
# 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

- 1 → Recognition of assets
- 2 → Determination of carrying amt
- 3 → Computation of depreciation
- 4 → 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 goods / Services

P 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

Plants → it is a Bearer Plant *3 — AS-10 is applicable

*3 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: review & remember Capital, Revenue differenciation

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

answer → again only ♡ $\boxed{\text{2 conditions}}$ definition criteria can answer this question.

That's it end of DUMD Q's

## DETERMINATION OF CARRYING AMOUNT

measurement based on INSTANCES

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

| inclusions | exclusions |
|---|---|
| * Purchase Price | * Setup or opening Cost → INAUGARATION CEREMONY |
| * Direct attributable costs [DAC] | * Advertising or Promotional Cost |
| * Decommissioning & restoration liability | * Cost for alternate business location during setup process |
| | * Admin & 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 & CONDITION' to make it capable for operating

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# Directly Attributable Cost

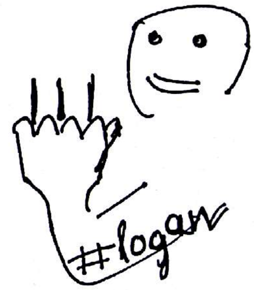
| ✓ | × |
| --- | --- |
| Site preparation | any cost after it is capable of operation |
| delivery & handling | initial operating loss |
| installation & assembly | relocation costs |
| testing & trial run | |
| Professional fee (for installation) | |

* 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
  - if reqd. by AS-16: BC
  - if not reqd by AS-16: BC then revenue
- non-cash consideration ⇓ fair Value of ~~Giver~~ asset unless
  - ↳ there is no Commercial substance
  - ↳ it cant be reliably measured

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after recognition — using → COST model or REVALUATION model

it's an ACCOUNTING POLICY, an enterprise can choose

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

**COST Model**

Less

Cost − Accumulated depreciation − impairment loss

**REVALUATION Model**

Less

fair value − Accumulated depn − impairment loss

PS: Revaluation is to be for entire CLASS 4 not one asset

how frequent should be revaluation?

Answer → sufficient regularity

if fair value experience

- Significant 4 volatile changes ⇓ annually
- Only insignificant changes ⇓ interval of 3-5 yrs

woah NICE isn't it But what 4 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 $\boxed{\text{like Present Value of future Cash Flows}}$ 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. #AccountsMan

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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

to be allocated on a systematic basis over USEFUL LIFE

Refer Determination of Carrying Amt

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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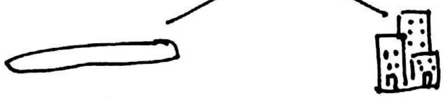
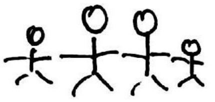
★Special item →  LAND & BUILDING

⇓

A/ced separately (though acquired together)



| LAND | BUILDING |
| --- | --- |
| ⇓ | ⇓ |
| Unlimited Useful life | limited Useful life |
| ✗ Depreciation | ✓ Depreciation |
| Exception: Quarries & site | |

 → Recognition of impairment loss

(Impairment loss = De-Recognition of Asset)

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

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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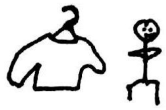

# DISCLOSURE REQUIREMENTS as per AS-10 (Revised)

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 values
  - → 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

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