paid to the date of transaction.

- The following entries are made in the books of purchaser :

Investment Account	Dr.	(Ex-interest basis)
Interest Account	Dr.	(Expense)
To Bank Account		(Cum-interest)

✍ Note :

1) Interest amount is always calculated with respect to nominal value.
2) In case the quotation is not qualified, the same will be treated as ex-interest quotation.

[ii] Variable Income Bearing Securities:

Dividend from Shares

- Not Recognised in P&L Until a right to receive payment is established
- Cannot be immediately ascertained for dividend accruing between :
  [a] the date of last dividend payment and
  [b] the date of purchase
- The dividend received for a particular period of time is assumed to be evenly distributed over the period

- In the following way the information is incorporated in the books of investor at the time of purchase :

Investment Account	Dr.	(With entire purchase price)
To Bank Account		(With total amount paid)

Bank Account	Dr.	(With total dividend received)
To Investment Account		(Dividend for the pre-acquisition period)
To P&L Account		(Dividend for the post-acquisition period)

[d] Right shares :

Right Shares

Subscribed

- Cost of the right shares is added to the carrying amount of the original holding.

Not subscribed but sold in market

- Sale proceeds are taken to the P&L A/c.
- Exception :
  Where the investments are acquired on cum-right basis and
  The market value of investments immediately after their becoming ex-right
  Is lower than the cost for which they were acquired,
  it may be appropriate to apply the sale proceeds of rights
  to reduce the carrying amount of such investments to the market value.

☺ For Example :

Mr. X acquires 200 shares of a company on cum-right basis for Rs. 50,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at Rs.110 each.

Option I : X subscribes for the right issue.
The total cost of X's holding of 400 shares would amount to Rs. 72,000 (50,000 + 22,000).

Option II : X does not subscribe but sells the rights for Rs.15,000.
The ex-right market value of 200 shares bought by X immediately after the rights falls to Rs.40,000. In this case out of sale proceeds of Rs.15,000, Rs.10,000 may be applied to reduce the carrying amount to the market value Rs.40,000 and Rs. 5,000 would be credited to the profit and loss account.

Journal Entry :

Particulars		Dr. (Rs.)	Cr. (Rs.)
Bank Account	Dr.	15,000	
To Investment Account (50,000 – 40,000)			10,000
To P&L Account *			5,000

[e] Bonus Shares :

- Where an investment is acquired by way of issue of bonus shares, no amount is entered in the capital column of investment account since the investor does not have to pay anything.

CONCEPT 4 : DISPOSAL OF INVESTMENTS

- The difference between the carrying amount and the disposal proceeds, net of expenses is recognised in the profit and loss statement.
- When a part of investment is disposed, the carrying amount is required to be allocated on the basis of the average carrying amount.
- In respect of shares, debentures as stock-in-trade, the cost may be determined by applying provisions of AS-2, 'Valuation of Inventories'.

[i] Fixed Income Bearing Securities :

- The amount of accrued interest from the date of last payment to the date of sale is credited in the Income column and only the sale proceeds, net of accrued interest, is credited in the capital column of investment account.

[ii] Variable Income Bearing Securities :

- The entire amount of sale proceeds should be credited in the capital column of investment account.

CONCEPT 5 : VALUATION IN CASE OF RECLASSIFICATION OF INVESTMENT

Reclassification of Investment

Current to Long-term

Transfer at Lower of :
[a] Cost &
[b] Fair Value at the date of

Long-term to Current

Transfer at Lower of :
[a] Cost &
[b] Carrying Amount at the date of transfer

CONCEPT 6 : DISCLOSURES AS PER AS 13

[a] The accounting policies for determination of carrying amount of investments.
[b] The amounts included in the Profit and Loss Statement for:
  [i] Interest, dividends (showing separately dividend received from subsidiary companies), and rentals from long term as well as current investments separately.
  [ii] Gross income should be stated, tax deducted at source to be shown under Advance Taxes Paid.
  [iii] Profit and loss on sale of current investments and changing in carrying cost on such investments.
  [iv] P&L on sale of long term investments and changing in carrying cost on such investments.
[c] Significant restrictions on the right of ownership, reliability of investments or remittance of income and proceeds of disposal.
[d] The aggregate amount of quoted or unquoted investments, giving the aggregate market value of quoted or unquoted investments.
[e] Other disclosures as specifically required by the relevant statute governing the enterprise.

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ANNUAL REPORTS (EXTRACTS)

CELLO WIM PLAST LTD

Non-Current Investment In Equity Shares Of Subsidiary Company

Particulars	2018	2017
Un- Quoted Investment		
Investment in Equity Shares of subsidiary Co., Wimp last Moldetipo Pvt. Ltd		
Total non-current Investments		
Aggregate amount of Unquoted Investment		
Aggregate carrying value of Unquoted Investments measured at cost		

Current Investment measured at fair value

Particulars	2018	2017
Qouted Investment		
Investment in Mutual Fund-Quoted SBI Mutual Fund		
Total non-current Investments		
Aggregate value of Quoted Investment		
Market value of Quoted Investment		
Aggregate carrying value of Quoted Investments measured at Fair value through Profit & Loss		

Other Income

Particulars	2018	2017
Interest received		
Dividend received		

✍ **Note :**

Investment in subsidiary :

The Company has accounted for its investments in Subsidiary at cost less accumulated impairment losses, if any. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

BAJAJ FINSERV LTD

Investments

Sr. No	Particulars	Non-Current Portion	Current Maturities
A]	Long-term investments :		
1]	In Investment Property :		
2]	In Fully Paid Equity Shares : (Quoted & Unquoted)		
3]	In Preference Shares :		
4]	In Government and Trust Securities : (Quoted & Unquoted)		
5]	In Bonds and Debentures : (Quoted & Unquoted)		
6]	In Securitised assets :		
7]	In Mutual Fund Units:		
8]	In Fixed Deposits :		
9]	In Others :		
	Subtotal [A]		
B]	Current investments:		
1]	In Fully Paid Equity Shares :		
2]	In Government and Trust Securities : (Quoted & Unquoted)		

3]	In Certificate of Deposit:		
4]	In Commercial Paper:		
5]	In Mutual Fund Units:		
6]	In Fixed Deposits:		
7]	In Others:		
	Subtotal [B]		
	Total [A+B]		

✍ Note :

Investments :

Investments are recorded on trade date at cost, which includes brokerage, transfer charges, transaction taxes as applicable, etc. and excludes pre-acquisition interest, if any.

Classification :

Investments maturing within twelve months from Balance Sheet date and investments made with the specific intention to dispose off within twelve months from Balance Sheet date are classified as short-term investments. Investments other than short-term investments are classified as long-term investments.

The investments funds are segregated into Policyholders' and Shareholders' fund on security level basis in compliance with circular no IRDA/F&A/CIR/CPM/056/03/2016 dated - 4 April 2016. Subsequently, IRDAI issued circular A/F&A/CIR/CPM/010/01/2017 dated - 12 January 2017 to 'bifurcate the Policyholders' and Shareholders' funds at the end of each quarter at the 'fund level' on 'notional basis'. Furthermore, the Company has communicated to regulators that it will continue to follow the same practice of segregating the investments into Policyholders' and Shareholders' funds at security level on quarterly basis in compliance with circular no IRDA/F&A/CIR/CPM/056/03/2016.

Valuation:

Debt securities and non-convertible preference shares

All debt securities including government securities and non-convertible preference shares are considered as 'held to maturity' and accordingly stated at historical cost adjusted for amortisation of premium or accretion of discount on constant yield to maturity basis in the Revenue Account and Profit and Loss Account over the period of maturity/holding.

The realised gain or loss on the securities is the difference between the sale consideration and the amortised cost in the books of the Company as on the date of sale determined on weighted average cost basis.

Equities (listed and actively traded)

Listed and actively traded securities are stated at the last quoted closing price on the National Stock Exchange of India Ltd. (NSE). In case the equity shares are not listed on the NSE, then they are valued on the last quoted closing price on BSE Ltd. Unrealised gains or losses are credited/debited to the Fair value change account.

