AS 10 : PROPERTY, PLANT & EQUIPMENT

CONCEPT 1 : INTRODUCTION

Objective : To Prescribe accountig treatment for PPE

AS 10

Help the users of FS to understand

- Info. about investment in PPE
- Changes in such investment

CONCEPT 2 : MEANING OF PPE

PPE → Tangible Assets

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Expected to use > 12 months

Held for use in

- Use in Production or Supply of Goods or Services
- For Rental to others
- For administrative purpose

Spare Parts, Standby Equipments & Servicing equipments

Meet the definition of PPE

- Yes → AS 10
- No → Classify as Inventory AS 2

CONCEPT 3 : PRINCIPAL ISSUES IN ACCOUNTING FOR PPE

- Recognition of PPE
- Determination of PPE
- Depreciation charge
- Impairment losses to be recognised

CONCEPT 4 : SCOPE OF AS 10

- When other AS requires or permits a difference accounting treatment
- Biological assets (other than bearer plants) related to agricultural activity
- Wasting assets incl. mineral rights Expenditure on the exploration for & extraction of minerals, oil, natural gas & similar non-regenerative resources
- Investment property (covered in AS 13) (Cost model)

Biological Asset

- Living animal
  - AS 10 does not apply
- Plant
  - AS 10 applies to Bearer Plants

Bearer Plants

Living Plant that

- Is used in production or supply of agricultural produce
- Is expected to bear product for > 1 period
- Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales

Following are not Bearer Plants

- Plants cultivated to be harvested as Agricultural produce
  - Trees grown for use as lumber
- Plants cultivated to Produce Agricultural produce And Harvest and sell the plant as Agricultural produce
  - Trees which are cultivated both for their fruit and their lumber
- Annual Crops
  - Maize and wheat

CONCEPT 5 : RECOGNITION CRITERIA FOR PPE

PPE should be recognised as an asset

- Probable future economic benefits will flow to enterprise
- Cost of the item can be measured reliably

Cost incurred

- Initially
  - To Acquire or construct an item of PPE
- Subsequently
  - To add to replace part of, or service it

Treatment of subsequent cost

- Cost of day to day servicing
  - Cost of labour
  - Cost of consumables
  - Cost of small parts
- Replacement of parts of PPE
- Regular major inspections accounting treatment

Trf to P&L

Replacement Parts

- Regular intervals
  - Relining of furnace aircraft interiors
- Less frequent replacement
  - Replacement interiors walls of building

Capatilise if recognition criteria are met

Carrying amount of replaced parts are derecognised

Regular Major Inspections

- To operate an item of PPE performing regular major inspections may be a condition
- Such inspections cost is recognised in carrying amount as replacement if recognition criteria are met
- Any remaining carrying amount of previous inspection cost is derecognised (even if cost of previous inspection was not identical)

CONCEPT 6 : MEASUREMENT OF PPE

- At recognition
  - Cost model
    - For acquired assets = @ Cost
- After recognition
  - Cost model
  - Revaluation model

Purchase price (incl. import duties & non-refundable purchase taxes) + Directly attributable costs + Dismantling removal & site restoration costs

