

Accounting Standard 10 – “Property, Plant and Equipment”

Presented by
Mohit Bhuteria
A.C. Bhuteria & Co.
Chartered Accountants

Introduction

❑ This Standard does not apply to:

- biological assets related to agricultural activity other than bearer plants. This Standard applies to bearer plants but it does not apply to the produce on bearer plants
- wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

Recognition of PPE

- ❑ Cost of an item of PPE should be recognised as an asset if, and only if
 - it is probable that future economic benefits associated with the item will flow to the enterprise
 - cost of the item can be measured reliably
- ❑ Cost of PPE comprises:
 - its purchase price, including import duties and non –refundable taxes and after deducting discounts
 - any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
 - the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located

Cost not to be recorded as PPE

- repairs and maintenance expenses
- insurance expenses not directly related to bring the asset to location and condition for its intended use.
- inauguration costs
- costs of introducing a new product or service
- costs of conducting business in a new location or with a new class of customer
- administration and other general overhead costs
- initial operating losses
- costs of relocating or reorganising

Items of PPE shall be recorded under a separate class

- land
- land and buildings
- machinery
- ships
- aircrafts
- motor vehicles
- furniture and fixtures
- office equipment
- bearer plants

Model of Recognition

□ There are two model for recognition of PPE:-

- **Cost Model** - An item of PPE should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
- **Revaluation Model** - An item of PPE whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.

Increase in the carrying amount of an asset arising on revaluation should be credited directly to owners' interests under the heading of revaluation surplus, in case of subsequent revaluation increase in shall be first recognised in the P & L to the extent that it reverses a revaluation decrease of the same asset previously recognised.

Decrease in the carrying amount of an asset arising on revaluation should be charged to the P & L, in case of subsequent revaluation it should be debited to revaluation reserve to the extent of any balance existing in respect of that asset.

Depreciation

- 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.
- Depreciation charge for each period should be recognised in the P & L unless it is included in the carrying amount of another asset.
- Depreciable amount of an asset should be allocated on a systematic basis over its useful life.
- Residual value and the useful life of an asset should be reviewed at least at each financial year-end.
- Depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.
- Depreciation method applied to an asset should be reviewed at least at each financial year-end

Changes in Decommissioning, Restoration and Other Liabilities

- Cost of PPE may undergo changes subsequent to its acquisition or construction on account of changes in liabilities, price adjustments, in initial estimates of amounts provided for dismantling, removing, etc.
- In case of cost model such change shall be adjusted with the cost of asset, any excess amount shall be adjusted with P & L
- In case of revaluation model such change shall be adjusted with revaluation reserve, any excess amount shall be adjusted with P & L.
- Adjusted depreciable amount of the asset is depreciated over its useful life.
- Once the related asset has reached the end of its useful life, all subsequent changes in the liability should be recognised in the statement of profit and loss as they occur.

Derecognition

- ❑ Carrying amount of an item of property, plant and equipment should be derecognised:
 - ❑ on disposal
 - ❑ when no future economic benefits are expected from its use or disposal
- ❑ Gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss. It should be determined as the difference between net sale proceeds and the carrying amount of the asset.

Disclosures

- the measurement bases (i.e., cost model or revaluation model) used
- the depreciation methods used
- the useful lives or the depreciation rates used.
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period
- a reconciliation of the carrying amount at the beginning and end of the period
- existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities
- amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction
- amount of contractual commitments for the acquisition of property, plant and equipment
- if it is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of PPE that were impaired, lost or given up that is included in the statement of profit and loss;

Disclosures

- amount of assets retired from active use and held for disposal
- In case of revaluation of asset following disclosures should be given:
 - effective date of the revaluation
 - whether an independent valuer was involved
 - methods and significant assumptions applied in estimating fair values of the items
 - extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques
 - revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders

Thank You