The realised gain or loss on the listed and actively traded equities is the difference between the sale consideration and the carrying cost as on the date of sale, determined on a weighted average cost basis and includes the accumulated changes in the fair value previously taken to the Fair value change account, in respect of the particular security; such gain or loss is transferred to revenue on trade date.

Mutual fund units

Mutual fund units are stated at their Net Asset Value (NAV) at the Balance Sheet date. Unrealised gains or losses are credited/debited to the Fair value change account.

The realised gain or loss on the mutual fund units is the difference between the sale consideration and the carrying cost as on the date of sale, determined on a weighted average cost basis and includes the accumulated changes in the fair value previously taken to the Fair value change account, in respect of the particular security; such gain or loss is transferred to revenue on the trade date.

Loans - investment
Loans given are stated at historical cost.

Fair value change account
Fair value change account represents unrealised gains or losses in respect of investments in equity securities and mutual fund units outstanding at the close of the year. The balance in the account is considered as a component of shareholders' funds in the Balance Sheet and not available for distribution as dividend.

Impairment of investment
The Company assesses at each Balance Sheet date whether any impairment has occurred in respect of investment in equity and mutual fund. The impairment loss, if any, is recognised in the Profit and Loss Account and the carrying value of such investment is reduced to its recoverable value.
If at the Balance Sheet date there is any indication that a previously assessed impairment loss no longer exists, then such loss is reversed to P&L Account and the investment is reinstated to that extent.

SS - QUESTIONS

Question 1 :
On 01.01.2007 SS Limited purchase a flat in Ratnajar Co-op. Soc. Limited for Rs.30 lakhs. However for purchasing the flat, it was necessary to obtain membership of the society priced at Rs.1 lakh. The company acquired shares Rs.50,000 as per the bye laws of co-operative societies act. The company charged off the membership price of Rs.1 lakh to P/L Account and disclosed the cost of shares as separate investments? Comment?

Question 2 :
SS acquired 2,000 Shares of Acme Products Ltd. from a broker @ 229/-. The Broker charged him 1%. Service tax, 5% on brokerage and stamp duty Rs.500. Compute Cost of Investments as per AS-13.

Question 3 :
On 1.07.2007, SS Ltd. acquired 2,000 shares in DS Ltd. at cum-dividend price of Rs.50,000. DS Ltd. declared and distributed 20% dividend on 30/09/07 in respect of year 2006-07 on its Share Capital, which consisted of 20,000 shares of Rs.10 each. On the same day, DS Ltd. declared and distributed 10% interim dividend for half year ended 30/09/07. Pass journal entries.

Question 4 :
SS Limited acquired 20,000 equity shares of DS Limited of FV Rs.10 by issuing 25,000 equity shares of its own company. FV & MV of SS Limited is Rs.10 and Rs.40 respectively. Compute Cost of Investments as per AS-13.

Question 5 :
SS is expected to get 5,000 shares on right basis at Rs.90. He sells all the rights @ Rs.55. How to account for the sale proceeds. Please advice.

Question 6 :
SS Limited's Share Capital of 40,000 Rs.100 equity shares.SS Limited offered 1 right share for every 4 held at 135/- immediately after the offer, an investor Mr. XYZ purchased 1,000 such shares cum - right @150/-. Mr. XYZ renounced all the rights offered to him. The market value of SS Limited shares came down to Rs.148/- immediately after the offer. The sale proceeds of rights were Rs.3,000. Show the entries in the books of Mr. XYZ.

SS QUESTIONS - SOLUTIONS

Answer 1 :

- **Facts of the case :**
  SS ltd charged membership fees to P&L A/c and cost of shares as separate investments, which are required to purchase investment property.
- **Provisions of AS :**
  As per AS 13-Accounting for investments, any cost incurred to acquire the investment property is to be added to the Cost of Property.
- **Conclusion :**
  - The treatment of charging membership fees to profit and loss account Rs.1,00,000 is incorrect.
  - Also the cost of shares i.e. Rs.50,000 should be capitalized to the cost of property.
  - The total cost of investment property = Rs.31,50,000. [Rs.30 lakhs + Rs.1 lakh + Rs.50,000]

Answer 2 :

Computation of cost of investments as per AS 13

Particulars	Rs.
Basic Cost (2,000 x 229)	4,58,000
+ Brokerage	4,580
+ Service Tax (5% on 4,580)	229
+ Stamp Duty	500
Cost of investments	4,63,309

Answer 3 :

Date	Particulars		Rs.	Rs.
1.7.2007	Investments in DS Ltd	Dr.	50,000	
	To Bank			50,000
30.9.2007	Bank	Dr.	6,000	
	To Dividend			6,000
31.3.2008	Dividend	Dr.	6,000	
	To Investments in DS Ltd			5,000
	To P&L A/c			1,000

(Final dividend is full pre and interim dividend is ½ pre and ½post)

Answer 4 :

- **Provisions of AS :**
  As per para 10 of AS 13-Accounting for Investments, costs of investments acquired for non-cash consideration should be taken as the value of shares issued.

Sr. No.	Particulars		Rs.	Rs.
1	Investments in DS Limited A/c	Dr.	10,00,000	
	To Equity Share Capital(25,000 * 10)			2,50,000
	To Securities Premium (25,000 * 30)			7,50,000

Answer 5 :

- In the absence of any information, full sale proceeds of rights sold is to be credited to P&L Account.
- Hence Rs.2,75,000 is to be credited to Profit and Loss Account.

Answer 6 :

➲ Provisions of AS :

As per para 13 of AS-13, where the investments are acquired cum right basis and the Market Value of investments after right is lower than the cost of acquisition, then sale proceeds of rights should be applied towards the Cost of investments to bring it down to the market value.

➲ Conclusion :

Workings :

Sr. No.	Particulars	Computation	Rs.
i	Ex - right [after right] actual market value of investments	1,000 * 148	1,48,000
ii	Cost of acquisition	1,000 * 150	1,50,000
iii	Difference	(ii)-(i)	2,000

Therefore, sale proceeds applied towards cost of investments.

In the Books of Mr. XYZ
Journal entries

Sr. No.	Particulars		Rs.	Rs.
1	Investments in SS Ltd	Dr.	1,50,000	
	To Bank			1,50,000
2	Bank	Dr.	3,000	
	To Renouncement Fees			3,000
3	Renouncement Fees	Dr.	3,000	
	To Investments in SS Ltd.			2,000
	To Profit and Loss Accounts			1,000

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AS 16 - BORROWING COST

Overview:

CONCEPT 1 : WHY AS 16? (OBJECTIVE)

➥ To prescribe accounting for borrowing costs.

Borrowing Cost (Interest)

- Previously → Shown as Revenue Expenses
- Presently → Interest is capitalised on qualifying asset

CONCEPT 2 : SCOPE

✈ This standard deals only with accounting of borrowing costs;

It does <u>not deal</u> with

- Actual cost incurred
- Imputed Cost (Opportunity/ Notional)

On owner's equity including PSC not classified as liability

☺ <u>Example :</u> Dividend paid on equity shares, cost of issuance of equity, cost on Irredeemable PSC will not be included as borrowing cost.

CONCEPT 3 : MEANING OF BORROWING COST

➲ Borrowing costs are interest & other costs that an entity incurs in connection with the borrowing of funds.

CONCEPT 4 : INCLUSION IN BORROWING COST

- Interest & Commitment charges on Borrowings
- Annual amortisation of premium or discount on Borrowings
- Amortisation of cost incurred for arranging Borrowings
- Finance Charges to acquired assets under Finance Lease
- Exchange difference on foreign borrowings (Para 4e)

CONCEPT 5 : EXCHANGE DIFFERENCE ON FOREIGN CURRENCY BORROWINGS

➥ Para 4e :
Exchange difference
on amount of principal of
foreign currency borrowings
to extent of difference between : i] Interest on local currency Borrowings
ii] Interest on foreign currency Borrowings

✍ Note :

In other words AS 16

- Deals with
  - Loss on exchange difference compensated by gains due to reduced amount of interest
- Does not deal
  - Gains in exchange difference (taken care of by AS 11)

CONCEPT 6 : RECOGNITION OF BORROWING COST?