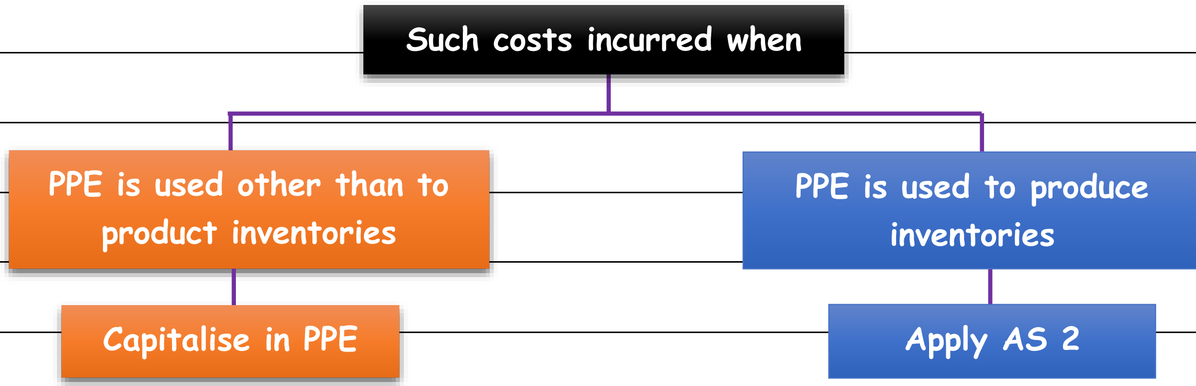
Directly Attributable Costs

Include	Not Include
Employee benefits costs directly attributable to acquisition / construction	Introducing new product / service
Site preparation cost	Initial operating losses
Initial delivery & handling costs	Opening new facility
Installation assembly cost	Relocating & reorganizing costs
Professional cost	Costs of staff training
Cost of testing	Administrative costs
	Other general overheads

Finance Cost as per AS 16

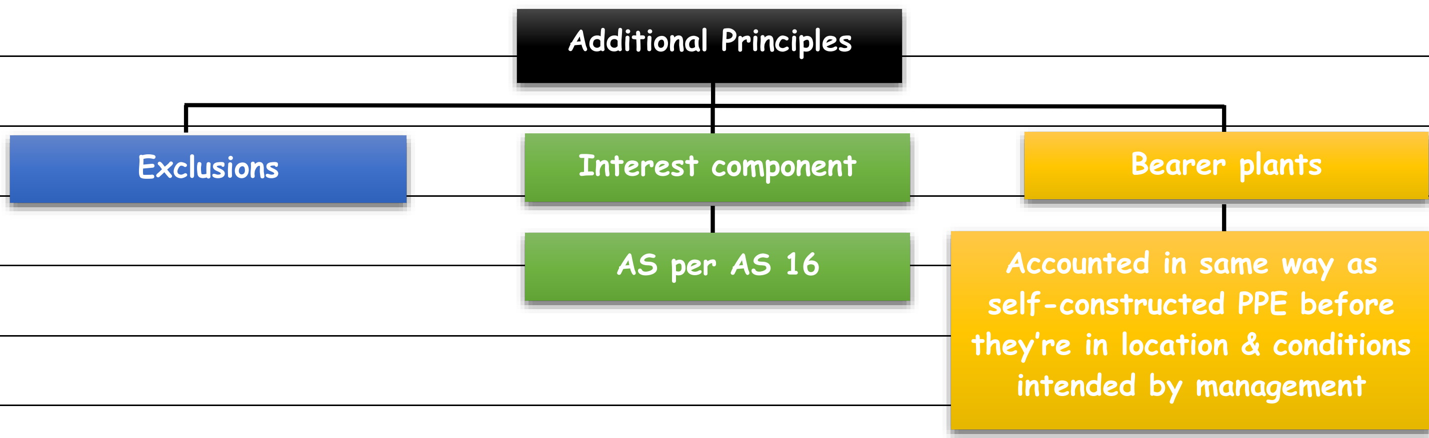
Dismantling, removal & site restoration cost

Recognised & measured as per AS 29



For self-constructed assets

Use same principles for acquired asset



Exclusions :

- Internal profits
- Abnormal amount of wasted material, labour or other resources
- Income & related expenses of incidental operations

e.g. Income earned through using building site as a car park, until construction starts

CONCEPT 7 : DIFFERENT SITUATIONS OF MEASUREMENT OF COST

Situations

- Payment is deferred beyond normal credit terms
- PPE acquired in exchange for a non-monetary asset or combination of monetary & non-monetary asset
- PPE purchased for a consolidated price
- PPE held by lessee under a finance lease (AS 19)
- Government grant related to PPE (AS 12)

