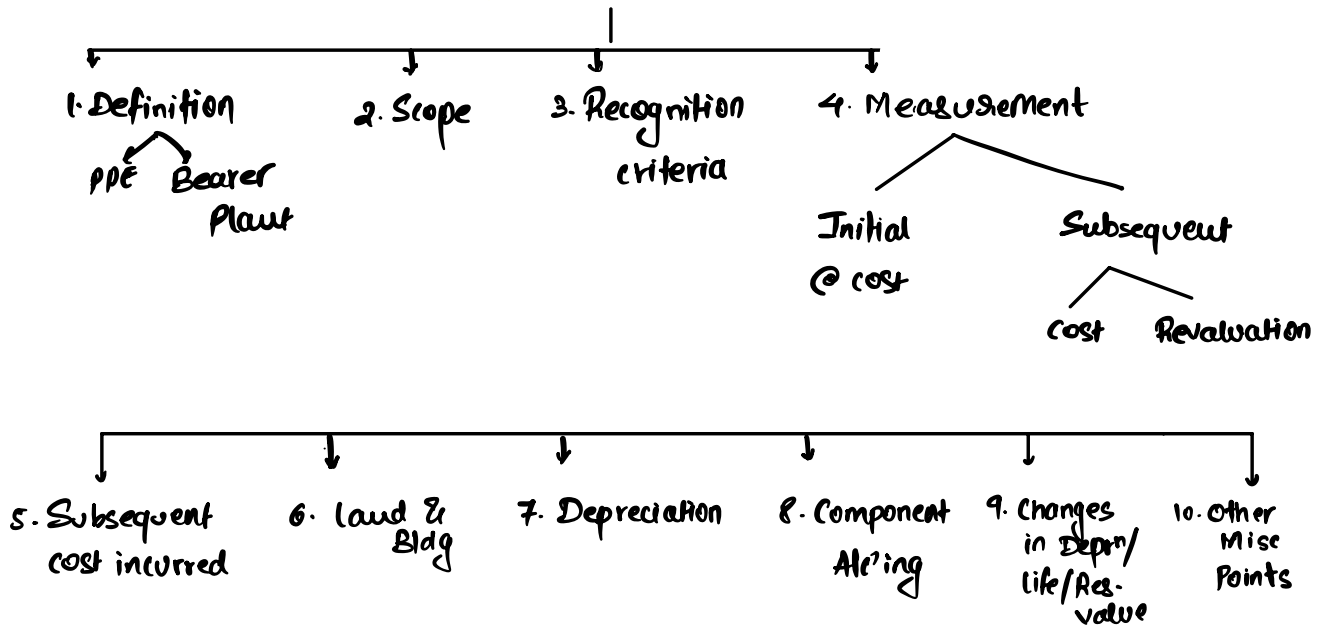
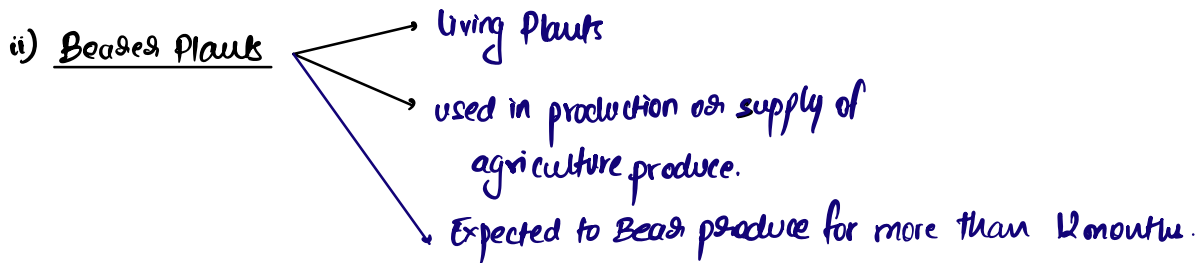
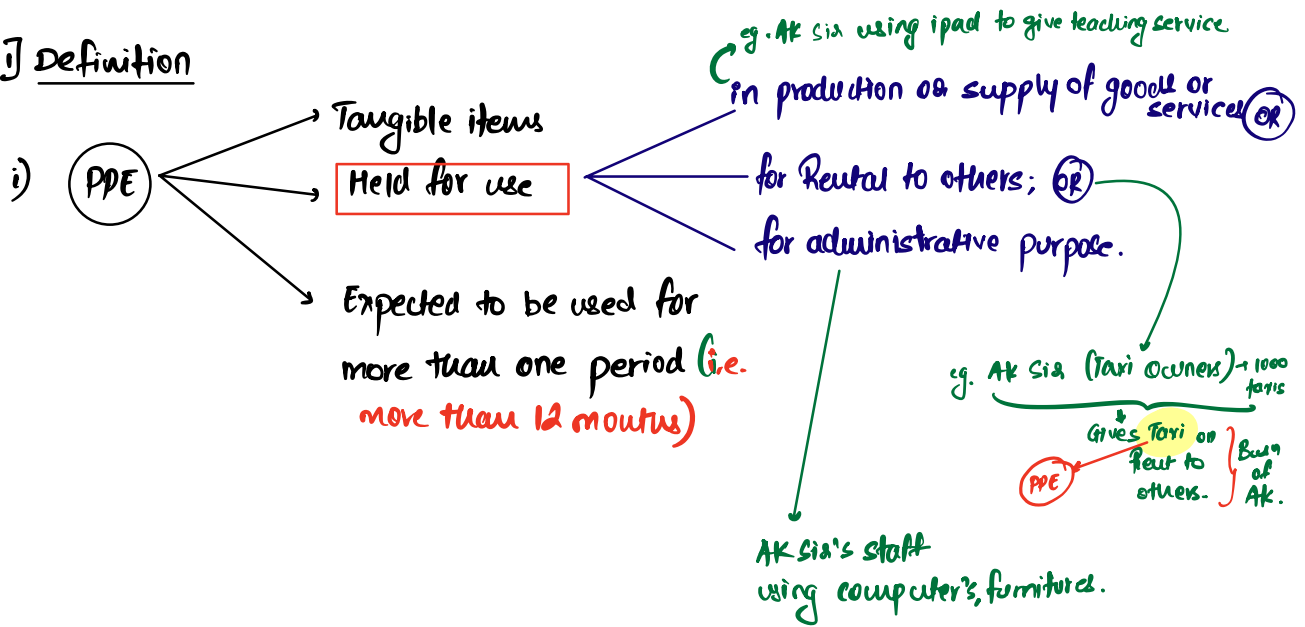


## AS - 10 PPE

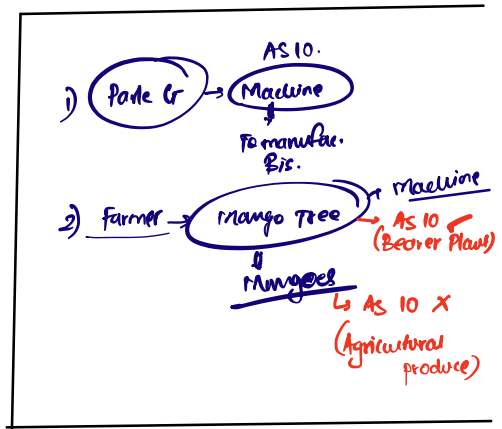
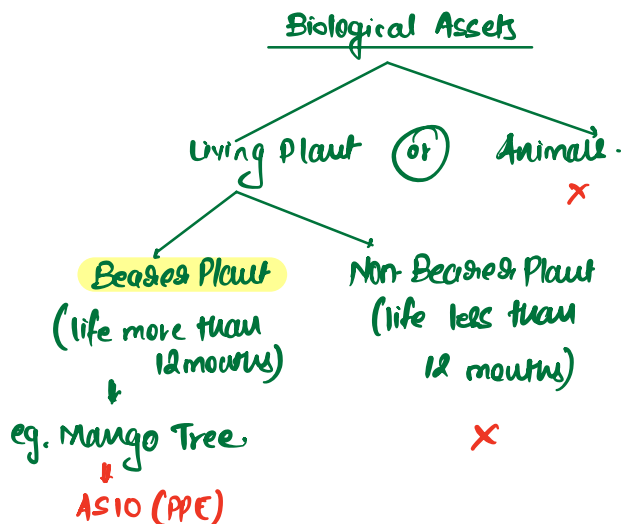


# AS 10- Property, Plant & Equipment (PPE)

## i) Definition



eg:



## ② Scope (Not covered in AS 10)

① Assets taken on lease (AS-19, leases)

② Intangible Assets (AS 26)

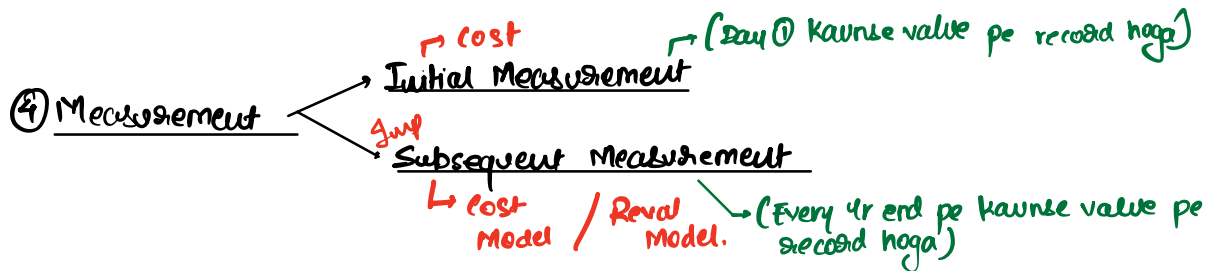
→ Record karunge in Books of A/c's (Asset Side)

## ③ Recognition criteria

→ Benefit for more than 12m

i) Future Economic Benefits AND

ii) Costs can be measured reliably



## ① Initial Measurement

i) Asset is acquired by way of purchase / Asset is self constructed

↓  
Refer Note ①

ii) Asset acquired by way of Exchange

iii) Asset acquired by way of Govt Grant.