Borrowing cost directly attributable to

- Acquisition
- Construction
- Production

- Of qualifying asset
  - Capitalise along with asset
- Of other than qualifying asset
  - Revenue expenditure

CONCEPT 7 : WHAT IS QUALIFYING ASSET?

➥ Which takes substantial period of time to get ready for its intended use or sale.
➥ Substantial time depends upon facts & circumstances of each case.
➥ Ordinarily, substantial period of time = 12 months unless shorter or longer period can be justified on case to case basis.
➥ Time which an asset takes technologically & commercially to get ready shall be considered.

☺ Examples of Qualifying Assets :

Sr. no.	Examples of Qualifying Assets	Examples of Non-Qualifying Assets
1]	Manufacturing plants	Investments & inventories produced in large quantities on repetitive basis over short period of time.
2]	Power generation facilities	
3]	Investment properties	Assets ready for intended use or sale on acquisition.

CONCEPT 8 : TYPES OF BORROWINGS

Specific Borrowings

- Borrowing cost should be fully debited to Qualifying Asset.
- Borrowing Cost eligible for capitalization = Actual borrowing cost incurred (-) Income on temporary investment.
- After completion of all qualifying assets, borrowing costs will be charged to P&L.

General Borrowings

- Capitalisation rate is used to calculate borrowing cost related to qualifying asset.
- Capitalisation rate is the weighted average rate of borrowing cost.
- Amount of borrowing costs capitalized should not exceed actual borrowing cost.

CONCEPT 9 : EXCESS OF THE CARRYING AMOUNT OVER RECOVERABLE AMOUNT

- When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Standards.
- In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.

CONCEPT 10 : COMMENCEMENT OF CAPITALISATION OF BORROWING COST [3 Conditions]

- Expenditure for the asset is incurred (Concept 11)
- Borrowing cost is incurred
- Activities necessary to prepare asset for its intended use or sale are performed (Concept 12)

CONCEPT 11 : EXPENDITURE INCURRED ON QUALIFYING ASSET

Sr. No	Particulars	Rs.
i)	Cash payments made during the year	xx
ii)	Transfer of assets during the year	xx
iii)	Assumption of interest bearing liabilities	xx
iv)	Less : Progress payments received	(xx)
v)	Less : Government Grants received (Ind AS 20)	(xx)
vi)	Expenditure incurred	xx

CONCEPT 12 : ACTIVITIES NECESSARY TO PREPARE ASSET

Includes :

Technical & administrative work prior to the commencement of physical construction

Excludes :

Holding of asset when no production or development takes place that changes asset's condition

☺ <u>Example :</u> Borrowing costs incurred while land is under development are capitalised during the period in which activities related to development are undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any development activity do not qualify for capitalisation.

CONCEPT 13 : SUSPENSION OF CAPITALISATION

Suspended	Not Suspended
1] When active development is interrupted.	1] When substantial technical & administrative work is carried out. 2] When temporary delay is necessary to make the asset ready for its intended use & sale.

☺ Example : Capitalisation continues during extended period that high water levels delay construction of a bridge, if such high water levels are common during construction period in geographical region involved.

CONCEPT 14 : CESSATION OF CAPITALISATION

- When substantially all the activities necessary to prepare qualifying asset are completed.
- Asset is normally ready for its intended use or sale when physical construction of asset is complete even though routine administrative work might still continue.
- If minor modifications are outstanding, it indicates that substantially all the activities are complete.

☺ Eg : Decoration of a property to the purchaser's or user's specification.

- When construction of qualifying asset is in parts & completed part is ready to use.

☺ Example :

1] Business park with several buildings, each of which can be used individually, is an example of qualifying asset for which each part is capable of being used while construction continues on other parts.

2] On the other side, in case of an industrial undertaking such as steel mill, all parts have to be completed before any completed part can be put to use.

CONCEPT 15 : DISCLOSURES

1] Accounting Policy adopted for borrowing cost.

2] Amount of borrowing cost capitalized during the period.

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ANNUAL REPORTS (EXTRACTS)

RELIANCE INDUSTRIES LTD

Borrowing Cost

Borrowing costs include exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest cost. Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use.

Interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to Statement of Profit and Loss for the period for which they are incurred.

KIRLOSKAR OIL ENGINES LTD

Borrowing Cost

Borrowing Costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized till the month in which the asset is ready to use, as part of the cost of that asset. Other borrowing costs are recognized as expanses in the period in which these are incurred.

AS 19 - ACCOUNTING FOR LEASES

✍ Overview :

[1] Objective & Importance of AS 19
[2] Types of Leases
[3] Change in classification
[4] Principles of Accounting Treatment for leases
[5] Leasing Activities undertaken by Manufacturer
[6] Sales & Lease Back
[7] Initial Direct Cost & Disclosure requirement

Lease means series of payment for transfer of Right

- Operating Lease
  - It's like Rent A/c
- Finance Lease
  - Similar to HP Entries

OPERATING LEASE

Books of Lessor

(Asset & Depreciation is recorded by lessor)

P&L (Extract)

Particulars	Rs.	Particulars	Rs.
To Depreciation		By lease Rental (Income) [No need to bifurcate into principal + interest]	

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Asset	xxx
		(-): Depreciation	(xxx)
	xxx		xxx

Books of Lessee

P&L (Extract)

Particulars	Rs.	Particulars	Rs.
To lease Rental (Expense) [Principal + interest]			

FINANCE LEASE

Books of Lessor

P&L (Extract)

Particulars	Rs.	Particulars	Rs.
		By Interest	

Balance Sheet

Liabilities	Rs.	Assets	Rs.
		Lessee (Principal Amount)	xxx
	xxx		xxx

Books of Lessee
(Asset is recorded by lessee)
P&L (Extract)

Particulars	Rs.	Particulars	Rs.
To depreciation			
To Finance Charges (Interest)			

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Lessor (Principal Amount)	xxx	Asset (Cost or P.V. of M.L.P. whichever is lower)	xxx
	xxx		xxx

CONCEPT 1 : SCOPE OF AS 19

- Exception 1 :Lease agreement entered into for the exploration or use of resources such as oil, gas & timber
- Exception 2 : Motion picture plays, video recordings, copy rights, patents etc. given on license.
- Exception 3 : Lease agreement for use of vacant land
- Exception 4 : Service Contract.
  [Reason : One contracting party does not transfer right to use the assets] Refer Problem 1

CONCEPT 2 : TRANSFER OF SUBSTANTIALLY WHOLE OF RISKS & REWARDS

- Transfer of Risk means risk due to loss of demand, technological obsolescence & losses from idle capacity
- Transfer of Rewards means heavy demands in product, residual value of asset
- Note that only risks & rewards are transferred & not legal ownership
- Example; in many companies like car leasing co. lessor borne repairs & maintenance or insurance. In such a case, lease is finance lease only.
  a) Reason 1 : Lessor company do not want to trouble the lessee
  b) Reason 2 : Cost of repairs is in built of lease rent

CONCEPT 3 : CONDITIONS FOR FINANCE LEASE [Any one condition should satisfy]

(i) Transfer of ownership of asset to lessee at the end of lease term
(ii) Lessee is given an option to purchase the asset at the end of lease terms, at a price sufficiently lower than fair value on the date of exercising the option
(iii) Lease term is for the major part of economic life of the asset even if title is not transferred
(iv) At the inception of the lease, the present value of minimum lease payment recovers substantially the portion of fair value of asset on the date of inception of the lease
(v) The lease is non cancellable lease agreement
(vi) The lease asset is of specialised nature such that only lessee can use it.
(vii) Lease Rental for secondary period is substantially lower than the market rate

