

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) ± 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)

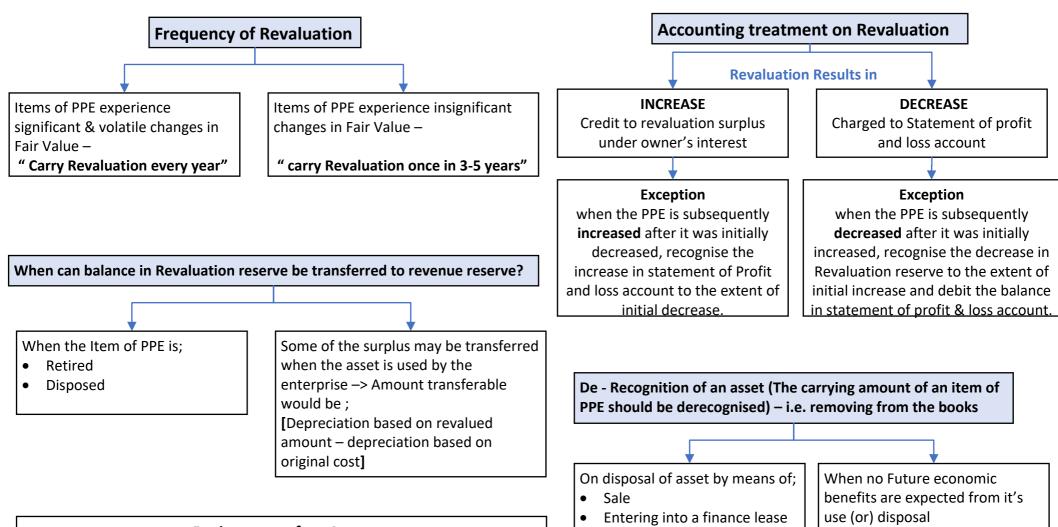
The entity should choose either

- 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]



(or)

Donation

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 of given up "It is Included in determining profit or loss when it becomes determinable"

benefits are expected from it's 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