↓  
will be discussed in AS 12

Note ① : Cost of Asset if asset is purchased / self constructed

Purchase price (less Trade discounts)

(+) Non-Refundable Taxes (If tax is refundable, do not consider in cost of asset) → eg ①

(+) All directly attributable Expenses <sup>→ Direct costs necessary to construct / bring the asset in ready to use condition</sup>

• Delivery costs, installation, Employee cost, (only if employee were directly involved in construction)

eg 2 • Cost of testing (after reducing testing income if any)

• Professional fees. (eg: consultancy taken for constructing / acquiring asset)

pending • Borrowing costs (if it is qualifying Asset) → As per AS 16

(+) Cost of Decommissioning/dismantling/site restoration (at present value)

eg 3

Cost of Asset

eg ① Iphone cost 50000

(+) 18% GST

(9000)  
59000

Case ① → NO Tax Benefit / Refund → 59,000

Case ② → Tax Benefit / Refund  
(Input Tax credit available) → 50,000

eg 2: Testing Exp. (Metro → construction → Before launching for public, testing is important)  
↓  
Add to cost of Asset

Testing Exp :- 90,000 (Given)

(-) Testing Income (10,000) (Given)

Net Testing Exp 80,000

Add to cost of Asset.

Hemant  
BF

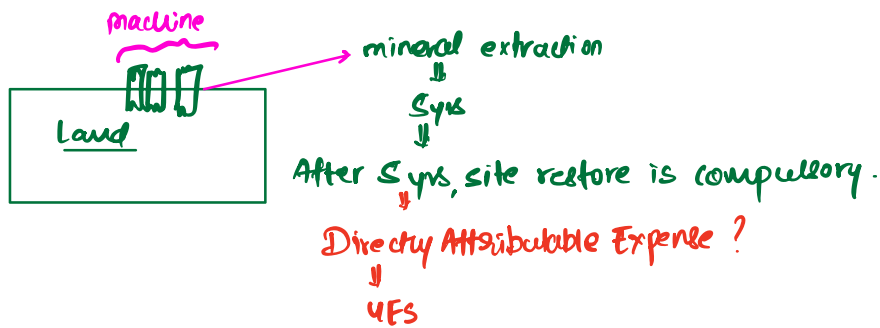
Namra  
GF

₹ 1 per passenger  
to enjoy test run

× 10,000 passengers = ₹ 10,000 income generated during testing.



### Eg 3: Decommissioning / Dismantling / Site Restoration



Asset (machine) purchased for ₹ 10 lakhs. Decommi<sup>n</sup>/Dismantling/Site restoration cost is to be incurred compulsorily after 5 yrs = ₹ 5,00,000.  
Discounting factor @ 10%.

Day 1 Total cost of Asset

$$10,00,000 + 310460 \\ = 13,10,460$$

O-E.

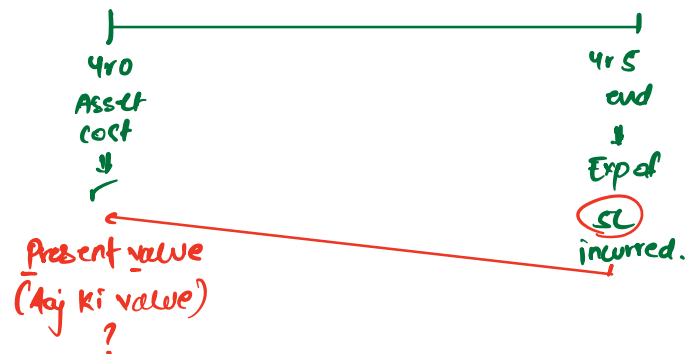
PPE Atc Dr 13,10,460  
To c/B 10,00,000  
To Prov for Decommg 310460

PV =

$$310460 \text{ approx}$$

$$\frac{5,00,000}{(1.10)^{5 \text{ yrs}}}$$

(Calculator 500000  
Divide by 1.10 → Rate 10%.  
Press = 5 times)  
→ 5 yrs.



### Eg 4 Decommg

Asset (machine) purchased for ₹ 15 lakhs. Decommi<sup>n</sup>/Dismantling/Site restoration cost is to be incurred compulsorily after 3 yrs = ₹ 7,00,000  
Discounting factor @ 5%.

| <u>Total Cost of Asset</u> |           |                                             |
|----------------------------|-----------|---------------------------------------------|
| Purchase Price             | 15,00,000 |                                             |
| (+) Decommg @ p.v          | 604686    | $\left( \frac{700000}{1.05^{34.5}} \right)$ |
| Total cost                 | 21,04,686 |                                             |

|                          |           |       |
|--------------------------|-----------|-------|
|                          |           | AS 10 |
| PPE Atc Dr.              | 21,04,686 |       |
| To CrB                   | 15,00,000 |       |
| To Provision for Decommg | 604686    |       |
|                          | (Liab)    |       |

Ex 19

|                          |             |
|--------------------------|-------------|
| Asset → Dr. Balance.     | Dr - Debit  |
| Asset ↑ Dr.              | Cr - Credit |
| Asset ↓ Cr.              |             |
| <hr/>                    |             |
| Liability → Cr. Balance. |             |
| Liab ↑ Cr.               |             |
| Liab ↓ Dr.               |             |

AS 29.

### \* Exclusions from cost of PPE

- Inauguration Exp, Advertising & Promotional costs, Training cost, Administrative & general OH's, Initial operating losses, Cost of relocating entity's operations etc.
- eg 5 - Cash discount (if any) → Don't reduce from cost of PPE → Transfer it to P/L.
- eg 6 - Miscellaneous income not related to construction of asset → Trf to P/L.
- eg 7 - Interest Exp (Trf to P/L) → Except Borrowing cost of AS 16.

Ex 5: PPE Purchased for ₹ 10k. Upfront payment made ∴ Cash discount rec'd ₹ 500.

|      |                     |        |                 |
|------|---------------------|--------|-----------------|
| J-E. | PPE Atc Dr.         | 10,000 | <del>1000</del> |
|      | To CrB              | 9500   | (10000 - 500)   |
|      | To Disc Rec'd (P/L) | 500    |                 |

|        |                    |
|--------|--------------------|
| Cash   | Trade disc → ₹ 500 |
| PPE    | 9500               |
| To CrB | 9500               |

Eg 6: AK Ltd wanted to construct Land & Bldg. Till the time construction started,

AK Ltd used Land as car parking site to generate misc. income.

↓  
Income → other Income (PIL)

Do NOT adjust from cost of Asset.

→ This is diff  
from Testing  
Income.

Eg 7: AK Ltd → laptop purchase → cost ₹ 10,00,000 } Interest = 1L }  
Payment after 1yr → ₹ 11,00,000 } PIL

Asset cost (Day 1) = 10,00,000 , Interest of 1,00,000 → Trf to PIL

---

ii) Initial measurement of Asset acquired by way of exchange

① If Transaction has  
commercial substance

② If transaction has  
No commercial substance.

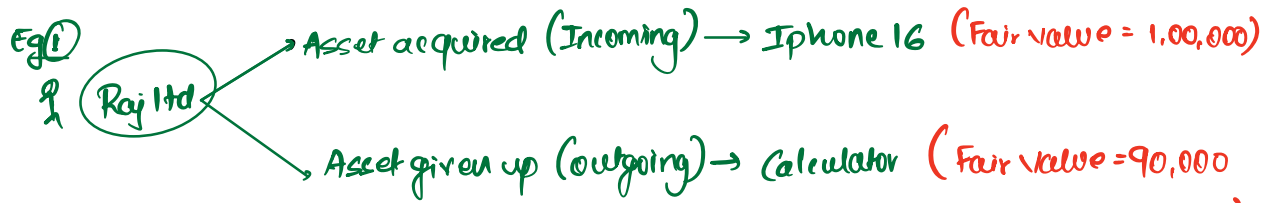
① Transaction has commercial substance

TO record incoming asset

↓  
1<sup>st</sup> preference: FV of Asset given up

2<sup>nd</sup> preference: FV of Asset acquired

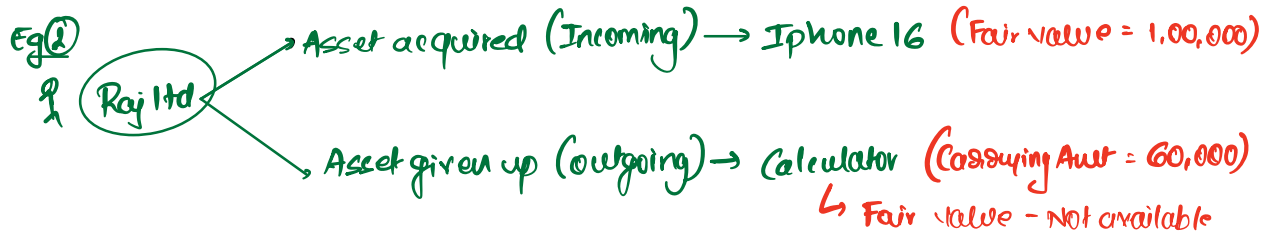
3<sup>rd</sup> preference: C.A of asset given up



J.E. iPhone 16 A/c Dr 90,000 (FV of asset given up) Raj ki B/s mein yeh asset 60,000 pe dikh raho hai

To Calculator A/c 60,000 (always @ carrying Amt)  
To Profit on exchange (PIL) 30,000

koii bhi chiz jab bahar jayegi, toh always @ carrying Amt Jayegi

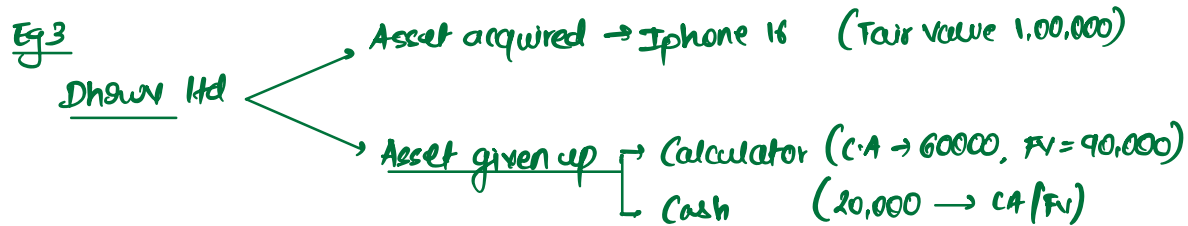


### Journal entry

iPhone 16 A/c Dr 1,00,000

To Calculator A/c 60,000 (always @ carrying Amt)  
To Profit on Exch. (PIL) 40,000

1<sup>st</sup> pref → not available  
∴ recorded at 2<sup>nd</sup> pref → i.e. fair value of asset acquired.