CONCEPT 4 : CHANGE IN CLASSIFICATION

✍ Whether lease is Finance Lease or Operating Lease is decided very inception of lease

Change in Classification

- **Results in different category of lease**
  - Lease agreement treated as totally separate agreement for the balance period
- **If estimates went wrong**
  - E.g. change in useful life of asset or default made by lessee then classification remains same
    - No change in classification

CONCEPT 5 : ACCOUNTING TREATMENT OF OPERATING LEASE

A] Books of Lessee

- Lease payment should be recorded in P&L A/c on Straight Line Basis over a lease period (even if rentals are spread uneven)
- If any other method is more representative of the time pattern of users such method can be used. Example; Lease Rent allocated on the basis of number of units produced

B] Books of Lessor

- Lessor is the owner of the asset
- Depreciation is as per AS 10.
- Lease income is recorded as explained above for lessee
- Receipts for services provided for repairs & maintenance is to be recorded in the year it is earned

CONCEPT 6 : ACCOUNTING TREATMENT OF FINANCE LEASE

Criterion	Books of Lessee	Books of Lessor
Initial Recognition	lessee should record the asset purchased	Lessor records lease rental receivable
Entry	Asset A/c Dr To Lessor	Lease Rental Receivable A/c Dr To Asset A/c
Recorded at : Lower of	i) F.V. of Asset or ii) P.V. of M.L.P. (at lessee's point of view) [M.L.P. = Lease Rental + GRV]	Net Investment in Lease [Net Investment in Lease = P.V. of Gross Investment] [Gross Investment = Lease Rental + GRV + UGRV]
Interest Rate	Incremental Borrowing Cost or WACC or Lessor's IRR.	Rate at which interest is included in lease payment [Normally, implicit rate/IRR] IRR is a rate at which Net Investment in lease = F.V. of the asset.
Depreciation	(As per AS 10 which is applicable for other assets)	On the Principal Amount

Lease Payment/ Lease Income	a) Principal : Reduced from outstanding balance of lessor every year. b) Interest/Finance Charges : It is allocated over the lease term.	a) Deducted from lease rental receivable A/c. b) Interest/Finance Charges : Should be based on the pattern reflecting a constant periodic rate of return on Net Investment.
Review of UGRV	-	Required to reassess & review at every Balance Sheet date Any change in UGRV will change : (i) Income Allocation (ii) Implicit Rate
Note	Interest & Principal component is different for lessor & lessee. Because, (i) UGRV (ii) Discounting factor used	

CONCEPT 7 : LEASING ACTIVITY UNDERTAKEN BY MANUFACTURER OR DEALER

- Above discussion [Concept 1 to Concept 6] is for direct financing lease where lessor is Bank or Financial Institution.
- But in case of manufacturer or dealers assets are kept partly for sale or partly for lease. This method is known as Sale-Type-Lease
- Low Interest Rate cases :
  - To attract customers, manufacturer or dealer keeps interest rate artificially low as compare to commercial rate, whereas, some finance leases are sold at zero interest rate.
  - As AS 19 suggests, compute selling profit as per the normal prevailing market interest rate

Sale - Type - Lease

- Finance Lease
  - Two incomes :
    - (i) Profit/ loss on outright sale of asset (at normal selling price)
    - (ii) Finance Income spread over the lease period on IRR basis
- Operating Lease
  - No selling profit is to be recognised at the inception of lease
  - Lease payment received is sole income

CONCEPT 8 : SALE & LEASE BACK

- Previously many companies used to enter into sale & lease back transaction & record huge notional profits
- But after introduction of AS 19 such unrealised profits are not accounted for.
- Original Vendor will become lessee.
- Both arrangements includes :
  (i) Sale of Asset
  (ii) leasing assigned a single package

Accounting Treatment

Finance Lease

- Profit/Loss = S.P. - Carrying Amount
- Amortised over useful life of asset

Operating Lease

- Case I : SP = FV (Price is not manipulated) (Profit/loss to be recognised immediately)
- Case II : SP < FV (Price is not manipulated) (Profit/loss to be recognised immediately)
- Case III : SP > FV (Price is manipulated)
  (i) Excess of SP over FV (Manipulated) = amortise over the useful life of asset
  (ii) Profit/Loss = FV - BV is to be recognised immediately

CONCEPT 9 : DISCLOSURE

A] For Finance Lease

In the Books of Lessee

1] Segregation of lease asset & own assets & the carrying amount of the assets

2] Total MLP & PV of MLP as follows :

Period (Months)	Absolute	PV
0-12	xx	xx
12-60	xx	xx
60 or more	xx	xx

3] Contingent Rent (expenses) recognised in P&L A/c

4] Total sublease payment receivable on the date of balance sheet

5] Significant terms of lease agreement like further lease, contingent rent etc.

In the Books of Lessor

1] Gross Investment & PV (MLP) receivable as follows :

Period (Months)	Absolute	PV
0-12	xx	xx
12-60	xx	xx
60 or more	xx	xx

2] Unrealised finance income

3] GRV

4] Contingent Rent recognised in P&L A/c

5] Significant terms of lease agreement like further lease, contingent rent etc

6] Accounting for initial direct cost

B] For Operating Lease

In the Books of Lessee

1] Total of further MLP as follows :

Period (Months)	Absolute
0-12	xx
12-60	xx
60 or more	xx

2] Lease payment debited to P&L A/c
3] Contingent Rent recognised in P&L A/c
4] Total sublease payment receivable on the date of balance sheet
5] Significant terms of lease agreement like further lease, contingent rent etc

In the Books of Lessor

1] For each class of asset
(a) Gross carrying amount
(b) Accumulated Depreciation
(c) Impairment of asset if any
(d) Net Carrying Amount
2] Finance Income recognised during the year in P&L A/c
3] Future lease payments as follows :

Period (Months)	Absolute
0-12	xx
12-60	xx
60 or more	xx

4] Contingent Rent recognised in P&L A/c
5] Significant terms of lease agreement like further lease, contingent rent etc
6] Accounting for initial direct cost

AS 26 - INTANGIBLE ASSETS

Overview :

[a] Objective & Scope
[b] What is Intangible Asset?
[c] Recognition of principals of Intangible Asset
[d] Amortisation Treatment
[e] Treatment of sale or disposal of Intangible Asset
[f] Disclosure

CONCEPT 1 : WHY AS 26 INTANGIBLE ASSETS? [10 years Life]

- How to record intangible assets in books of accounts & what is the criteria to record intangible assets.
- AS 26 is applicable for the following cases :

[a] Copyrights	[b] Patents/ Trademarks	[c] Technical Knowhow
[d] Designs	[e] Stock exchange card holders	[f] Import quota's
[g] Leasehold Rights title	[h] Marketing Rights	[i] Purchase Magazine's
[j] R&D Expenses	[k] Franchisee Rights	

CONCEPT 2 : NON APPLICABILITY OF AS 26

[i] Intangible Assets held for sale in ordinary course of Business (AS 2 – Valuation of Inventory)
[ii] Deferred Tax Asset (AS 22)
[iii] Leases (AS 19)
[iv] Assets arising from employee benefits (AS 15)
[v] Goodwill acquiring Business combinations (AS 14)
[vi] Intangible Assets arising from Insurance Contracts (Separate Guidelines)

CONCEPT 3 : WHAT IS AN INTANGIBLE ASSET?

- It should be an Asset
- It should be Non monetary Asset
- Identifiable
- Without physical substance
- Held for using production, administration purpose, Fetching Rent

1] Asset :
- Economic Resource
  Control by an enterprise
  as a result of past event
  from which economic benefit should flow to the enterprise

2] Non Monetary Assets :
- Assets who's value is not fixed & determinable

3] Identifiable Asset :
- Separate from other Asset
- Enterprise could Rent, Sale or exchange for revenue earning activity.