1. Total Payment – Cash price equivalent = Interest

   Cost of PPE = cash price equivalent

   e.g. Mobile – Cash price 1,00,000

   But if taken on loan it is 1,20,000 → Total payment

2. Exchange of Asset

Commercial substance

- Lacking
  - B.V. of asset given up
- Or
- Exists
  - Fair value of asset given up
  - Or
  - F.V. of asset taken up

  Whichever is more clearly evident

3. Apportioned on various items on the basis of respective fair values.

CONCEPT 8 : MEASUREMENT AFTER RECOGNITION

Measurement subsequent to initial recognition

Cost Model

Sr. no.	Particulars	Rs.
i)	Cost	xxx
ii)	Less: Any Accumulated Depreciation	(xxx)
iii)	Less: Any Accumulated Impairment losses	(xxx)

Revaluation Model

Sr no.	Particulars	Rs.
i)	Fair value at the date of the revaluation	xxx
ii)	Less: Any subsequent accumulated depreciation	(xxx)
iii)	Less: Any subsequent accumulated impairment losses	(xxx)

Revaluation model

Frequency of revaluation volatility in fair values

Significant

Annual revaluation

Insignificant

Revaluation after 3 to 5 years

@ end of reporting period

Carrying amount = Fair Value

Revaluation for entire class of asset if item of PPE is revalued

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Entire Class of PPE shall be revalued

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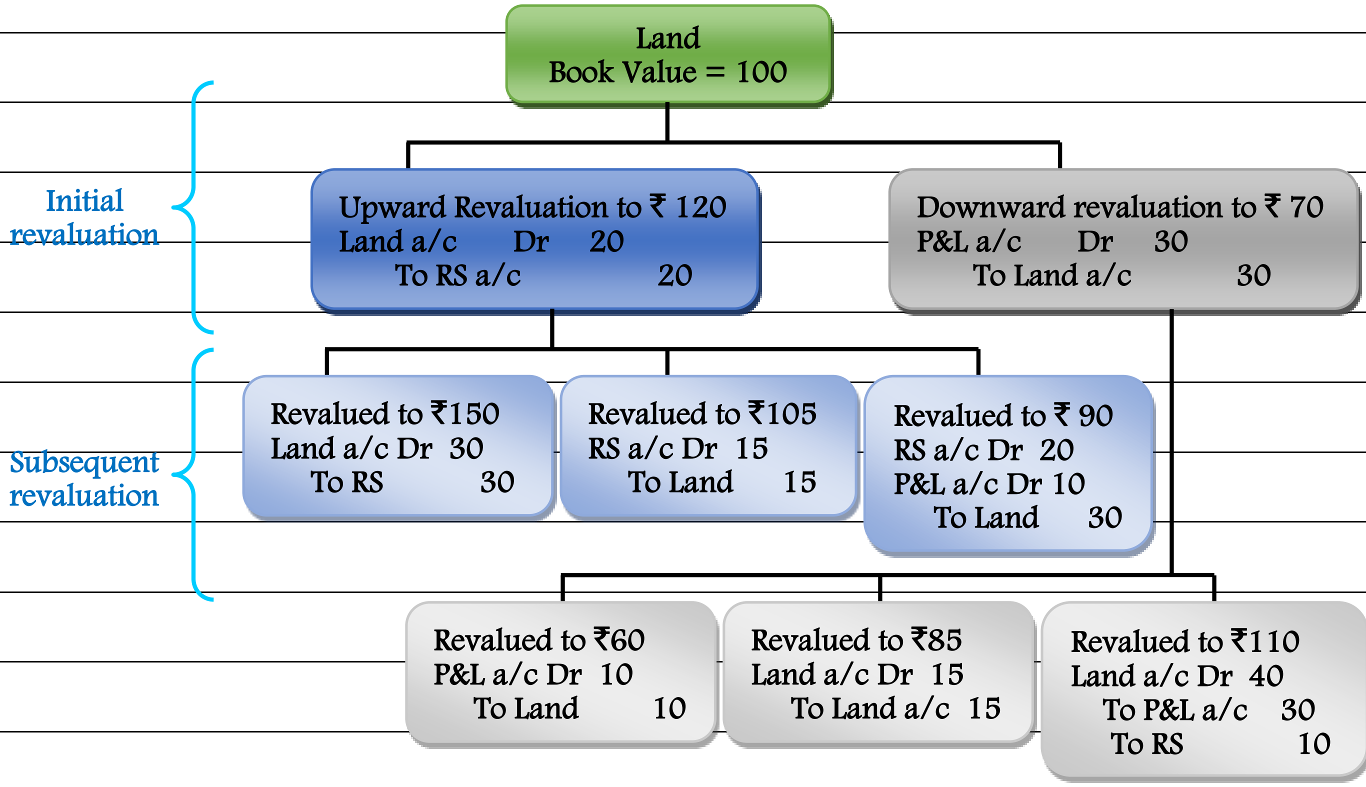
Assets of similar nature & use

