10 Pages Minutes

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AS10- PROPERTY PLANT & EQUIPMENT 1

(Revised)

AS-6
Depreciation A/cing
(OLD)

AS-10
A/cing for Fixed Assets
(OLD)

AS-10
Property, Plant & Equipment *

Learning Objective

- → Recognition of assets
- → Determination of carrying amt
- → Computation of depreciation
- → Recognition of impairment loss

Applicability

to tangible assets

exception

- → Biological Assets 2*
- → Wasting Assets

* what is Property, Plant & Equip ?

they call this as definition

An Asset

tangible

held for
- Renting to others
- Administrative purpose
- Production or Supply of goods / Service

R
A
P

2 Conditions

min. 12 months — time

PPE

Dont touch INTANGIBLE ASSETS
they are still governed by AS-26

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2* Biological Assets 😐 I'm a commerce student! what's this now?

Biological Assets (anything with life ♥)
no 'BEING HUMAN'

- **Live Stock**
  → AS 10 applies
  However, when NEW AS on Agriculture is ready, AS-10 will not apply
- **Plants**
  - → not a Bearer Plant i.e, producer plants
    AS-10 not applicable
  - → it is a Bearer Plant *
    AS-10 is applicable

*Bearer Plant

Agriculture produce for more than 12 months

PS: Same as 2 conditions for PPE

RECOGNITION OF ASSET

thumb rule ⇒
✓ probable future Economic benefit
✓ Reliable measurement
} then recognise as Asset.

Few dumb questions

?Q1> Are spare parts, stand by equipment assets?

✓Answer → depends on definition criteria $\boxed{\text{2 Conditions}}$

if satisfied = AS 10

if not = AS 2

?Q2> Should repairs & maintenance costs form part of Carrying amt?

✓Answer → day to day exp = recognised in P&L

> PS: revise & remember
> Capital, Revenue differenciation

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? Q3> Should cost of replaced parts form the cost to be recognised?

→ answer> again only 2 conditions definition criteria can answer this question.

That's it end of DUMB Q's

DETERMINATION OF CARRYING AMOUNT

measurement based on INSTANCES

- @ Recognition → COST Model
- after recognition → COST Model / REVALUATION Model

inclusions

* Purchase Price
* Direct attributable costs [DAC]
* Decommissioning 4 restoration liability

ex-clusions

* Set up or opening Cost → INAUGARATION CEREMONY
* Advertising or Promotional Cost
* Cost for alternate business location during setup process
* Admin 4 other general over head

* Purchase Price = Consideration + import duty or tax (if non-refundable) − trade discount (rebate)

* DAC = any cost incurred to bring asset to 'LOCATION 4 CONDITION' to make it capable for operating

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Directly Attributable Cost

✓	×
Site preparation	any cost after it is capable of operation
delivery & handling	initial operating loss
installation & assembly	relocation costs
testing & trial run	
Professional fee (for installation)	

* De-Commissioning
Cost for removal of asset at the end of useful life.
(if there is subsequent change in De-Comissioning charges the adjust COST)

@ Re-cognition —using→ COST Model

based on CONSIDERATION

- Paid once & in CASH ⇓ Cash Price
- deferred pymt's in CASH ⇓ Cash Price equivalent + Interest
  - $\boxed{\text{if reqd. by AS-16: BC}}$
  - $\boxed{\text{if not reqd by AS-16: BC then revenue}}$
- non-cash consideration ⇓ fair Value of ~~given~~ asset unless
  - ↳ there is no Commercial substance
  - ↳ it cant be reliably measured

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after recognition — rules → COST model or REVALUATION model

it's an ACCOUNTING POLICY, an enterprise can choose

either **COST Model** or **REVALUATION Model**

COST Model:

Cost − Accumulated depreciation − impairment loss (Less)

REVALUATION Model:

fair value − Accumulated depn − impairment loss (Less)

PS: Revaluation is to be for entire CLASS & not one asset

how frequent should be revaluation?

Answer → sufficient regularity

if fair value experience

- Significant & volatile changes ⇓ annually
- Only insignificant changes ⇓ interval of 3-5 yrs

wooh NICE isn't it But what & how do we get FAIR VALUE?

Answer → FV is determined by MARKET BASED EVIDENCE provided by professional valuers

if no FV available then INCOME APPROACH is to be followed (like Present Value of future Cash flows) refer your FM notes.