### Journal entry

Iphone 16 Atc DS ~~90,000~~ 1,10,000

TO Calculator Atc 60,000

TO Cash/Bank Atc 20,000

TO Profit on Exch. 30,000

} always @ C.A.

1<sup>st</sup> pref: FV of asset given up

Calculator CIB

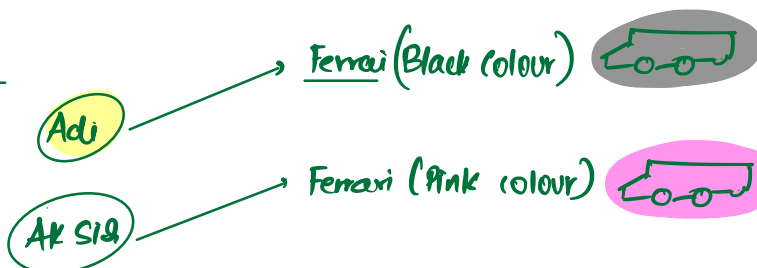
Total FV of  $90,000 + 20,000 = 1,10,000$   
asset given up

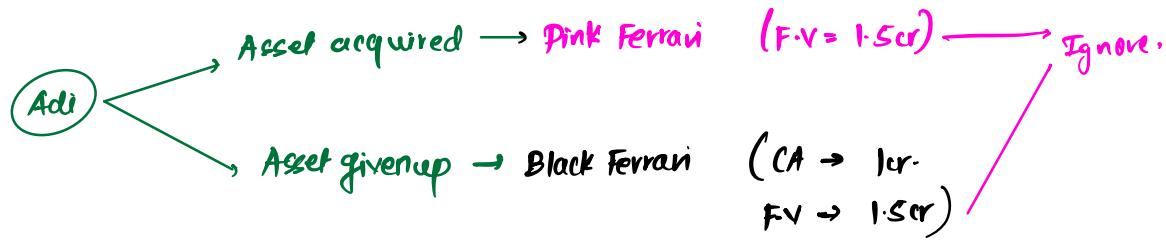
### (B) Transaction has NO commercial Substance

↳ This happens when assets of same nature same value, same type are exchanged.

To record incoming asset  
↓  
Only 1 Preference: C.A of asset given up.

Eg





J.E. Pink Ferrari A/c Dr 1cr  
 To Black Ferrari A/c 1cr (always @ C.A) } No Profit/Loss on exchange.

Only 1 Prof: C.A of asset given up.

There is only 1 Prof, as in this case, there is NO Profit motive.

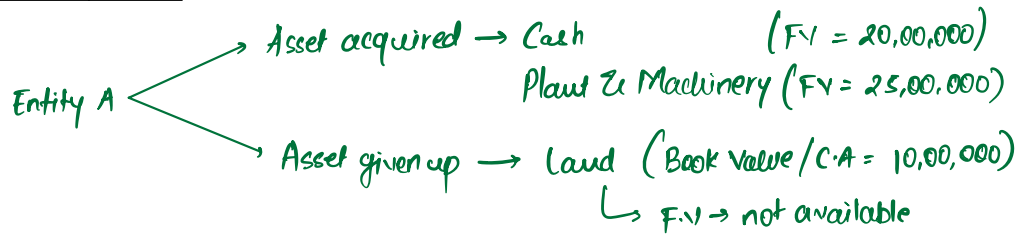
Note: If nothing is mentioned in ques / No hint available regarding commercial substance, then always assume that transaction HAS commercial substance.

### Illus 3

| Particulars                                    | '₹'                |
|------------------------------------------------|--------------------|
| Purchase Price                                 | 1,58,00,000        |
| (+) Site Preparation                           | 1,40,000           |
| (+) Technician fees (45000 × 3 months)<br>p.m. | 1,35,000           |
| (+) Transportation cost                        | 50,000             |
| (+) Professional fee to architect              | 30,000             |
| Total cost of machinery                        | <u>1,61,55,000</u> |

Illus 4 & 5 → Refer Q.B.

### Illus 6 (LDR)



As per AS 10-PPE, when asset is acquired by way of exchange in that case, the incoming asset will be recorded at FV of asset given up But in this case it was not available. Hence we will record at FV of asset acquired.

#### Journal entry

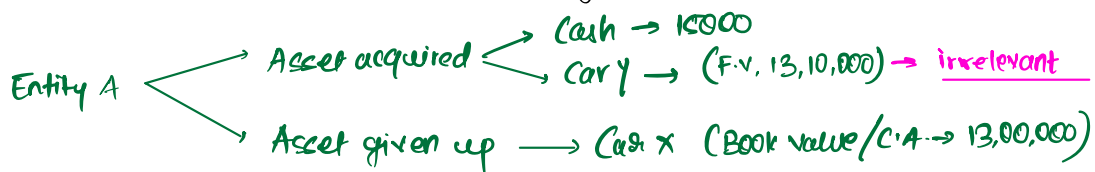
Cash A/c Dr 20,00,000  
Plant & Machinery A/c Dr 25,00,000  
To Land A/c 10,00,000 (always at carrying Amt)  
To Profit on Exch. (PIL) 35,00,000

1<sup>st</sup> pref: FV of Asset given up (Not available)

2<sup>nd</sup> pref: FV of Asset acquired

### Illus 7

As per AS 10-PPE, if the transaction lacks commercial substance, then the incoming will be recorded at C.A. of asset given up. There will be no profit/loss on exchange.



#### Journal entry

Cash/Bank A/c Dr 15000  
Car Y A/c Dr (BIF) 12,85,000  
To Car X 13,00,000

(always @ carrying Amt)

only 1 pref → C.A. of asset given up.

Illus 22 & 23 → Refer Q.B.

### Illus 28 (LDR)

| Particulars                                                 | ₹                     | (₹ in lakhs) |
|-------------------------------------------------------------|-----------------------|--------------|
| Purchase Price (5000 acre (x) ₹ 60,000 per acre)            | 3000 lakhs            |              |
| (+) <del>Demolishing</del> (Net Exp) <i>WN</i>              | 50 lakhs              |              |
| (+) Stamp Duty & Registration charges<br>(7% of 3000 lakhs) | 210 lakhs             |              |
| (+) legal & consultancy fees                                | 8 lakhs               |              |
| (+) Title Insurance                                         | 1.25 lakhs            |              |
| Total cost of land                                          | <u>3269.25 lakhs.</u> |              |

*Imp*

### WN Demolishing Net Exp

|                                        |                                     |
|----------------------------------------|-------------------------------------|
| Exp incurred                           | 1,10,00,000                         |
| (-) Income rec'd from<br>Sale of scrap | <del>60,00,000</del><br>(60,00,000) |
| Net Demolishing Exp                    | <u>50,00,000</u>                    |

include 5% GST

$$\left[ \begin{array}{l} 63,00,000 \quad 105\% \\ 60,00,000 \quad 100\% \text{ (excl. GST)} \end{array} \right] \times$$

↓  
GST is not  
our income.  
we will have to  
pay to Govt.  
∴ Exclude.



Ques 4  $\rightarrow$  H.W.

Quel S (LOR)

### Calculation of Cost of Machinery

| Particulars                                                                                                   | '₹'                |
|---------------------------------------------------------------------------------------------------------------|--------------------|
| Purchase Price (excl. GST as Input Tax credit is available)                                                   | 1,41,37,500        |
| $1,58,34,000 \longrightarrow 112\% \text{ (incl. GST 12\%)}$<br>$1,41,37,500 \quad 100\% \text{ (excl. GST)}$ |                    |
| (+) Site Preparation                                                                                          | 1,41,870           |
| (+) Technician's (Supervisor Salary) $(45000 \times 3 \text{ months p.m.})$                                   | 1,35,000           |
| (+) Transportation costs                                                                                      | 55,770             |
| (+) Professional fee of architect                                                                             | 30,000             |
| <b>Total cost of Machinery</b>                                                                                | <b>1,45,00,140</b> |

Note: Inter Co. Profit of 10% on Technician's fee is not to be considered.