Example; If a company has got 3 brands of soap & if company sales one of the brand without selling entire business then such brand name is identifiable.
However, separability is not the necessary condition for identifiability.
E.g; Enterprise is acquiring a travel agent business & pays 1 crore extra for non competing fees. Such Non Competing fees are identifiable.

4] Without Physical Substance :

☞ Intangible Asset have no physical substance but some Intangible Assets may have physical substance but value of tangible asset is much less than value of intangible asset. Example; Tally CD

5] It is held for using production purpose, administrative purpose, fetching rent.

CONCEPT 4 : RECOGNITION PRINCIPLE OF INTANGIBLE ASSET

Purchase Intangible Asset [Concept 5]

Internally generated Intangible Asset [Concept 6]

Recognised IF & ONLY IF

Probable that future economic benefit from asset flows to the enterprise

Cost of Intangible Asset can be measured reliably

CONCEPT 5 : PURCHASED INTANGIBLE ASSET (5 WAYS)

1] Acquisition by paying cash
2] Exchange of Asset
3] Issue of shares & other securities
4] Intangibles in case of amalgamation
5] Acquisition of Intangible Asset through Government Grant

☺ Explanation :

1] Acquisition by paying cash

Particulars	Rs.
Purchase Price	xx
(+) : Legal Fees	xx
(+) : Payment of duties & non refundable taxes	xx
(+) : Other directly attributable Expenses	xx
(+) : CENVAT Credit not available	xx

2] Exchange of Asset

☞ Fair Value of Asset given up if it is more clearly evident.

3] Issue of shares & securities :

☞ Fair Value of shares & securities issued.

4] Intangibles in case of amalgamation

☞ (In case of Purchase Method)

- Intangible Asset meets the recognition criteria
  - Yes
    - Recorded at *Fair Value* (e.g. patents, copyrights)
      - *AS 26* is applicable
  - No
    - Recorded as *Goodwill*
      - AS 26 is not applicable (*AS 14* applicable)

5] Acquisition of Intangible Asset through Government Grant

☞ [i] Recorded at concessional Rate
[ii] [Nominal Value] Free of Cost

CONCEPT 6 : COST OF INTERNALLY GENERATED INTANGIBLE ASSETS (3 WAYS)

- Goodwill
- Brand Names, Publishing Titles, Muster Heads
- Other
  - Phase I : Research Phase
  - Phase II : Development Phase

❋ **Explanations :**

1] Internally generated Goodwill

☞ Generated within the Business slowly during its lifetime
Example; Reliance has created internal goodwill which cannot be estimated

☞ As cost of such goodwill can't be determined hence self generated goodwill is not recognised in the books of accounts.

2] Cost of internally generated Brand names, publishing titles, Muster heads

☞ Can't measure reliably so can't be recorded in books.

3] Cost of internally generated Intangible Assets other than 1 & 2 (2 Phases)

☞ There may be Intangible Asset like computer software created or any formula invented.

- Cost incurred on such Intangible Asset divided in
  - Research Phase
    - Incurred to create or invent some new products
      - should be recorded as an expenses (not possible to demonstrate that asset will exist & generate future economic benefit)
  - Development Phase
    - Converts research product into marketable
      - Development cost can be capitalised if the product meets assets criteria

RESEARCH ACTIVITIES

- Activities aimed at obtaining new knowledge
- Search for, evaluation and final selection of applications of research findings or other knowledge
- Search for alternatives for materials, devices, products, processes, systems or services
- Formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services

DEVELOPMENT PHASE

✷ An intangible asset arising from development should be recognised if, and only if, an enterprise can demonstrate ALL of the following:

[a] technical feasibility of completing intangible asset.
[b] intention to complete intangible asset.
[c] ability to use or sell intangible asset.
[d] intangible asset will generate probable future economic benefits.
[e] availability of adequate technical, financial and other resources to complete development.
[f] ability to measure reliably the development expenditure

DEVELOPMENT ACTIVITIES

Design, construction and testing of	• pre-production or pre-use prototypes and models
Design of	• tools, jigs, moulds and dies involving new technology
Design, construction and operation of	• a pilot plant that is not of a scale economically feasible for commercial production
Design, construction and testing	• a "***chosen***" alternative for new or improved materials, devices, products, processes, systems or services

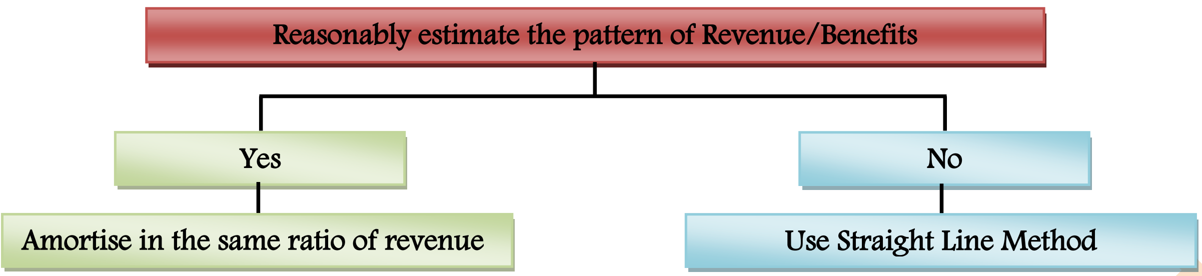
CONCEPT 7 : AMORTIZATION TREATMENT

[a] Meaning of Amortization : Process of allocating cost of Intangible Asset over its useful life.

[b] Depreciation Amount = $\frac{\text{Cost} - \text{Realisable Value}}{\text{Useful Life}}$

[c] Useful Life (Assume 10 years)
If any short or long life is estimated (other than 10 years) then enterprise must justify such period.

[d] Method of Amortization



[e] Some examples of amortisation :

[i] Stock Exchange Card :

- Right to trade for indefinite period hence longer period (more than 10 years) is appropriate for amortisation.

[ii] Mining Rights :

- Amortisation will be as % of resources get exhausted using rights.

[iii] Music Rights :

- Significant portion of cost of using right will be amortised within short period of time (less than 10 years)

[f] Residual Value : Always Zero
Except active market exists for intangible asset OR
Third party is willing to buy intangible asset at the end of its economic life

[g] Change in amortisation method : If pattern of revenue will change then only change method

[h] Carrying Amount = Cost - Accumulated Amortisation - Impairment Loss

CONCEPT 8 : SALE/ DISPOSAL OF INTANGIBLE ASSET

- Future Economic Benefit is Zero the Intangible Asset is disposed
- Loss/ Profit is to be shown in Profit & Loss A/c.

CONCEPT 9 : DISCLOSURES

- The financial statements should disclose the following for each class of intangible assets :
- The useful lives or the amortization rates used
- The amortization methods used
- The gross carrying amount and the accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period.
- A reconciliation of the carrying amount at the beginning and end of the period showing:

[i] Additions, indicating separately those from internal development and through amalgamation
[ii] Retirements and disposals
[iii] Impairment losses recognized in the statement of profit and loss during the period, if any
[iv] Impairment losses reversed in the statement of profit & loss during the period, if any
[v] Amortization recognized during the period
[vi] Other change in the carrying amount during the period.

SS Note

Asset/Expense	Intangible Asset
Self generated marketing rights	Not
Self generated franchise rights	Not
Purchased marketing rights	Yes
Special Computer software	Yes
Advance license Fees	Yes
Duty drawback	Yes
Sales Tax exemption	Not
Share issue expenses	Not
Internally generated brands	Not
Purchased brands	Yes
Right to use land	Yes
Feasibility study and start up costs	Not

★★★

AS 28 IMPAIRMENT OF ASSETS

CONCEPT 1 : INTRODUCTION

AS 28 came into effect in respect of accounting period commenced on or after 1-4-2004 and is mandatory in nature from that date for the following:

[i] Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

[ii] All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crores.

In respect of all other enterprises, the Accounting Standard came into effect in respect of accounting periods commenced on or after 1-4-2005 and is mandatory in nature from that date.

