

ACCOUNTING STANDARD - 10 R

PROPERTY, PLANT AND EQUIPMENT

Coverage:

- | | | |
|---|--------------------------|--------------------------------|
| 1. History of this AS | 2. Meaning and Relevance | 3. Recognition and Measurement |
| 4. Depreciation, Revaluation, change in useful life | | 5. Component /based Accounting |
| 6. Misc | 7. Questions | |

HISTORY OF AS 10 (REVISED)

BEFORE AS 10(R)

- # AS 10 → Fixed asset
AS 6 → Depreciation } Dep. toh Fixed asset par hi lagta hai
- Why do we need 2 different A.S

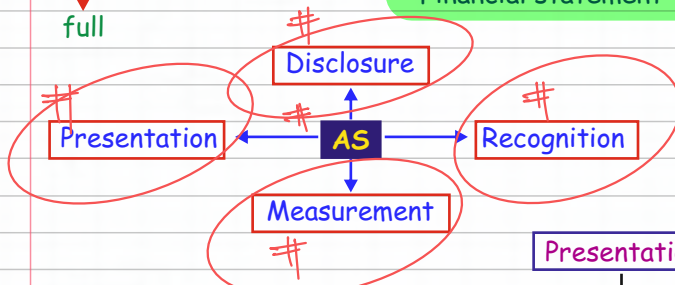
AS 6 } Delete → (AS 10 R) PPE
AS 10 }
(Concept of depreciation include)

RELEVANCE OF AS 10

agar asset ko record karne mei Gadbad hui } Cost of Asset → wrong
Asset value along → Automatically → Depreciation (wrong) → Not profit (Wrong)

1 wrong valuation of fixed asset

↓ full
Financial statement → Misrepresent



X LTD → Not a CAR Dealer
CARS → Sale → C/A

which type of PPE

Measurement (agar ye mera PPE ✓
→ then kis value par)

Kisko PPE ✓
Kisko PPE xxx

MEANING OF PPE

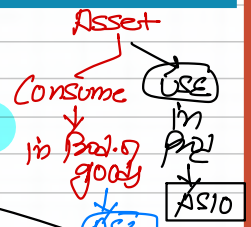
As per Accounting Standard 10 (PPE) (Revised)

P.P.E means

Tangible Asset

+ Held for

या तो Repurchase हो या फिर पहले से चला आ रहा हो



1. use in production of goods or rendering of services or 2. Rental to others or 3. Administrative purpose

+ expected to be used in Business for more than 12 months

Analysis : In AS 10 only tangible assets are included there is no place for intangible assets

AS 26

Tangible asset toh hai + uska use

1. Production of goods or rendering of services
Eg: Laptop/Ipad

2. Rental to others
Eg: Machine on Rent

3. Administrative purpose
Eg: Printer, CCTV, Cooler, AC etc



expected to be used in Business for more than 12 months

essential feature fixed asset

If 12 months PPF xx
AS → word use "more than 12 months"

Exceptions to AS.10

- # 1. Intangible assets - AS 26
- # 2. Natural asset & wasting asset } AS work in progress
- 3. Biological Asset
- Animal → Plant (receipt Bearer plants)
- # 4. Mineral right
- # Except

WHAT IS BEARER PLANTS?

Any plant which satisfies the following 3 conditions:

- # 1) the produce of such plants is used in production of Agriculture goods
- 2) Must produce output for more than 12 months
- 3) Has no or remote likelihood of being sold alone as agriculture produce:- Eg: tea, coffee

Recognition of PPE

Humko kab abhi books me PPF ko recognize karna hai

PPE shall be recognised if two condition are fulfilled

1. It is certain that future economic benefit will asset

2. Cost can be measured Reliability

Economic Benefit

Paise ayenge → Paise jane se Bachenge

Measurement of PPE

When we recognise PPE in our books, it will means that it was my asset

But now the next point is ki wo mera asset kis value par hai

Asset shall be recorded at its acquisition cost plus all other Exp. incurred on asset till it is ready to use

ms

Cost of Asset	
Purchase price	xxx
(including taxes if ITC is not available)	
Add: Legal charges	xxx
Add: Transportation	xxx
Add: all other cost	xxx
which are incurred before asset is ready to use	
Add: Cost of demolition	xxx
Total cost of property, plant and equipment	xxx