Que 7 (LDR)

### Calculation of cost of Plant

| Particulars                        | Inclusive of GST               | GST Input Available | '₹'    |
|------------------------------------|--------------------------------|---------------------|--------|
| Purchase Price                     | (680000 (-) 40000)             |                     | 640000 |
| (+) Site Preparation cost          |                                |                     | 21200  |
| (+) Labour charges                 | (56000 → 500 hrs<br>? 200 hrs) |                     | 22400  |
| (+) Spare parts consumed           |                                |                     | 5000   |
| (+) Supervisor's Salary            | (26000 × 25%)                  |                     | 6500   |
| (+) Technical cost                 | (34000 × 1/10)                 |                     | 3400   |
| (+) Testing Exp                    |                                |                     | 18000  |
| (+) Professional fees of Architect |                                |                     | 11,000 |

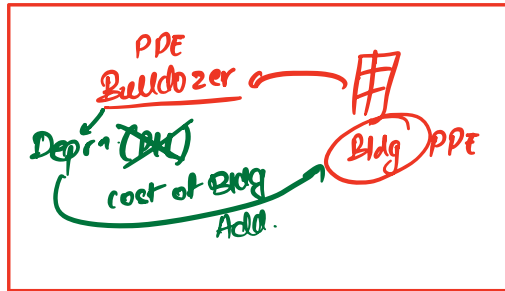
(+) Depr<sup>n</sup> on Assets used for installation

12,000

Total cost of Plant

7,39,500

Eg:

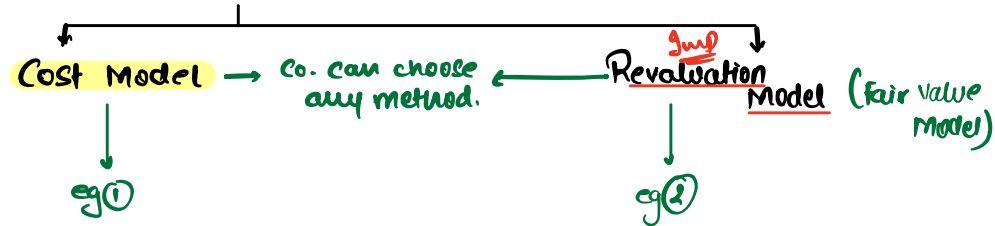


Not: ① If Bulldozer is being used to construct Bldg, then Depr<sup>n</sup> of Bulldozer will be Added to cost of Bldg.  
(PPE) 1 (PPE)

- (further Exp)
- ② Abnormal loss of ₹8900 which was incurred after asset was ready  
(i.e. after 15.01.2021) → will be transferred to P/L A/c.

#### 4. Measurement

##### B. Subsequent Measurement



##### Eg 1 Cost Model

Day ① PPE 10 lakhs (10 yrs) (Depreciation — SLM)  
 less: 4r1 Deprn (1 lakh)  
 4r1 end C.A. 9 lakhs  
 less: 4r2 Deprn (1 lakh)  
 4r2 end C.A. 8 lakhs

##### Eg 2: Revaluation Model

Day ① PPE 10 lakhs (life 10 yrs)  
 less: 1st Deprn (1 lakh)  
 4r1 end C.A. 9 lakhs

4r1 end Fairvalue 12 lakhs

Revaluation Gain 3 lakhs

Journal Entry PPE Atc Dr 3 lakhs

To Cr Revaluation Gain 3 lakhs

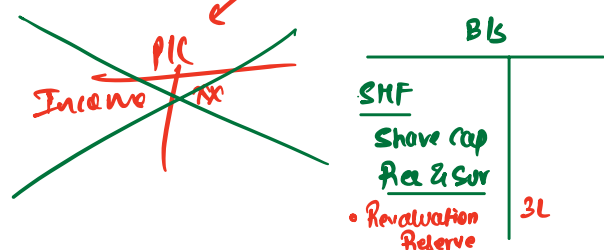
Revised value of PPE after Revaluation @ the end of 4r1

12 lakhs (Remaining life = 9 yrs)

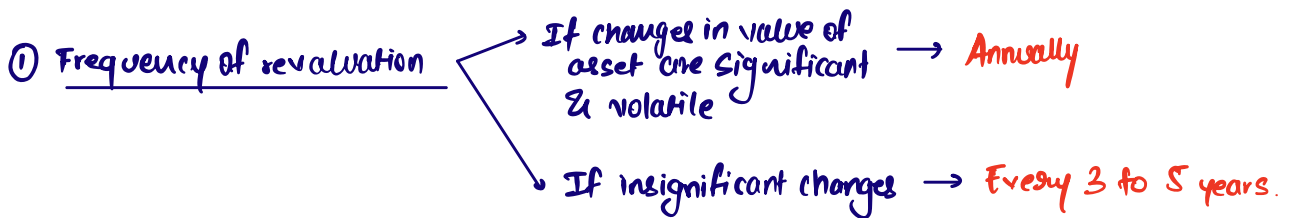
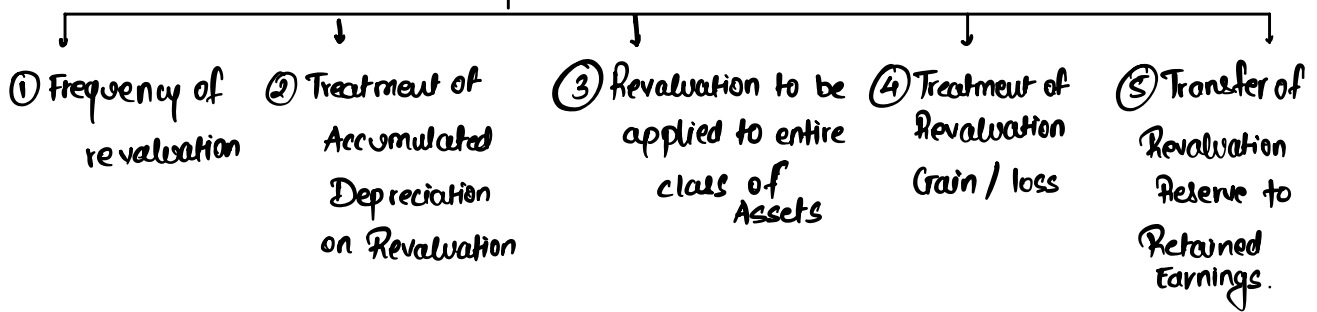
less: 4r2 Deprn (1.33 lakhs)  
 (12L / 9 yrs)

1.33 lakhs

C.A @ the end of 4r2 10.67 lakhs



## Revaluation Model



## ② Treatment of Accumulated Depreciation on date of Revaluation

Method ①  
Eliminate Accumulated Depn against Gross Block of Asset  
**(Net Method)**

Method 2  
Do Not eliminate Acc. Depn  
**(Gross method)**  
3 steps

① Find % Gain =  $\frac{\text{Rev. Gain}}{\text{Net Block}} \times 100$

② Apply % Gain  $\begin{cases} \text{G.B. (x) \% Gain} \\ \text{Acc. Dep (x) \% Gain.} \end{cases}$

③ Pass J-E.

Eg: (Net Method)

Asset (PPE) Day ① Cost

less: 2 yrs Deprn  
 $(100L \times \frac{2yrs}{5yrs})$

100L (life 5yrs)

Gross Block

40L

Accumulated Deprn

Carrying Amt @ the end of yr 2

60 lakhs

Net Block

Fair Value of PPE @

75 lakhs

the end of yr 2

Revaluation Gain 15 lakhs

| B/S                  |          |
|----------------------|----------|
| Assets               |          |
| PPE → G.B. 100L      | 25% ↑    |
| (-) Acc. Deprn (40L) | 25% ↑    |
| Net Block 60L        | 75 → 25% |

Acc. Deprn (₹40 lakhs)

Method I - Eliminate Acc. Deprn against Gross Block.

(Net Method)

① Acc. Deprn A/c Dr. 40  
 To Gross Block A/c 40

② PPE (Gross/Net) 15  
 TO Revaluation Gain (Revaluation Reserve) 15

| B/S                            |     |
|--------------------------------|-----|
| PPE                            |     |
| G.B. <del>100</del>            | 60  |
| (-) Acc. Deprn <del>(40)</del> | Nil |
| NB 60                          | 60  |

Remain Gain 15

Method 2: Do Not eliminate

(Gross Method)

Step ① % Gain =  $\frac{15}{60} \times 100$

= 25% ↑ (Net Block)

Step ②

25%  $\left\{ \begin{array}{l} \text{G.B. } 100 \times 25\% = 25 \\ \text{Acc. Deprn } 40 \times 25\% = 10 \end{array} \right.$

Step ③ Pass J-E.

Gross Block (PPE) A/c Dr. 25

TO Acc. Deprn A/c 10

TO Revaluation Gain. 15

↓  
logic

|                           |      |      |         |
|---------------------------|------|------|---------|
| G.B                       | 100  | 125  | (25% ↑) |
| (-) Acc Depr <sup>n</sup> | (40) | (50) | (25% ↑) |
| Net Book                  | 60   | 75   | (25% ↑) |

Eg → Acc. Depr<sup>n</sup>

|                                    |      |                       |
|------------------------------------|------|-----------------------|
| Gross Block                        | 200  | (life 10yrs)          |
| less: Acc Depr <sup>n</sup> (4yrs) | (80) |                       |
| C.A @ the end of Yr 4              | 120  | (Remaining life 6yrs) |

Fair value @ the end of Yr 4      150

Revaluation Gain      30

Show the treatment of Acc. Depr<sup>n</sup> as per Both (Net & Gross) method.

Method 1: Net method

1] Acc-Depr<sup>n</sup>      80  
    TO G.B (PPE)      80

2] PPE (G.B/N.B) 30  
    TO Rev. Gain      30  
    (Reval Res)

Method 2: Gross Method

① % Gain =  $\frac{30}{120} \times 100 = 25\%$

② 25% ———→ G.B →  $200 \times 25\% = 50$       ↑ G.B  
                          Acc. →  $80 \times 25\% = 20$       ↑ Acc Depr<sup>n</sup>

③ PPE (G.B) 50  
    TO Acc-Depr<sup>n</sup> 20  
    TO Reval<sup>n</sup> Gain      30

### ③ Revaluation to be applied to entire class of assets

Eg: Office furnitures  
 (Totals)  $\left\{ \begin{array}{l} 1 \text{ furniture} \rightarrow \text{cost} \\ 4 \text{ furnitur} \rightarrow \text{Reval model} \end{array} \right\} \times \text{Not allowed.}$

• If an item of PPE is revalued, the entire class to which the asset belongs shall also be revalued.