This standard prescribes the procedures to be applied to ensure that the assets of an enterprise are carried at an amount not exceeding their recoverable amount (amount to be recovered through use or sale of the asset). The standard also lays down principles for reversal of impairment losses and prescribes certain disclosures in respect of impaired assets. An enterprise is required to assess at each balance sheet date whether there is an indication that an enterprise's assets may be impaired. If such an indication exists, the enterprise is required to estimate the recoverable amount and the impairment loss, if any, should be recognised in the profit and loss account.

CONCEPT 2 : SCOPE

The standard should be applied in accounting for impairment of all assets except

1. inventories (AS 2),
2. assets arising under construction contracts (AS 7),
3. financial assets including investments covered under AS 13, and
4. deferred tax assets (AS 22).

There are chances that the provision on account of impairment losses may increase sickness of companies and potentially sick companies may actually become sick.

CONCEPT 3 : ASSESSMENT

An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. The requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications:

Indicators of Impairment
[List is NOT exhaustive]

External sources | Internal sources

External sources of information

[a] During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

[b] Significant changes with an adverse effect on the enterprise have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the enterprise operates or in the market to which an asset is dedicated.

[c] Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

[d] The carrying amount of the net assets of the reporting enterprise is more than its market capitalization.

Internal sources of information

[a] Evidence is available of obsolescence or physical damage of an asset.

[b] Significant changes with an adverse effect on the enterprise have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date and

[c] Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

An enterprise may identify other indications that an asset may be impaired and these would also require the enterprise to determine the asset's recoverable amount.

Example that indicates that an asset may be impaired because of the following:

a. cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
b. actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
c. a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or

d. operating losses or net cash outflows for the asset, when current period figures are aggregated with budgeted figures for the future.

The concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated.

✍ Note: If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation method or the residual value for the asset need to be reviewed and adjusted under the Accounting Standard 10, even if no impairment loss is recognised for the asset.

CONCEPT 4 : MEASUREMENT OF RECOVERABLE AMOUNT

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

Recoverable amount is the higher of an asset's net selling price and it's value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. The best evidence for net selling price is a price in the bidding sales agreement for the disposal of the assets or similar assets. In the absence of this, net selling price is estimated from the transactions for the assets in active market, if the asset has the active market. If there is no binding sale agreement or active market for an asset, net selling price is based on the best information available to reflect the amount that an enterprise could obtain, at the balance sheet date, for the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

Value in Use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Estimating the value in use of an asset involves the following steps:

[a] Estimating the future cash inflows and outflows arising from continuing use of the asset and from its ultimate disposal; and

[b] Applying the appropriate discount rate to these future cash flows.

Carrying amount is the amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Depreciation (Amortisation) is a 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 in the financial statements, less its residual value.

Useful life is either:

- ➥ The period of time over which an asset is expected to be used by the enterprise; or
- ➥ The number of production or similar units expected to be obtained from the asset by the enterprise.

✍ Note 1: If there is no reason to believe that an asset's value in use materially exceeds its net selling price, the asset's recoverable amount may be taken to be its net selling price. This will often be the case for an asset that is held for disposal. Otherwise, if it is not possible to determine the selling price we take value in use of assets as it's recoverable amount.

It is not always necessary to determine both an asset's net selling price and its value in use. For example, if either of these amounts exceeds the asset's carrying amount, the asset is not impaired, and it is not necessary to estimate the other amount.

It may be possible to determine net selling price, even if an asset is not traded in an active market. However, sometimes it will not be possible to determine net selling price because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the recoverable amount of the asset may be taken to be its value in use.

✍ Note 2: Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless either:

[a] The asset's net selling price is higher than its carrying amount; or

[b] The asset's value in use can be estimated to be close to its net selling price and net selling price can be determined.

CONCEPT 5 : BASIS FOR ESTIMATES OF FUTURE CASH FLOWS

Cash flow projections should be based on the most recent approved budgets/forecasts for a maximum of five years. Financial budgets/forecasts over a period longer than five years may be used if management is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts using a growth rate for subsequent years. This rate is steady or declining. This growth rate should not exceed the long-term average growth rate for the products, industries, or country or countries in which the enterprise operates, or for the market in which the asset is used, unless a higher rate can be justified.

Cash flow projections should be based on reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset. Greater weight should be given to external evidence.

CONCEPT 6 : COMPOSITION OF ESTIMATES OF FUTURE CASH FLOWS

Estimates of future cash flows should include

[i] Projections of net cash inflows from the continuing use of the asset

[ii] projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset and that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and

[iii] Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Care should be taken for the following points:

[a] When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale should be included.

[b] Cash inflows from assets that generate cash inflows from continuing use that are largely independent of the cash inflows from the asset under review should not be included.

[c] Cash outflows that relate to obligations that have already been recognised as liabilities to be excluded.

[d] Future cash outflows or inflows expected to arise because of restructuring of the organization should be not considered.

[e] Any future capital expenditure enhancing the capacity of the assets and its related savings/outflow should be excluded.

[f] Any increase in expected cash inflow from the above expenditure should also be excluded.

[g] Estimates of future cash flows should not include cash inflows or outflows from financing activities and also income tax receipts or payments.

[h] The estimate of net cash flow upon disposal of the asset should be the amount that an enterprise expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties prevailing at the date of the estimates, after deducting the estimated costs of disposal.

When an enterprise becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the enterprise is committee to the restructuring, in determining value in use, estimates of future cash inflows and cash outflows reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts that have been approved by management).

Foreign Currency Future Cash Flows are estimated in the currency in which it will be generated and then they are discounted for the time value of money using a discount rate appropriate for that currency. we convert cash flow in the reporting currency on the basis of AS 11.

Discount Rate

The discount rate(s) should be a pre-tax rate(s) that reflect(s) current market assessments of the time value of money and the risks specific to the asset. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.

A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the enterprise expects to derive from the asset.

When an asset-specific rate is not directly available from the market, an enterprise uses other bases to estimate the discount rate such as incremental borrowing rate, rate using capital asset pricing model, etc.

These rates are adjusted:

[a] to reflect the way that the market would assess the specific risks associated with the projected cash flows; (Consideration is given to risks such as country risk, currency risk, price risk and cash flow risk) and

[b] to exclude risks that are not relevant to the projected cash flows.

An enterprise normally uses a single discount rate for the estimate of an asset's value in use. However, an enterprise uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

CONCEPT 7 : RECOGNITION AND MEASUREMENT OF AN IMPAIRMENT LOSS

❖ Case I:

If recoverable amount of assets more than carrying amount, we ignore the difference and asset is carried on at the same book value.

✍ Note: As mentioned above, if there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation method or the residual value for the asset need to be reviewed and adjusted under the Accounting Standard 10, even if no impairment loss is recognised for the asset.

❖ Case II:

When this recoverable amount is less than the carrying amount, this difference termed as Impairment Loss.

Accounting implications:

Particulars	Remarks
Treatment of Impairment loss	It should be written off immediately as expenses to Profit & Loss Account.

	If assets are carried out at revalued figures then the impairment loss equivalent to revalued surplus is adjusted with it and the balance (if any) is charged to Profit & Loss Account.
Depreciation	Depreciation for the coming years on the assets are recalculated on the basis of the new carrying amount, residual value and remaining useful life of the asset, according to AS 10.

❖ Case III:

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an enterprise should recognise a liability if, and only if, that is required by another Accounting Standard.

CONCEPT 8 : IDENTIFICATION OF THE CASH-GENERATING UNIT TO WHICH AN ASSET BELONGS

A cash generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

If there is any indication that an asset may be impaired, the recoverable amount should be estimated for the individual asset, if it is not possible to estimate the recoverable amount of the individual asset because the value in use of the asset cannot be determined and it is probably different from scrap value. Therefore, the enterprise estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If recoverable amount cannot be determined for an individual asset, an enterprise identifies the lowest aggregation of assets that generate largely independent cash inflows from continuing use. Even if part or all of the output produced by an asset or a group of assets is used by other units of the reporting enterprise, this asset or group of assets forms a separate cash-generating unit if the enterprise could sell this output in an active market. This is because this asset or group of assets could generate cash inflows from continuing use that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, an enterprise adjusts this information if internal transfer prices do not reflect management's best estimate of future market prices for the cash -generating unit's output.