Cost which do not form plant of PPE

- # i) Relocation Exp.
- ii) Innauguration Exp. #
- iii) Promotion of cost #
- iv) Selling and admin Exp. #
- v) Initial co-operating losses before commercial production starts
- vi) Cost of not operating at full capacity
- # PTR : Test run exp. will be added



1. Jan 20X1

cost = 100,000
useful life = 10 yrs
Residual value = Nil
Dep = $\frac{100,000 - 0}{10} = 10,000$
for 4 yrs = Dep = 40,000

1. Jan 2025

useful book value = 60,000
useful life = 6 yrs
Revised remaining useful life = 4 yrs
Depreciation = $\frac{60,000}{4} = \text{Rs } 15,000 / \text{yrs}$

Revaluation of Assets (PPE)

Theory/Background

Practical implications

Clash of Accounting concepts

1. Cost concept : Historical cost concept
Asset shall be recorded at its cost

2. True and fair view

Accounting shall give true & fair picture of affairs of company

End result
→ P&L a/c
→ Balance sheet

Let say, Delhi

Building 2009, 20,00,000 PPE
Dep rate 5% SLM
2019 $100,000 \times 10 = 10,00,000$ (dep)

Meri Books (Building B.V) = 10,00,000
correct market value = 80,00,000

Clash of concept = 50% = Revaluation

Practical implication

Building implication = 10,00,000 (Book)
H. value / Fair value = 80,00,000
Building = 70,00,000 Dr.

Building a/c Dr. 70,00,000
To Revaluation Res. a/c 70,00,000

Realisation Concept
Profit Recognition
when realised

ISSUE

Realisation Concept

Dual Aspect concept
DRV, CRV

↓
Profit shall be recorded

when it is realized → Revaluation ✓

Realisation xx → P&L a/c xx

CONCLUSION

Asset, 1st time upward Revalue

Revaluation Reserve Cr.

But if same asset is subsequently
Revalued → Downward

Pehle Remaining R/R (Dr.)

Balance → P&L a/c

Asset, 1st time Downward Revalue

Profit & Loss a/c Dr.

But if same asset is subsequently
upward Reward

Pehle P&L cr.
then Revaluation Cr.

Eg: Building = Rs50,00,000, Dep = 15,00,000, WDV = 35,00,000, Revalue = Rs70,00,000,
Dep rate = 10% pa SLM

Building a/c Dr. 35,00,000
To Revaluation Reserve a/c 35,00,000

Now, Building Rs70,00,000 Dep earlier = Rs 500,000 Dep now = Rs 700,000



Dep a/c	Dr. 500,000	Let us take another Ex
Revaluation reserve a/c	Dr. 200,000	Building = Rs10,00,000, Revalue = 800,000
To Building a/c	700,000	
Now, WDV = Building = 70L - 7L = 63,00,000		P&L a/c Dr. 200,000
Revaluation res. = 35L - 2L = 33,00,000		To building a/c 200,000
Now mujhe pata chala ki building illegal		Now Building = Rs800,000, Revalue = Rs15,00,000
Revalue = 20,00,000		Building a/c Dr. 700,000
Building = 43,00,000 Cr		To Revaluation reserve a/c 500,000
Revaluation Reserve a/c Dr. 33,00,000		To P&L a/c 200,000
Profit & loss a/c Dr. 10,00,000		
To building	43,00,000	

Component based accounting

If there is any P.P.E which is having any major component having life different than life of total Asset (PPE) Then, Accounting for component shall be done separately

Example:

full camera set up
Rs5,50,000 (PPE)

Camera body (400,000) ← life 10 yrs → Camera lense (150,000) life 15 yrs

Cost = Rs550,000

Dep

Camera $\frac{400,000}{10}$ (40,000)

Lense $\frac{150,000}{5}$ (30,000)

Book value 480,000

& so on

Later,

Lense Replace Now lense

Camera Book value 200,000

Let say lense is sold for 10,000

New lense, 100,000

Asset BV 290,000

& again we will start dep



Practical Problem 16

Calculation of cost of PPE

Purchase price	30,00,000
Add: Initial delivery cost	1,00,000
Add: cost of site preparation	200,000
Add: Consultant fees	50,000
Add: Present value of Exp.	30,000
Demolition Cost	
TOTAL	33,80,000

33,80,000

Motor (Sep. component)	Balance (Plant)
↓	↓
5,63,333	28,16,667
↓	↓
6yrs (SLM)	10yrs (SLM)

Separate component (Motor) $\frac{1}{6}$ of 33,80,000 = 5,63,333

Replacement of Motor

Cost 563,33

Dep: 4 yrs SLM

$\frac{563,333 \times 4}{6}$ 37.5555

WDV of Motor 187778 (Replace with new motor)