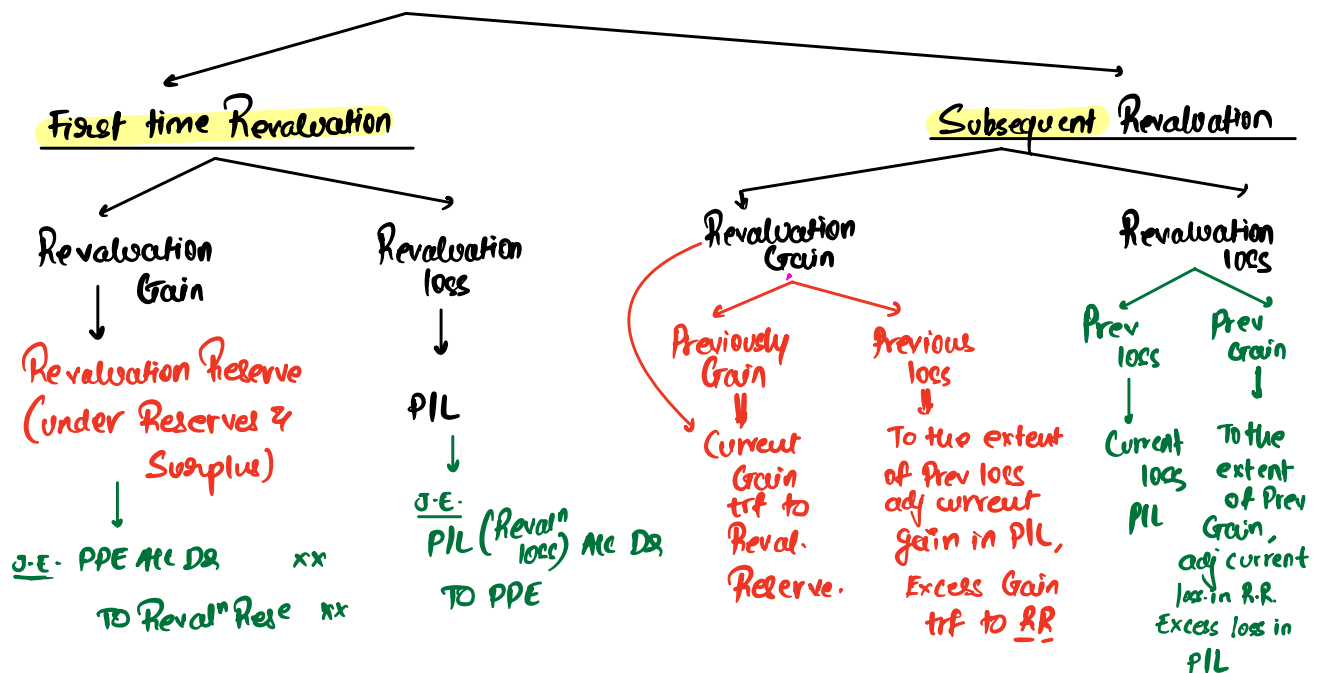
• Class of PPE means  $\rightarrow$  Assets having similar nature, similar use, similar characteristics

Eg: ④ Office Bldg  $\left\{ \begin{array}{l} 1 \text{ Ofc Bldg} \rightarrow \text{cost} \\ 3 \text{ Ofc Bldg} \rightarrow \text{Reval}^m \end{array} \right\} \times \text{All 4 office Bldg} \rightarrow \text{cost} \text{ or } \text{Reval?}$

use  
diag  
 $\therefore$   
Diff  
class

$\left\{ \begin{array}{l} 1 \text{ office Bldg} \rightarrow \text{cost} \\ 1 \text{ factory Bldg} \rightarrow \text{Reval}^m \end{array} \right\} \text{ chalega}$

### 4. Treatment of Revaluation Gain / loss (Unrealised)



Eq ① 1st time  
Reval Grain  
70  
↓  
RR

Subs. Reval  
Reval Grain  
20  
↓  
RR.

② 1st time  
Reval loss  
100  
↓  
PIL

Subs Reval  
Reval Grain  
80  
↓  
Gain (PIL)

③ 1st time  
Reval loss  
100  
↓  
PIL

Subs Reval  
Reval Grain  
130  
↙ ↘  
100 Grain 30 Grain  
PIL RR

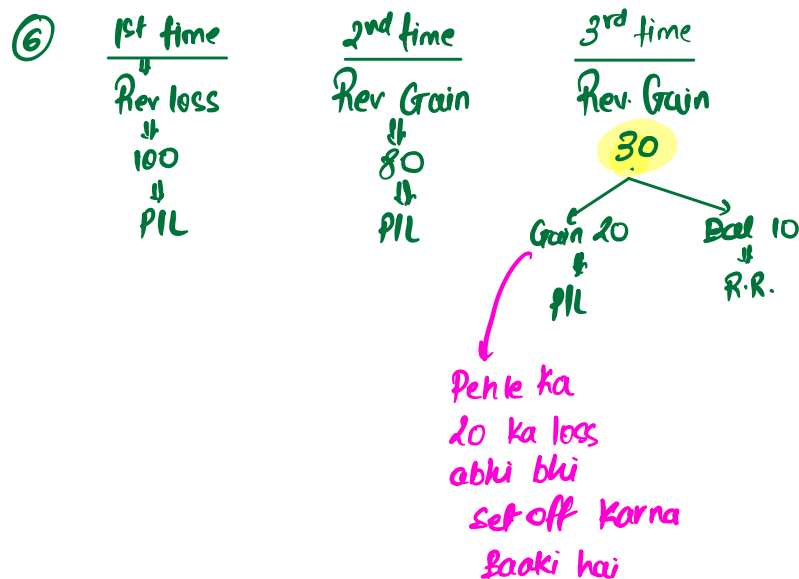
④ 1st time  
Reval Grain  
100  
↓  
R.R.

Subs Reval  
Reval loss  
80  
↓  
Adj in RR.

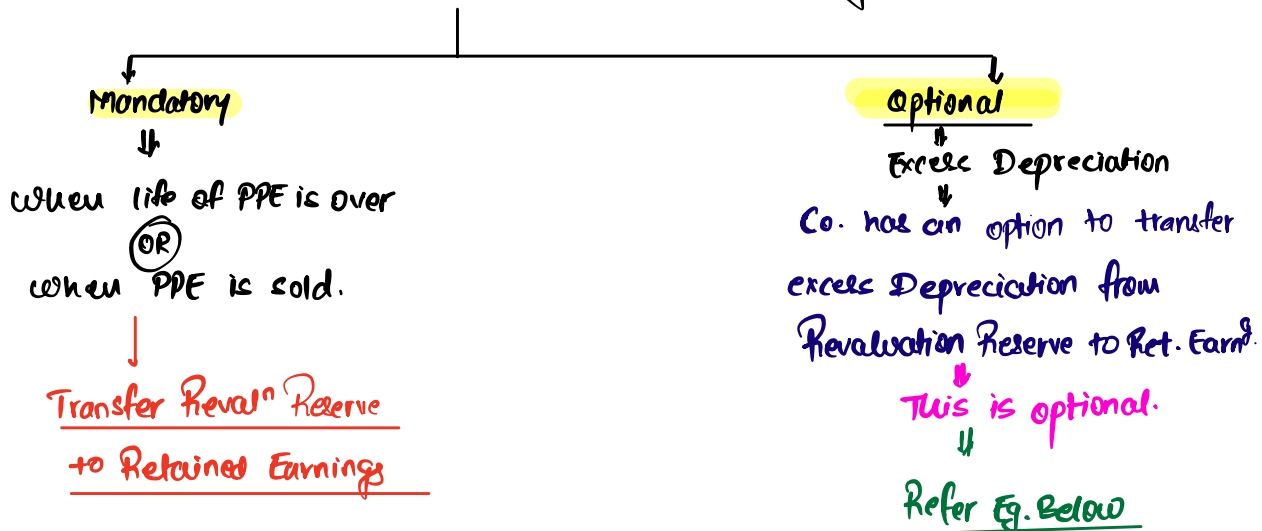
⑤ 1st time  
Reval Grain  
↓  
100  
↓  
RR.

Subs Reval  
Rev loss  
↓  
150  
↙ ↘  
loss 100 Excess 50  
↓ loss  
R.R Adj PIL.





### 5. Transfer of Revaluation Reserve to Retained Earnings



J.E. Reval<sup>n</sup> Reserve Atc Dr    xx  
       TO Retained Earnings    xx

|                   |                        |
|-------------------|------------------------|
| Elis              |                        |
| SHF               |                        |
| Ree 2i Swap       |                        |
| Reval Reserve     | <del>3L</del> → Assume |
| Retained Earnings | 3L                     |

Eg: Excess Deprn

PPE (Cost) 10 lakhs (Life 10yrs)

Less: Yr 1 Deprn (1 lakh)

C.A @ the end of Yr 1 9 lakhs

F.V @ the end of Yr 1 12 lakhs

Reval Gain (Reval Reserve) 3 lakhs → PPE At Cost 3 lakhs  
TO Rev. Rese 3 lakhs

Revised Carrying = 12 lakhs (Remaining life 9yrs)  
of PPE after Revaluation

Less: 2nd yr Deprn = (1.33 lakhs)  
(12 lakhs / 9yrs)

C.A @ the end of Yr 2 10.67 lakhs

Excess Deprn = 0.33L → Reval Rese 0.33 lakhs  
(Deprn (-) Deprn TO Retained Earnings 0.33 lakhs.  
Before After Reval  
1L 1.33L  
This is optional

B/S

|                       |         |
|-----------------------|---------|
| Reval Surplus         |         |
| Reval Reserve 3 lakhs | → 2.67L |
| Retained Earnings     | 0.33L   |

Measurement of PPE is over

### ⑤ Subsequent cost incurred

Repairs & Maintenance



Charge this expense  
to P/L

Major part Replaced

↓  
Capitalise

(we will also discuss  
about this, in  
detail, in component  
A/c'ing (Below))

### ⑥ Land & Bldg

→ These are separable Assets & are separately accounted.