Cash-generating units should be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

Example 1

A mining enterprise owns a private railway to support its mining activities. The private railway could be sold only for scrap value and the private railway does not generate cash inflows from continuing use that are largely independent of the cash inflows from the other assets of the mine.

It is not possible to estimate the recoverable amount of the private railway because the value in use of the private railway cannot be determined and it is probably different from scrap value. Therefore, the enterprise estimates the recoverable amount of the cash-generating unit to which the private railway belongs, that is, the mine as a whole.

Example 2

A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Since the enterprise does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit for each route is the bus company as a whole.

If an active market exists for the output produced by an asset or a group of assets, this asset or group of assets should be identified as a separate cash-generating unit, even if some or all of the output is used internally.

CONCEPT 9 : RECOVERABLE AMOUNT AND CARRYING AMOUNT OF A CASH-GENERATING UNIT

The carrying amount of a cash-generating unit should be determined consistently with the way the recoverable amount of the cash-generating unit is determined i.e., carrying amount is the summation of the carrying amount of all the assets grouped under one cash-generating unit. This also includes the liability only if that liability is necessary to be considered to determine the recovery amount. This may occur if the disposal of a cash-generating unit would require the buyer to take over a liability. In this case, the net selling price of the cash-generating unit is the estimated selling price for the assets of the cash-generating unit and the liability together, less the costs of disposal. In order to perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash -generating unit or liabilities that have already been recognised in the financial statements. In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Example 3

A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is Rs.50,00,000, which is equal to the present value of the restoration costs.

The enterprise is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The enterprise has received various offers to buy the mine at a price of around Rs.80,00,000; this price encompasses the fact that the buyer will take over the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately Rs.1,20,00,000 excluding restoration costs. The carrying amount of the mine is Rs.1,00,00,000.

The net selling price for the cash-generating unit is Rs.80,00,000. This amount considers restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is estimated to be Rs.70,00,000 (Rs.1,20,00,000 less Rs.50,00,000). The carrying amount of the cash-generating unit is f 50,00,000, which is the carrying amount of the mine (Rs.1,00,00,000) less the carrying amount of the provision for restoration costs (Rs.50,00,000).

CONCEPT 10 : GOODWILL

Goodwill does not generate cash flows independently from other assets or groups of assets and, therefore, the recoverable amount of goodwill as an individual asset cannot be determined. As a consequence, if there is an indication that goodwill may be impaired, recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of this cash-generating unit and any impairment loss is recognized.

If goodwill can be allocated on a reasonable and consistent basis, an enterprise applies the 'bottom-up' test only. If it is not possible to allocate goodwill on a reasonable and consistent basis, an enterprise applies both the 'bottom-up' test and 'top-down' test.

- Goodwill
  - Can be allocated on a reasonable and consistent basis
    - Perform Bottom up Test ONLY
  - Cannot be allocated on a reasonable and consistent basis
    - Perform Bottom up and Top Down Test BOTH

Example:

At the end of 20X0, enterprise M acquired 100% of enterprise Z for Rs.3,000 lakhs. Z has 3 cash-generating units A, B and C with net fair values of Rs.1,200 lakhs, Rs.800 lakhs and Rs.400 lakhs respectively. M recognises goodwill of Rs.600 lakhs (Rs.3,000 lakhs less Rs.2,400 lakhs) that relates to Z.

At the end of 20X4, A makes significant losses. Its recoverable amount is estimated to be Rs.1,350 lakhs. Carrying amounts are detailed below (Rs. In Lakh).

End of 20X4	A	B	C	Goodwill	Total
Net carrying amount	1300	1200	800	120	3420

Scenario A - Goodwill Can be Allocated on a Reasonable and Consistent Basis

On the date of acquisition of Z, the net fair values of A, B and C are considered a reasonable basis for a pro-rata allocation of the goodwill to A, B and C.

Allocation of goodwill at the end of 20X4:

End of 20X4	A	B	C	Goodwill
End of 20X0				
Net fair values	1200	800	400	2400
Pro-Rata	50%	33%	17%	100%
End of 20X4				
Net carrying amount	1300	1200	800	3300
Allocation of goodwill (Using pro rate above)	60	40	20	120
Net carrying amount (After goodwill)	1360	1240	820	3420

In accordance with the 'bottom-up' test in paragraph 78(a) of AS 28, M compares A's recoverable amount to its carrying amount after the allocation of the carrying amount of goodwill:

End of 20X4	A (Rs. in Lakh)
Carrying amount after allocation of goodwill	1360
Recoverable amount	1350
Impairment loss	10

M recognises an impairment loss of Rs.10 lakhs for A. The impairment loss is fully allocated to the goodwill in accordance with paragraph 87 of AS 28.

Scenario B - Goodwill Cannot be Allocated on a Reasonable and Consistent Basis

There is no reasonable way to allocate the goodwill that arose on the acquisition of Z to A, B and C. At the end of 20X4, Z's recoverable amount is estimated to be Rs.3,400 lakhs.

At the end of 20X4, M first applies the 'bottom-up' test in accordance with paragraph 78(a) of this Statement. It compares A's recoverable amount to its carrying amount excluding the goodwill.

End of 20X4	A (Rs. in Lakh)
Carrying amount after allocation of goodwill	1300
Recoverable amount	1350
Impairment loss	0

Therefore, no impairment loss is recognised for A as a result of the 'bottom-up' test.

Since the goodwill could not be allocated on a reasonable and consistent basis to A, M also performs a 'top-down' test in accordance with paragraph 78(b) of AS 28. It compares the carrying amount of Z as a whole to its recoverable amount (Z as a whole is the smallest cash-generating unit that includes A and to which goodwill can be allocated on a reasonable and consistent basis).

Application of the 'top-down' test (Amount in Rs. lakhs)

End of 20X4	A	B	C	Goodwill	Total
Carrying amount	1300	1200	800	120	3420
Impairment loss arising from the 'bottom-up' test	0	-	-	-	0
Carrying amount after the 'bottom-up' test	1300	1200	800	120	3420
Recoverable amount	-	-	-	-	3400
Impairment loss arising from 'top-down' test	-	-	-	-	20

Therefore, M recognises an impairment loss of Rs.20 lakhs that it allocates fully to goodwill in accordance with paragraph 87 of AS 28.

CONCEPT 11 : CORPORATE ASSETS

Key characteristics of corporate assets are that they do not generate cash inflows independently from other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review.

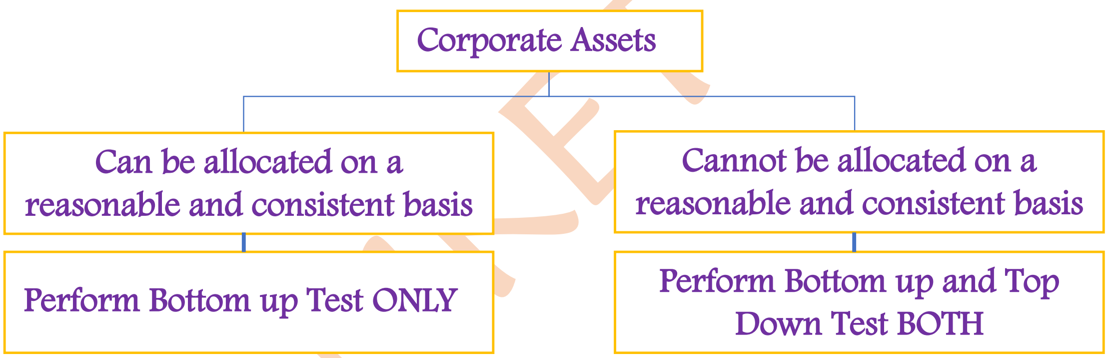
Examples

Building of a headquarter or a division of the enterprise, EDP equipment or a research Centre.