Since, new motor cost is Rs 600,000 and useful life is 5 yrs

Dep = $\frac{600,000}{5}$ = 120,000/yr

Overall plant

Cost of Remaining plant = 2816667

Life = 10yrs

Dep for 4yrs = $\frac{(2816667 \times 4)}{10}$ 1,26,667

WDV 16,99,000

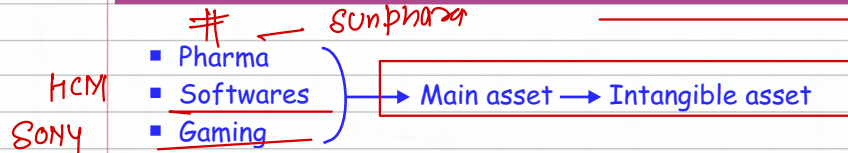
ACCOUNTING STANDARD - 26

INTANGIBLE ASSET

Coverage:

- | | | |
|------------------|----------------|-----------------------------|
| 1.Relevance | 2.Meaning | 3.Recognition & Measurement |
| 4.Capitalisation | 5.Amortisation | 6.Misc |
| 7.Question | | |

WHY AS 26 : INTANGIBLE ASSET



- Questions :
- | | | |
|-----------------|-------------|---|
| 1. Recognition | → Kab I/T/A | ✓ |
| 2. Measurement | → kis value | x |
| 3. Presentation | | |
| 4. Disclosure | | |

MEANING OF INTANGIBLE ASSET

Intangible Asset means:

An identifiable

Non Monetary asset

without any physical substance

Held for

- use in production of Goods/ Rendering of services or
- Rental to others
- Administrative purpose

IDENTIFIABLE

That can be separated from goodwill

Patent
Software
Antivirus

separately identify apart from goodwill

NON-MONETARY ASSET

Those assets which are not monetary asset

Monetary asset:
money held
or
Asset to be received in fixed unit of money
Eg: FD, debenture

WITHOUT ANY PHYSICAL SUBSTANCE

No Physical existence

essential condition for Intangible asset

Held for

- Use in production of Goods/ Rendering of services

Patent for medicine co. U.A ka Software

- Rental to others

Google → Google drive
Apple → Storage cloud

- Administrative purpose

Eg: Attendance

Accounting

Management

Admin

INTANGIBLE + ASSET

without any physical substance

Non monetary

Identifiable

Any resource

owned or controlled by us

+

Future economic benefits will arise



FLOW OF INTANGIBLE ASSET

1. Asset hai ya nahi
 - a. own control +
 - b. Benefit
2. Intangible

Hai
Nahi

RECOGNITION OF INTANGIBLE ASSET

1. It is certain that future economic benefit will arise
2. Cost can be measure Reliably

INTANGIBLE ASSET

1. Purchase from outside
2. Internally generated

Calculation of cost of Intangible asset purchased from outside (separately acquired)

Purchase price (including taxes if ITC is not available)	xxxx
+ import duty/other charges	xxx
+ All other cost which are directly attributable to Intangible asset (Professional fees/legal charges)	xxx
- Any discount	xxx
Cost	xxx

Internally generated Intangible Asset

Those intangible assets which are developed by doing own research & Development
That is confirmed ki pehle Research hogi fir Development Hogi (Visa-Versa nahi hoga)

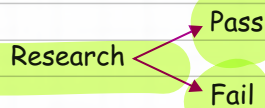
Internally generated Intangible Tangible Asset

Research Phase
Development Phase

Research

Meaning: To Gain knowledge when we are doing research, our single aim is to get knowledge about each and every aspect of Topic

↓
outcome of research is uncertain



Accounting Treatment

Research Expense a/c Dr.] Confirm
To Bank a/c

#All research Exp. will transfer to Profit & loss a/c

↓
Nothing will be capitalize

Main Activities in research

- a. Aim for new knowledge
- b. Evaluate the result of knowledge
- c. Search of Devices, material which will be used after research
- d. Search of alternative materials, source etc.

DEVELOPMENT PHASE

This phase will start only if research is pass.

This phase has a single objective of applying the knowledge gained in research to develop an intangible asset

Research ki findings ko practical Application mei lana

Intangible asset shall be recognised in development phase, but intangible asset shall be recognised only if all of the following conditions are satisfied.