→ Land & Bldg   
 Land → Life infinite → Non-Depreciable   
 Building → Always finite → Depreciable.

### ⑦ Depreciation

① Methods   
 → SLM (Straight Line Method) Eg ①   
 → WDV (Written Down Value Method) Eg ②   
 → Units of Production Method Eg ③

Eg ① SLM

PPE cost 10L, Life 10yrs, Residual value = 1L.   
 Scrap value / Salvage value

It means value of PPE @ the end of useful life.

PPE Day ① 10,00,000   
 Less: Yr 1 Deprn (90,000) →  $\left( \frac{\text{Cost} - \text{Residual Value}}{\text{Useful Life}} \right)$    
  $\left( \frac{10L - 1L}{10yrs} \right)$    
 CA @ the end of Yr 1 9,10,000   
 Less: Yr 2 Deprn (90,000)

Eg ② **INDV**

PPE cost 10L, Rate of = 10%, Residual value = 1L.  
 Deprn Scrap value / Salvage value  
 irrelevant in WDV Method.

Day ① PPE 10,00,000

less: Deprn 10% (1,00,000)

CA @ the end of Yr 1 9,00,000

less: Yr 2 Deprn 10% (90,000)  $(9,00,000 \times 10\%)$

CA @ the end of Yr 2 8,10,000

less: Yr 3 Deprn 10% (81,000)  $(8,10,000 \times 10\%)$

CA @ the end of Yr 3 7,29,000

Eg ③ Units of Production Method

PPE cost 10,00,000 ~~Life~~ Capacity to produce 50,000 units

| Yr           | Units Produced |
|--------------|----------------|
| 1            | 10,000         |
| 2            | 15,000         |
| 3            | 10,000         |
| 4            | 5,000          |
| 5            | 10,000         |
| <hr/>        |                |
| 50,000 units |                |

Soln: PPE cost (Day 1) 10,00,000

less: Yr 1 Deprn (2,00,000)

CA @ the end of Yr 1 8,00,000

less: Yr 2 Deprn (3,00,000)

CA @ the end of Yr 2 5,00,000

cost  
 $\left( 10,00,000 \times \frac{10,000 \text{ units}}{50,000 \text{ units}} \right)$   $\rightarrow$  Yr 1 Prod<sup>n</sup>  
 $\rightarrow$  Total capacity

$\left( 10,00,000 \times \frac{15,000 \text{ units}}{50,000 \text{ units}} \right)$

## ⑧ Depreciation period



Note: If C.A of asset reaches Residual value,  
then there will be No Deprn.

Eg 01/01/25 → Construction started

01/11/25 → Available for use → Deprn starts.

01/01/26 → Co. actually started using it ✗

Imp

8. Component Accounting / Major replacement of components / Major Inspection / Overhaul

→ It is just like a separate component

→ Each Significant part of PPE having different useful lives, should be depreciated Separately.

→ When significant component is replaced, New cost of component is added & old C.A of old component is reduced.

Eg: Private Jet → 100 crores (life 10 yrs)

|              |                   |                  |
|--------------|-------------------|------------------|
|              | Engine<br>(5 yrs) | Body<br>(10 yrs) |
| Cost:        | 20 crores         | 80 crores        |
| Deprn (4 yr) | (4 cr)            | (8 cr)           |
|              | (20 cr / 5 yrs)   | (80 cr / 10 yrs) |

CA @ the end  
of 4 yr

16 cr

72 cr

= Pvt Jet

88 cr

## Year 2 Day 1 Engine requires replacement

New Engine cost = 24 cr (life 8 yrs)

|                          |                         |                                 |
|--------------------------|-------------------------|---------------------------------|
| Art Jet (C.A) Yr 2 Day 1 | 88 cr                   |                                 |
| (+) New Engine cost      | 24 cr                   |                                 |
| (-) Old Engine (@ C.A)   | (16 cr)                 |                                 |
| Revised C.A (Yr 2 Day 1) | 96 cr                   |                                 |
|                          |                         |                                 |
|                          | New Engine (life 8 yrs) | Body (life <del>10</del> 9 yrs) |
| CA                       | 24 cr                   | 72 cr                           |
| Deprn (Yr 2)             | (3 cr) (24 cr / 8 yrs)  | (8 cr)                          |
| CA @ the end of Yr 2     | 21 cr                   | 64 cr                           |

## 9. Changes in Estimate of Depreciation method, useful life, Residual Value.

These are changes in Accounting Estimates (As per AS)

Hence Do Prospective Accounting

Eg 1 PPE cost 10 cr (life 10 yrs) (Deprn SLM)

Deprn Yr 1 (1 cr)

CA @ the end of Yr 1 9 cr (Remaining life 6 yrs) → Revised.

On Day 1 of Yr 2 → Co-revised the estimate the useful life & now only 6 yrs are remaining

less: Deprn Yr 2 (1.5 cr) (9 cr / 6 yrs)

CA @ the end of Yr 2 7.5 cr

## 10. Other Miscellaneous Points

### ① Investment Property

covered in AS 13, But accounting of Investment Property will be done using cost model of AS 10.

### ② PPE acquired together at a consolidated Price

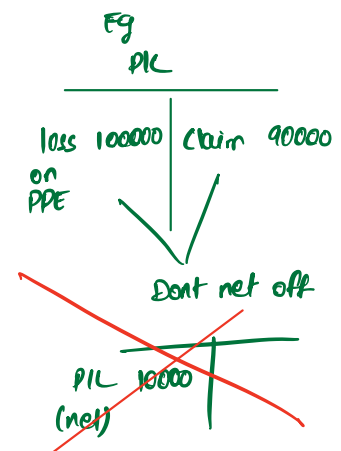
→ Bifurcate the total Payment among all Assets in the ratio of Fair value.

| Eg: |         | F.V      | Allocation of Amt Paid |                                         | B/S        |
|-----|---------|----------|------------------------|-----------------------------------------|------------|
|     | PS 5    | 50000    | 45000                  | $(315000 \times \frac{50000}{350000})$  | PS 5   45K |
|     | Ipad    | 1,00,000 | 90,000                 | $(315000 \times \frac{100000}{350000})$ |            |
|     | Iphone  | 80,000   | 72000                  | $(315000 \times \frac{80000}{350000})$  |            |
|     | MacBook | 1,20,000 | 108000                 | $(315000 \times \frac{120000}{350000})$ |            |
|     |         | 3,50,000 | 315000                 |                                         |            |

Total Paid for all assets = 315000

### ③ Insurance claim received on damage of assets

- Record as income in P/L in the year in which claim is certain to be received. (pakka pakka)
- loss on damage of asset & income of insurance claim will be shown separately, do not net off.



## ① Spare Parts / Tools / Servicing Equipment

If they meet the definition of PPE  
 ↓  
 covered in AS 10

If they don't meet the def<sup>n</sup> of PPE  
 ↓  
 covered in AS 2 - Inventory

## ② De-Recognition of PPE

→ De-recognise the asset when: (i) it is sold (or) (ii) life of PPE is over.

→ If it is sold, then gain or loss on sale of PPE will be transferred to PIL.  
 realised gain/loss

→ On De-Recognition of PPE, If there is any balance in Revaluation Reserve, it will be transferred to Retained Earnings

Eg: PPE cost 10cr (life 10yr)

less: Depn 1yr (1cr)

CA @ the end of 1yr 9cr.

Fair value at the end of 1yr 15cr

Revaluation Gain 6cr

PPE 6cr  
 → Revaluation Reserve 6cr

| B/S           |     |
|---------------|-----|
| <u>Assets</u> |     |
| Reval Reserve | 6cr |

Revised value of PPE after Revaluation 15cr (Remaining life 9yr)

less: 1yr 2 Depn (1.67cr) (15/9yr)

CA @ the end of 1yr 2 13.33cr.