Items within class of PPE → Revalued simultaneously



CONCEPT 9 : RETIREMENT

Items of PPE retired from active use & held for disposal should be stated at the

- Carrying amount
- NRV

Note : any write down in this regard should be recognised immediately in the statement of P&L

CONCEPT 10 : DE-RECOGNITION

Carrying amount of PPE is de-recognition

- On disposal
  - Date of disposal is determined as per AS 9
  - Gain / Loss = Net proceeds - Carrying Amount
  - In P&L except in case of sales in ordinary activity & leaseback transaction

Or

- When no future economic benefits

CONCEPT 11 : DEPRECIATION

Depreciable amount allocated on systematic basis over useful life

Depreciable amount = Cost – Residual Value

Trf to P&L Or included in carrying amount of other assets

Residual value & useful life should be received at each financial year end.

Change = change in accounting estimates (AS 5)

Component Accounting

A Part of PPE with significant cost → Should be depreciated separately

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May have useful life & depreciation method same as another significant part

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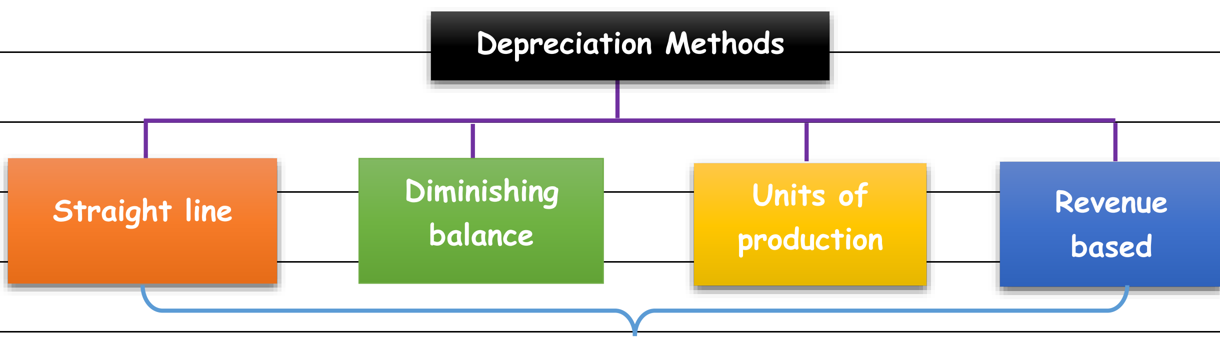
Such parts may be grouped together to determine depreciation charged



Should reflect pattern of consumption of future economic benefits

Revenue based method of deprecation is inappropriate

Methods should be reviewed at each financial year end change in any of the 3 methods

= Change in accounting estimates (AS 5)

Commencement of depreciation

- Available for use

- Put to use

Cessation of depreciation

- Method 1
  - Asset residual value > Carrying amount
- Method 2
  - @ earlier of date, when
    - Asset is retired from active use & held for disposal
    - Asset is de-recognised

No cessation when

Asset is idle Or Retired from active use

Unless fully depreciated

↓ However

In usage method, Depreciation = 0

If no production

CONCEPT 12 : CHANGES IN EXISTING DECOMMISSIONING LIABILITIES