- a. Technical feasibility to complete the project
- b. Intentions to complete intangible assets
- c. Ability to use intangible asset
- d. Future economic benefit



How much amount shall be recognised as intangible asset

Research Phase
xx P&L

Development
yes

Development expense shall be capitalised → lower of

Actual cost incurred on development
or

Present value of future cash flows



Illustration 2

As per relevant provisions of accounting standard 26 Intangible asset, any amount spent on research shall be transferred to profit & loss account

In this given case, company has spent Rs 45 lakhs on research and publically and it is proved to be Failure, Hence no intangible asset shall be created.

So entire amount of Rs45 lakh shall be debited to profit & loss a/c



Illustration 22

ACCOUNTING STANDARD 26

Intangible Asset

As per relevant provisions of accounting standard 26, Intangible asset, Intangible asset shall be recognised only if it is technically feasible and it is certain that future economic benefit will arise

In the given case, AB Ltd, spend Rs20 lakhs for research and development, but management came on a conclusion that it is not possible to produce, the products in next 10 years

Since it is not possible to produce products for next 10 years, means no technical feasibility and no economic benefit will arise

So, full Rs20 lakh shall be debited in P&L a/c



Question

Purchase cost (Rs) $(95000 (\$100,000 - \$5000) \times 52)$	49,40,000
Add: Import duty	988,000
	59,28,000
Add: Purchase tax	59,2800
Add: Entry tax	-
Add: Installtion Exp	25,000
Add: Professional fess	20,000
Total cost	65,65,8000

AS 10 (P.P.€)

Depreciation Allocation of cost of fixed Tangible asset over its useful life

AS 26 (INTANGIBLE ASSET)

Amortisation Allocation of cost of Intangible asset over its useful life

Remember!

1.All concepts of dep. are applicable here as well.
Eg: Revision in estimated useful life

3.Change in depreciation will be retrospective

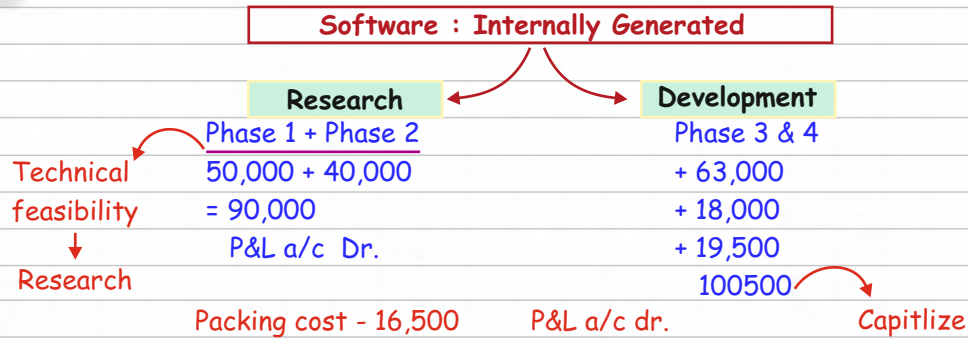
2.Amortisation

4.Useful life is only 10 yrs

SLM on the basis of cash flow



Practical Problem 12



Illustration

ACCOUNTING STANDARD 26

Intangible Asset

As per relevant provisions of AS 26. Intangible asset, cost incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product.

In the given case, After completion of Phase 1&2 technical feasibility of product is determined.

Since, the product is technical feasible of the market, cost incurred during these phase will be considered research expose and debited to profit and loss of Rs 90,000 (50,000 + 40,000).

Cost incurred from the point of technological feasibility/asset recognition criteria until the time when product costs are incurred are capitalized as software cost (63000 + 18000 + 19500) = 100,500. Packing cost Rs16,500 should be recognised as expense and charged to P&L a/c



Illustration

ACCOUNTING STANDARD 26

Intangible Asset

As per relevant provisions of AS 26. Intangible asset, the expenditure on advertising and promotional activities should be recognised as an expense when incurred.

In this case, the company incurred 2 crore on advertising the new product.

Since, the expenditure or advertising shall be debited to profit and loss account

Hence, the procedure adopted by the company is correct



EXCEPTIONS OF AS 26

- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Inventories - AS 2 2. Construction contract AS 7 3. Deferred tax asset AS 22 4. Leave AS 19 | <ol style="list-style-type: none"> 5. Goodwill of Amalgamation AS 14 6. Financial Asset AS 13 7. Mineral rights |
|---|--|

Note : Expenditure on Advertisement is not an intangible asset