Sold @ end of 1yr 2 11cr

realised loss on sale (13.33cr - 11cr) = 2.33cr  
 (PIL) → Don't adj with RR, this is realised gain/loss  
 ∴ Direct PIL



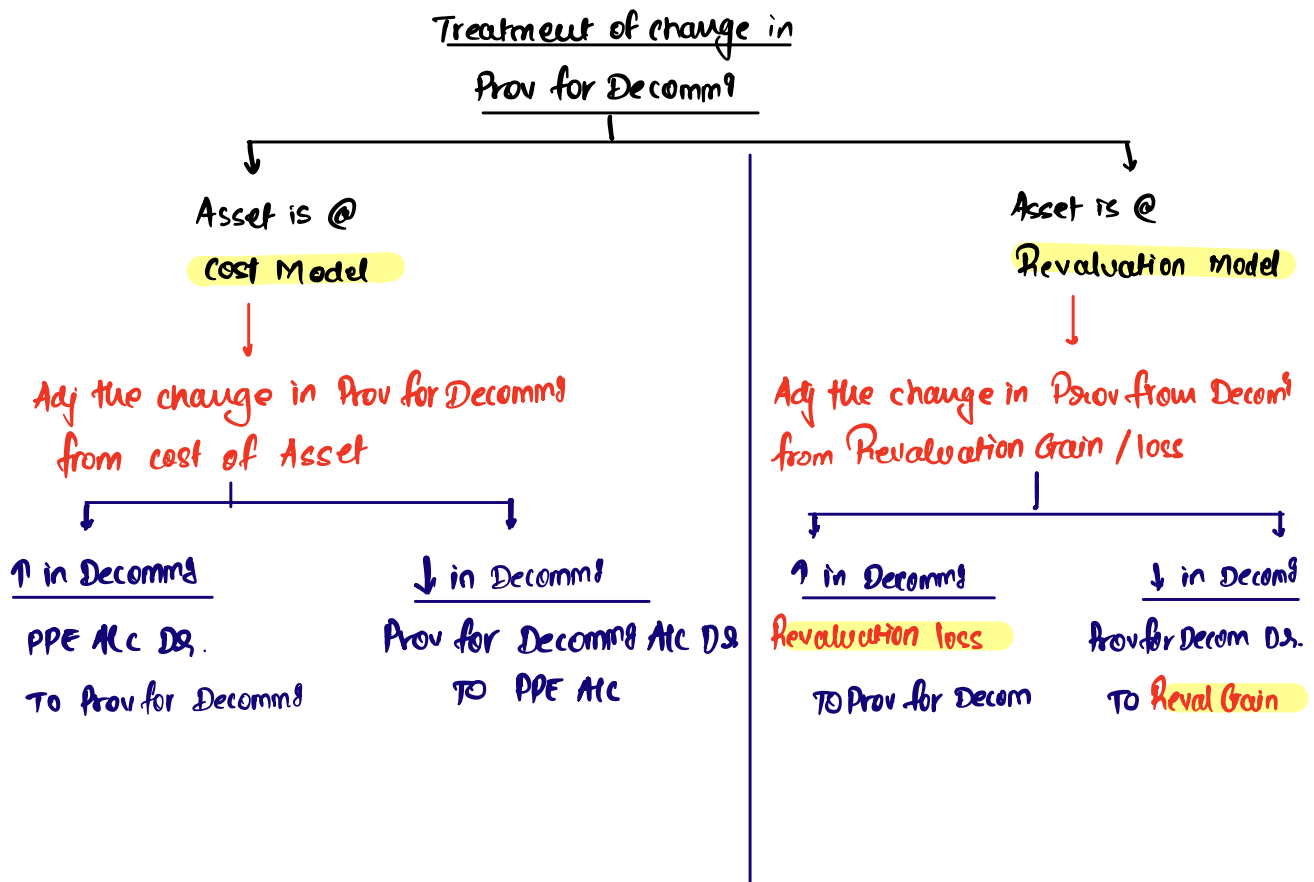
J-E for sale

CIB Alc Dr 11cr  
PL (loss on sale) Dr 2.33cr  
TO PPE Alc 13.33cr

Reval Reserve Cr  
TO Retained Earnings Cr.

(F) Change in Existing, Decommissioning / Dismantling / Site Restoration

→ This change may result from change in timing or amount or discount rate.



### Illus 12

01/01/x1 PPE cost 1,00,000 (life 10yrs, Residual value → NIL)  
less: 4yrs Deprn  $\frac{(40000)}{(100000 \times \frac{4yrs}{10yrs})}$   
CA 31/12/x4 / 01/01/x5 60000 → (life Revised = 4yrs)  
less: 4yrs Deprn  $\frac{(15000)}{(60000/4yrs)}$   
31/12/x5 45000

Life Revised of  
\$ Estimate  
change  
\$ Prospective

### Illus 14

Case (a) Residual value 10,00,000

PPE cost 20x1 10,00,000 (life 20yrs, Res. value = 10L)  
less: Deprn 20x1 **NIL**  $\left( \frac{\text{Cost (-) Salvage value}}{\text{No. of yrs}} \right) \left( \frac{10L - 10L}{20yrs} \right)$

Case (b) Residual value 900000

PPE cost 20x1 10,00,000 (life 20yrs, Res. value = 900000)  
less: Deprn 20x1 **5000**  $\left( \frac{\text{Cost (-) Salvage value}}{\text{No. of yrs}} \right) \left( \frac{10L - 9L}{20yrs} \right)$

### Illus 24

|                                                                 |        |
|-----------------------------------------------------------------|--------|
| PPE Cost (Day 1)                                                | 3000   |
| less: Deprn for 4 years $(3000 \times 10\% \times 4\text{yrs})$ | (1200) |
| C.A @ the end of Yr 4                                           | 1800   |
| Fair Value @ the end of Yr 4                                    | 2700   |
| Revaluation Gain (Surplus) (Revaluation Reserve)                | 900    |

|                                            |                            |
|--------------------------------------------|----------------------------|
| Revised value after Revaluation            | 2700 (Remaining life 6yrs) |
| @ the end of Yr 4                          |                            |
| less: Deprn Yr 5 $(2700 \div 6\text{yrs})$ | (450)                      |
| CA @ the end of Yr 5                       | 2250                       |
| less: Yr 6 Deprn                           | (450)                      |
| CA @ the end of Yr 6                       | 1800                       |

### Illus 25 (LOR)

|                                                                          |             |
|--------------------------------------------------------------------------|-------------|
| Cost of PPE (on Day 1)                                                   | 2,50,00,000 |
| less: 2yrs Deprn $(2,50,00,000 \times \frac{2\text{yrs}}{10\text{yrs}})$ | (50,00,000) |
| C.A @ the Beginning of Year 3                                            | 2,00,00,000 |
| F.V @ the Beginning of Year 3                                            | 3,00,00,000 |
| Revaluation Gain (Surplus) (Revaluation Reserve)                         | 1,00,00,000 |

|                                                                                                |                                   |
|------------------------------------------------------------------------------------------------|-----------------------------------|
| Revised value after Revaluation @ the Beg <sup>n</sup> of Yr 3                                 | 3,00,00,000 (Remaining life 8yrs) |
| less: Deprn for 3yrs (Yr 3, Yr 4, Yr 5) $(3\text{yrs} \times \frac{3\text{yrs}}{8\text{yrs}})$ | (1,12,50,000)                     |
| CA @ the end of Year 5                                                                         | 1,87,50,000                       |

CA @ the end of 4r 5

Selling Price

loss on Sale (Trf to PII)

CASE A

1,87,50,000

1,12,50,000

(75,00,000) loss

CASE B.

1,87,50,000

42,50,000

(1,45,00,000) loss

J-E (Extra Part) C/B Atc DS 1,12,50,000

loss on Sale (PII) 75,00,000

TO PPE (@ C/A) 1,87,50,000

C/B Atc DS 42,50,000

loss on Sale (PII) 1,45,00,000

TO PPE (@ C/A) 1,87,50,000

Transfer of RR to R-E

1,00,00,000

J-E- RR 1 cr  
TO R-E 1 cr

1,00,00,000

RR 1 cr  
TO R-E. 1 cr.

## Illus 26 (LOR)

### Cost of PPE

| Particulars                                        | "₹"       |
|----------------------------------------------------|-----------|
| Purchase Price                                     | 30,00,000 |
| (+) Delivery                                       | 1,00,000  |
| (+) Cost of site Prep.                             | 2,00,000  |
| (+) Consultant's fees                              | 50,000    |
| (+) Dismantling & Site Restoration @ Present value | 30,000    |
| Total cost of Plant (including motors)             | 33,80,000 |

|                                            | Motor            | Total     |
|--------------------------------------------|------------------|-----------|
| <u>Imp</u> value of Motor = Purchase Price | 50,00,000        | 30,00,000 |
|                                            | <u>56,33,333</u> | 33,80,000 |

| Particulars                 | (life 10 yrs)<br>Plant (excl. motor)                                                                                           | (life 6 yrs)<br>Motors.                          |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| Value of components (Car 1) | 28,16,667                                                                                                                      | 56,33,333                                        |
| less: Deprn for 4 years.    | $\left( \begin{array}{l} 33,80,000 \\ (-) 56,33,333 \end{array} \right)$<br>$(11,26,667)$<br>$(28,16,667 \times \frac{4}{10})$ | $(3,75,555)$<br>$(56,33,333 \times \frac{4}{6})$ |

CA @ the end of 4r 4

16,90,000

18,77,778

### Component Replaced (Motors)

(+) New Motor Cost

6,00,000

(-) Old Motor C.A

(1,87,778)

Revised C.A @ the end of 4r 4 (after replacement)

16,90,000

6,00,000

F.V @ the end of 4r 4  $(25,00,000)$   $\leftarrow$  6,00,000 New Motor  
as a whole 19,00,000 Plant

19,00,000

6,00,000

Revaluation Gain (Surplus) (Rev Res)

2,10,000

-

Revised C.A @ the end of yr 4  
after revaluation

Less: 4yrs Deprn

C.A @ the end of yr 8

S.P (Total = 6,00,000) → allocate in Ratio of C.A.

loss on sale (Trf to P/L)

Plant

19,00,000  
(Remaining life = 6yrs)

(12,66,667)  
(1900000 ×  $\frac{4}{6}$ )

6,33,333  
(504425)  
(600000 ×  $\frac{6,33,333}{7,53,333}$ )

(128907) loss

Motor

6,00,000  
(New life = 5yrs)

(480000)  
(600000 ×  $\frac{4}{5}$ )

1,20,000  
(95575)  
(600000 ×  $\frac{1,20,000}{7,53,333}$ )