In testing a cash-generating unit for impairment, an enterprise should identify all the corporate assets that relate to the cash-generating unit under review. For each identified corporate asset:

[a] If the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis to the cash-generating unit under review, an enterprise should apply the 'bottom-up' test only; and

[b] If the carrying amount of the corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating unit under review, an enterprise should apply both the 'bottom-up' and 'top-down' tests.



CONCEPT 12 : IMPAIRMENT LOSS FOR A CASH-GENERATING UNIT

The impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

[a] First, to goodwill allocated to the cash-generating unit (if any); and

[b] Then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

These reductions in carrying amounts should be treated as impairment losses on individual assets

The carrying amount of an asset should not be reduced below the highest of:

[a] Its net selling price (if determinable);

[b] Its value in use (if determinable); and

[c] Zero.

The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro-rata basis.

After the requirements of impairment loss have been applied, a liability should be recognised for any remaining amount of an impairment loss for a cash-generating unit if that is required by another Accounting Standard.

Example 4

A machine has suffered physical damage but is still working, although not as well as it used to. The net selling price of the machine is less than its carrying amount. The machine does not generate independent cash inflows from continuing use. The smallest identifiable group of assets that includes the machine and generates cash inflows from continuing use that are largely independent of the cash inflows from other assets is the production line to which the machine belongs. There coverable amount of the production line shows that the production line taken as a whole is not impaired.

Assumption 1: Budgets/forecasts approved by management reflect no commitment of management to replace the machine.

The recoverable amount of the machine alone cannot be estimated since the machine's value in use:

[a] may differ from its net selling price; and

[b] can be determined only for the cash-generating unit to which the machine belongs (the production line).

The production line is not impaired, therefore, no impairment loss is recognised for the machine. Nevertheless, the enterprise may need to reassess the depreciation period or the depreciation method for the machine. Perhaps, a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the machine or the pattern in which economic benefits are consumed by the enterprise.

Assumption 2: Budgets/forecasts approved by management reflect a commitment of management to replace the machine and sell it in the near future. Cash flows from continuing use of the machine until its disposal are estimated to be negligible.

The machine's value in use can be estimated to be close to its net selling price. Therefore, the recoverable amount of the machine can be determined and no consideration is given to the cash-generating unit to which the machine belongs (the production line). Since the machine's net selling price is less than its carrying amount, an impairment loss is recognised for the machine.

CONCEPT 13 : REVERSAL OF AN IMPAIRMENT LOSS

An enterprise should assess at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior accounting periods may no longer exist or may have decreased. If any such indication exists, the enterprise should estimate the recoverable amount of that asset. An impairment loss recognised for an asset in prior accounting periods should be reversed if there has been a change in the estimates of cash inflows, cash outflows or discount rates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. That increase is a reversal of an impairment loss. Indications of a potential decrease in an impairment loss are mainly mirror the indications of a potential impairment loss discussed above as external and internal indicators. The concept of materiality applies in identifying whether an impairment loss recognised for an asset in prior accounting periods may need to be reversed and the recoverable amount of the asset determined.

CONCEPT 14 : REVERSAL OF AN IMPAIRMENT LOSS FOR AN INDIVIDUAL ASSET

✍ Case I:

If impairment loss was written off to profit and loss account, then the reversal of impairment loss should be recognized as income in the financial statement immediately.

✍ Case II:

If impairment loss was adjusted with the Revaluation Reserve; then reversal of impairment loss will be written back to the reserve account to the extent it was adjusted, any surplus will be recognised as revenue. But in any case the increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods. This is mainly because any further increase in value of asset is revaluation, which is governed by AS 10.

Depreciation impact post reversal of impairment loss:

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset should be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

CONCEPT 15 : REVERSAL OF AN IMPAIRMENT LOSS FOR A CASH-GENERATING UNIT

A reversal of an impairment loss for a cash-generating unit should be allocated to increase the carrying amount of the assets of the unit in the following order:

[a] First, assets other than goodwill on a pro-rata basis based on the carrying amount of each asset in the unit; and

[b] Then, to goodwill allocated to the cash-generating unit (if any),

In allocating a reversal of an impairment loss for a cash generating unit under paragraph 106, the carrying amount of an asset should not be increased above the lower of:

[a] its recoverable amount (if determinable); and

[b] the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro-rata basis.

CONCEPT 16 : REVERSAL OF AN IMPAIRMENT LOSS FOR GOODWILL

This Statement does not permit an impairment loss to be reversed for goodwill because of a change in estimates (for example, a change in the discount rate or in the amount and timing of future cash flows of the cash generating unit to which goodwill relates), an impairment loss recognised for goodwill should not be reversed in a subsequent period unless:

[a] The impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and

[b] Subsequent external events have occurred that reverse the effect of that event.

CONCEPT 17 : IMPAIRMENT IN CASE OF DISCONTINUING OPERATIONS

The approval and announcement of a plan for discontinuance is an indication that the assets attributable to the discontinuing operation may be impaired or that an impairment loss previously recognised for those assets should be increased or reversed.

In applying this Statement to a discontinuing operation, an enterprise determines whether the recoverable amount of an asset of a discontinuing operation is assessed for the individual asset or for the asset's cash-generating unit. For example:

[a] If the enterprise sells the discontinuing operation substantially in its entirety, none of the assets of the discontinuing operation generate cash inflows independently from other assets within the discontinuing operation. Therefore, recoverable amount is determined for the discontinuing operation as a whole and an impairment loss, if any, is allocated among the assets of the discontinuing operation in accordance with this Statement;

[b] If the enterprise disposes of the discontinuing operation in other ways such as piecemeal sales, the recoverable amount is determined for individual assets, unless the assets are sold in groups; and

[c] If the enterprise abandons the discontinuing operation, the recoverable amount is determined for individual assets as set out in this Statement.

After announcement of a plan, negotiations with potential purchasers of the discontinuing operation or actual binding sale agreements may indicate that the assets of the discontinuing operation may be further impaired or that impairment losses recognised for these assets in prior periods may have decreased.

CONCEPT 18 : DISCLOSURE

For each class of assets, the financial statements should disclose:

a. The amount of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;
b. The amount of reversals of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed;
c. The amount of impairment losses recognised directly against revaluation surplus during the period; and
d. The amount of reversals of impairment losses recognised directly in revaluation surplus during the period.

This information may be included in a reconciliation of the carrying amount of fixed assets, at the beginning and end of the period, as required under AS 10.

An enterprise that applies AS 17, Segment Reporting, should disclose the following for each reportable segment based on an enterprise's primary format (as defined in AS 17):

a. The amount of impairment losses recognised in the statement of profit and loss and directly against revaluation surplus during the period; and
b. The amount of reversals of impairment losses recognised in the statement of profit and loss and directly in revaluation surplus during the period.

If an impairment loss for an individual asset or a cash-generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose:

a. The events and circumstances that led to the recognition or reversal of the impairment loss;
b. The amount of the impairment loss recognised or reversed;
c. For an individual asset:
   [i] The nature of the asset; and
   [ii] The reportable segment to which the asset belongs, based on the enterprise's primary format (as defined in AS 17, Segment Reporting);

d. For a cash-generating unit:
   [i] A description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in AS 17 or other);
   [ii] The amount of the impairment loss recognised or reversed by class of assets and by reportable segment based on the enterprise's primary format (as defined in AS 17); and
   [iii] If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), the enterprise should describe the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified;

e. Whether the recoverable amount of the asset (cash-generating unit) is its net selling price or its value in use;
f. If recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and
g. If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following:

a. The main classes of assets affected by impairment losses (reversals of impairment losses);
b. The main events and circumstances that led to the recognition (reversal) of these impairment losses.

An enterprise is encouraged to disclose key assumptions used to determine the recoverable amount of assets (cash-generating units) during the period.