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what happens to Accumulated depreciation on Revaluation?

Answer → ELIMINATE IT!

by → adjusting against GROSS BLOCK

&

restate to revalued amount

There's another a/cing treatment. But this is SUGGESTED by #AccountsMan

Revaluation tree

Increase ⇓ t/f to Reserves & Surplus i.e, Revaluation Reserve

Decrease ⇓ t/f to Profit & loss A/c

Every rule has an exception! So is this one

→ if previously any expense is recognised in Profit & loss. Then it is adjusted first.

→ if previously any reserve is recognised in Reserve & Surplus (B/S). Then it is adjusted first.

Revaluation Reserve to be transferred to Revenue reserve on proportionate basis of assets life.

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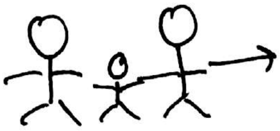
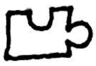


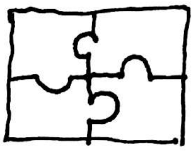
DEPRECIATION



to be charged separately for each COMPONENT

item that is significant in relation to TOTAL COST

however grouping is possible



↳ if components have
* Same useful LIFE &
* depreciation method.

method of depreciation

- Straight Line Method → Same amount of DEPRECIATION over useful life
  - * unless useful life changes
- Diminishing Balance method → Decreasing charge over useful life
- Production units method → Depreciation based on output

Review on change — Yearly basis.

Basis of selection

Pattern of future economic benefit from the asset to reflect depreciation

Depreciation method has to be CONSISTENT

exception
- → change in pattern of consumption
- → to comply with Statute (LAW)

Change in METHOD OF Depreciation → Change in ACCOUNTING ESTIMATE

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₹ DEPRECIABLE AMOUNT = ₹ COST or ₹ REVALUED AMT — ₹ Residual Value

₹ DEPRECIABLE AMOUNT → to be allocated on a systematic basis over USEFUL LIFE

₹ COST or ₹ REVALUED AMT → Refer Determination of Carrying Amt

₹ Residual Value → has to be RE-VIEWED EVERY YEAR

USEFUL LIFE → has to be RE-VIEWED EVERY YEAR

Any change in
* USEFUL LIFE
or
* RESIDUAL VALUE

→ Change in ACCOUNTING ESTIMATE

feel a little nostalgic check previous page

Commencement of period for charging DEPRECIATION

THEN	NOW
AS-10 Ready to Use ✗	AS-10 (Revised) Available for Use ✓

Cessation of Depreciation
→ Residual Value > Carrying Amount
→ Asset retired or de-recognised

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★ Special item →  LAND & BUILDING

⇓

A/ced Separately (though acquired together)

 

LAND	BUILDING
⇓	⇓
Unlimited Useful life	limited Useful life
✗ Depreciation	✓ Depreciation
~~Exception~~ Exception : Quarries & sites	

⚲⚲⚲⚲ → **Recognition of impairment loss**

(Impairment loss = De-Recognition of Asset)

Retirement of asset → PPE is not in active use or held for disposal

$\underbrace{\qquad\qquad\qquad\qquad}$

then valued at

* Carrying amount &
* Net Realisable Value

} whichever is Less

Carrying amount as asset is derecognised when

- → Disposed ——— by → sale / → finance lease / → donation } i.e, change in possession & ownership (substantial)
- → there is no future economic benefit

Exception → items held to give out on RENT as AS-9 applies

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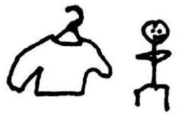

DISCLOSURE REQUIREMENTS
as per AS-10 (Revised)

Following disclosures are to be made in Financial Statements

- Measurement model
  - COST model
  - or
  - REVALUATION model
- Depreciation method
- Useful life or depreciation rate
- Gross block & accumulated depreciation
- pledge or hypothecation (if any)
- Contractual commitments (if any)
- assets retired & disposed
- Revaluations
  - → Date of revaluation
  - → Details of valuer
  - → assumptions in estimation of fair value
  - → Changes in revaluation surplus

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#AccountsMan is no Superman.

So, errors if any found in this material writen them to me. Suggestions & comments will be valued.

PS: #AccountsMan wants you to solve questions [ONLY] from

↳ Revision Test Paper 4

↳ Supplementary Material issued by ICAI

in addition to this

WISHING YOU TO DESERVE ALL YOUR DESIRE'S

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#its_all_in_the_game