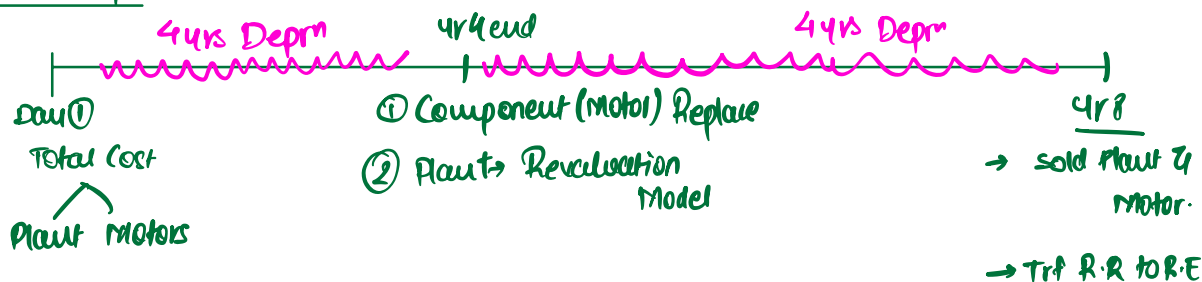
(24425) loss

→ Transfer of Reval Rese to Ret. Earnings = 2,10,000

R.R 210000

TO R.E 210000

Summary



Ques 6

| Past Particulars                        | Plant<br>(10 yrs)                                                                   | Boiler<br>(10 yrs) |
|-----------------------------------------|-------------------------------------------------------------------------------------|--------------------|
| Day ① Cost (Total 2,00,00,000)          | 1,50,00,000                                                                         | 50,00,000          |
| Less: 2 yrs Depr                        | (30,00,000)                                                                         | (10,00,000)        |
|                                         | <hr/>                                                                               | <hr/>              |
| C.A @ the end of 4r 2                   | 1,20,00,000                                                                         | 40,00,000          |
| <u>Component replaced</u>               |                                                                                     |                    |
| (+) Cost of New Boiler (Given)          |                                                                                     | 60,00,000          |
| (-) C.A of old Boiler                   |                                                                                     | (40,00,000)        |
|                                         | <hr/>                                                                               | <hr/>              |
| Revised C.A after component replacement | 1,20,00,000                                                                         | 60,00,000          |
|                                         |  |                    |
|                                         | Total C.A = 1,80,00,000                                                             |                    |

Ques 8 (i) (ii) (iii) → Refer Q.8

|                    |                                                |
|--------------------|------------------------------------------------|
| (iv) 01.04.17 Cost | 50000 (life 5 yrs)                             |
| Less: 2 yrs Depr   | (20000)                                        |
|                    | <hr/>                                          |
| C.A 01.04.19       | 30000 (life Revised = 2 yrs remaining) → given |
| Less: Depr (19-20) | (15000)                                        |

Ques 9

|     |     |               |
|-----|-----|---------------|
| (i) | C.A | 210000        |
|     | F.V | <u>190000</u> |

Revaluation loss 20000

Adj upto 20000 loss from Revaluation Reserve

But 6000 loss trf to P/L

Revaluation Reserve = 20000

→ 20000 = (NIL)

J-t (extra) Rev. loss

Reval<sup>n</sup> Rese A/c Dr 20000

P/L A/c Dr 6000

TO PPE 26000

ii) Gross Block 76000

(-) Accumulated  
Deprn (62000)

Net Block (C.A) 14000

Sold Price (4000)

loss on sale 10000  
(Trf to P/L)

If any ques of AS comes in exam → Do write 2-3 lines of relevant concept in own words alongwith AS Name & No.



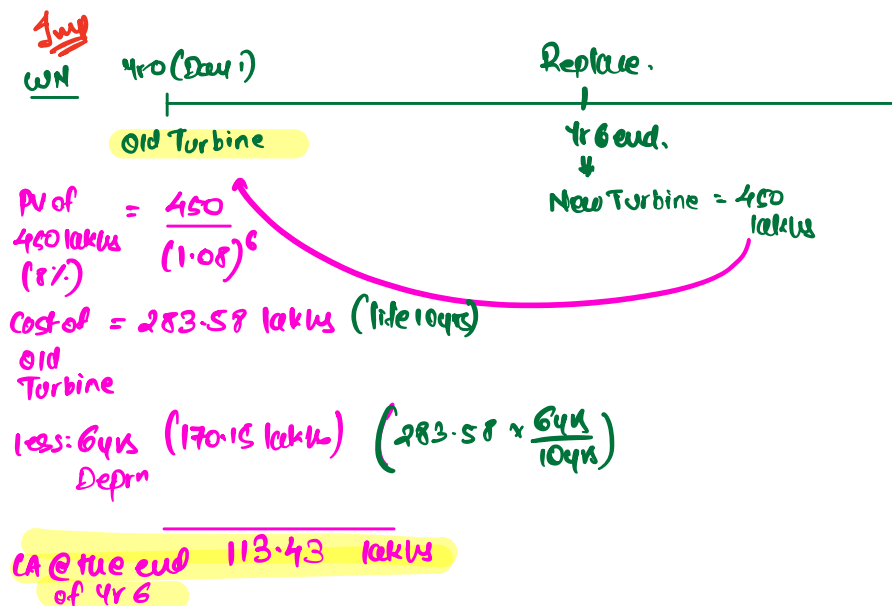
## Illus 27 (LDR)

As per AS 10 - PPE, whenever a major component of PPE is replaced, we will add the new cost of component, but we will derecognise (reduce) the carrying amount of old component.

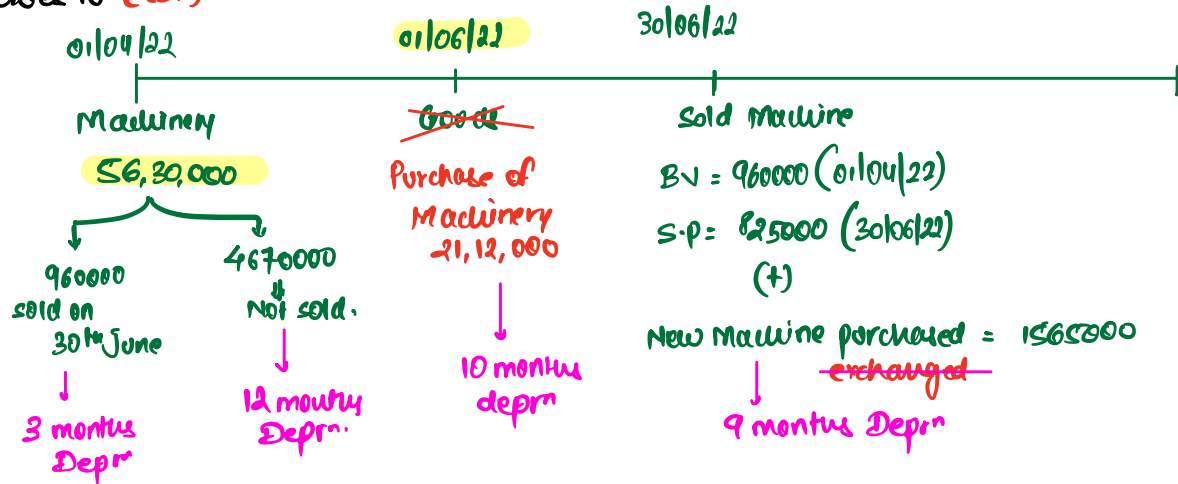
| Particulars                                               | ₹                               |              |
|-----------------------------------------------------------|---------------------------------|--------------|
|                                                           | Machine<br>(excl. turbine)      | Turbine      |
|                                                           | no Breakdown available on Day ① |              |
| Cost of Machinery on Day ①                                | 1000 lakhs                      | (life 10yrs) |
| Less: Deprn for 8 Years $(1000 \times \frac{64\%}{10\%})$ | (600 lakhs)                     |              |
| CA @ the end of 8th year                                  | 400 lakhs                       |              |

### Component replace

|                                                   |                |
|---------------------------------------------------|----------------|
| A) Cost of New Turbine (Given)                    | 450 lakhs      |
| <u>Imp</u> C) Carrying Amount of old Turbine (WN) | (113.43 lakhs) |
| CA after replacement @ the end of yr 6            | 736.57         |



Ques 10 (WR)



i) Depreciation to be charged to P/L A/c

a)  $960000 \times 10\% \times \frac{3m}{12m} = 24000$

b)  $4670000 \times 10\% \times \frac{12m}{12m} = 467000$

c)  $21,12,000 \times 10\% \times \frac{10m}{12m} = 176,000$

d)  $1565000 \times 10\% \times \frac{9m}{12m} = 1,17,375$

**Total Depreciation** 784375

ii) Book value of Plant & Machn on 31/03/2023

|    | Machinery<br>Book Value | Deprn<br>for the year | C.A @ 31/3/2023                                      |
|----|-------------------------|-----------------------|------------------------------------------------------|
| 1) | 960000                  | (24000)               | <del>936000</del> - Sold during the year             |
| 2) | 4670000                 | (467000)              | 42,03,000                                            |
| 3) | 21,12,000               | (176000)              | 19,36,000                                            |
| 4) | 1565000                 | (1,17,375)            | 14,47,625                                            |
|    |                         |                       | <u>C.A of Machine 75,86,625</u><br><u>on 31/3/23</u> |

iii) Profit /loss on sale / Exchange of machine

|                      |                 |
|----------------------|-----------------|
| Old Machine 01/04/22 | 960000          |
| (-) 3m Deprn         | (24000)         |
| CA on 30/06/22       | 936000          |
| SP on 30/06/22       | (825000)        |
| loss on sale (PIL)   | <u>1,11,000</u> |

30 marks MCQs → Individual MCQs → 3-4  
 → Case study Base MCQs → At the end of Adv  
 Acc's syllabus