

AS 10 Property, Plant & Equipment

Definition of PPE

- A. Used in production (or) supply of goods (or) services,
- B. for rental to others,
- C. for administrative purposes,
- D. Expected to be used for more than one period
- E. Not held for sale in ordinary course of business.

AS 10 N.A
to

- 1. Biological Assets
(eg : Living animals & plants)
except **bearer plants**.
- 2. Wasteful assets
(Natural resources like iron
ores)

What are Bearer plants? (Eg : Mango trees)

- It is used in production (or) supply of agricultural produce.
- It is expected to bear produce for more than 12 months.
- Has a remote likelihood of being sold as agricultural produce except for incidental scrap sale.

Cost of an Item of PPE

Includes

Excludes

Purchase Price

It includes price paid to vendor for purchase of PPE (Including Non-refundable duties and Taxes and excludes trade discounts and rebates)

Any directly attributable costs

(Cost necessary to bring the Asset to the present condition and location, necessary for it to operate the way in which management intended it to operate)

Decommissioning, Restoration and similar liabilities

(i.e. estimated cost to dismantle the asset)

Includes

- 1. Cost of employee benefits (i.e. direct labour costs)
- 2. Cost of site preparation
- 3. Initial delivery and handling costs, installation & assembly costs.
- 4. professional fees
- 6. cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing that asset to that location & condition

Excludes

- 1. Cost incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.
- 2. Initial operating losses
- 3. Cost of relocating or reorganising part or all of the operations of an enterprise

- Cost of opening a new facility or business. (inauguration costs)
- Cost of introducing a new product or service (including costs of advertising and promotional activities)
- Cost of conducting business in a new location or with a new class of customer (including staff training costs)
- Administrative and other general overhead

Measurement of cost of an Item of PPE in various cases

A. If payment is deferred beyond normal credit terms

- The excess of payment made over the cash price equivalent is recognised as interest expense over the period of credit unless such interest is allowed to be capitalised as per AS 16.

B. PPE acquired in exchange for a Non-Monetary asset (or) or a combination of monetary and Non-monetary assets

Measure PPE at **Fair value** (even if entity cannot immediately de-recognize) \pm cash Unless

A. Exchange lacks commercial substance (future cash flows of the entity are not expected to change)

B. fair value of the asset given up (or) received is not reliably measurable

(In cases A & B, PPE = Carrying amount of Asset given up)

C. PPE Purchased for a consolidated price / Composite consideration

(Lump sum payment for multiple assets, eg: Slump sale)

"The consideration should be allocated among individual assets in the ratio of FV of individual assets"

D. Cost for finance Lease and Govt Grant transactions are dealt in accordance with IND AS 116 & IND AS 20

E. Cost of Self Constructed Assets

- An Entity must record cost of self constructed assets at **COST**, abnormal items of wastage should not be included in this cost.
- Interest can be capitalized subject to AS 16.

Recognition of an item of PPE

Initial Recognition

The initial recognition of an item of PPE must be done using **Cost model** only.
[Cost – Any Accumulated depreciation – Any Accumulated impairment losses]

Subsequent Recognition (Measurement after recognition)

The entity should choose either

- Cost Model (or)
- Revaluation Model,

as it's accounting policy and should apply that policy to an **entire class** of PPE.

"A class of PPE is a grouping of assets of **similar nature & use** in operations of an enterprise" (eg: Land, P&M, F&F, office equipment etc)

Revaluation Model

-> an asset whose fair value can be reliably measured **should** be carried at revalued amount. [FV on the date of revaluation – any subsequent accumulated depreciation – any subsequent accumulated impairment losses]

Frequency of Revaluation

Items of PPE experience significant & volatile changes in Fair Value –
“Carry Revaluation every year”

Items of PPE experience insignificant changes in Fair Value –
“carry Revaluation once in 3-5 years”

When can balance in Revaluation reserve be transferred to revenue reserve?

When the Item of PPE is;

- Retired
- Disposed

Some of the surplus may be transferred when the asset is used by the enterprise → Amount transferable would be ;
[Depreciation based on revalued amount – depreciation based on original cost]

Retirement of an Asset

“Items of PPE retired from active use and held for disposal should be stated at the **lower** of Carrying Amount (or) NRV”

Compensation from 3rd Parties for items of PPE that were impaired, lost or given up
“It is Included in determining profit or loss when it becomes determinable”

Accounting treatment on Revaluation

Revaluation Results in

INCREASE

Credit to revaluation surplus under owner's interest

Exception

when the PPE is subsequently **increased** after it was initially decreased, recognise the increase in statement of Profit and loss account to the extent of initial decrease.

DECREASE

Charged to Statement of profit and loss account

Exception

when the PPE is subsequently **decreased** after it was initially increased, recognise the decrease in Revaluation reserve to the extent of initial increase and debit the balance in statement of profit & loss account.

De - Recognition of an asset (The carrying amount of an item of PPE should be derecognised) – i.e. removing from the books

On disposal of asset by means of;

- Sale
- Entering into a finance lease (or)
- Donation

When no Future economic benefits are expected from its use (or) disposal

Methods of Depreciation

Straight Line Method

Results in a **constant** charge over the useful life of the asset **if the residual value does not change**

Diminishing Balance method

Results in a decreasing charge over the useful life of the asset

Units of Production method

Results in a charge based on the **expected use or output**

The enterprise has to select the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset

The method selected is **applied consistently unless**

- A. there is a change in statute to better reflect the usage of asset
- B. there is a change in expected Pattern of benefits

Component Method of Depreciation

New addition in AS 10

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item should be depreciated separately. The enterprise allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates each part separately

In simple words, if there is a car worth 10 lakhs with an useful life of 15 years, every part of the car may not be actually having the same useful life of 15 years, for instance tyres might have an useful life of 5 years, in this case the value of typres lets say Rs 1 lakh will be depreciated for 5 years and similarly each component will be depreciated seperately

Depreciation method has to be reviewed on an annual basis at the end of each financial year and if there is a change account as per AS 5