Property Plant & Equipment- Ind-AS 16

What are Fixed Assets?

Fixed assets (non-current assets) represent future economic benefits which are expected to be consumed at a slow pace (generaly over more than one financial year)

Every fixed asset can be considered an unexpired expense, and at balance sheet date a company must review to what extent the individual asset has been consumed during the accounting period.

This session deals with Principles of Ind-AS 16 concerning :

Recognition - initial and subsequent

Measurement initial & subsequent

Depreciation – component accounting

De-commissioning cost to be capitalised

SCOPE Ind-AS 16

- **YES**
  - Applied to accounting for all property, plant, and equipment unless another Standard permits otherwise ,.e.g., Ind AS 17 Lease
- **NO**
  - Property, plant, and equipment classified as held for sale in accordance with IFRS 105
- **NO**
  - Biological assets relating to agricultural activity under Ind AS 41 Mineral rights, mineral reserves, and similar non regenerative resources.**But Apply to property, plant and equipment used to develop or maintain these assets.**

PPE – Tangible Items

Held for Use in :

- the Production or Supply of Goods
- for Rental to others
- for administrative purposes AND

Are Expected to be used during more than one Period – Please note the key word is "period" and NOT Year.

Initial Recognition – As per Framework

- Its Probable that FEB will Flow into Entity

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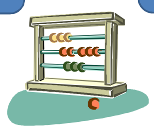
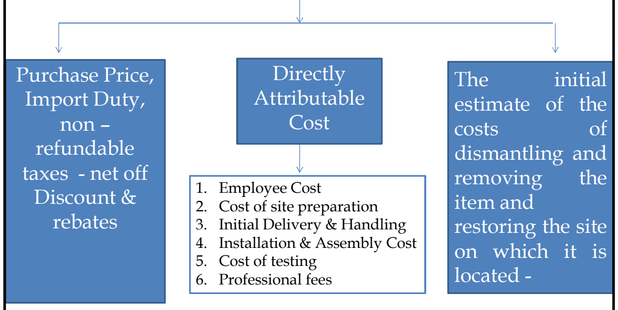
- The Cost of Item Can be Measured Reliably



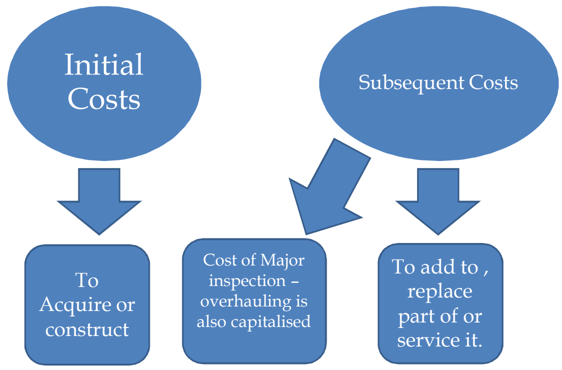
Elements of Cost



These costs are capitalised up to the point the Asset reaches the desired condition

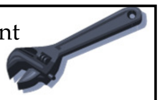
Following Costs are NEVER capitalised

- Opening a new facility;
- Introducing a new product or service
- Conducting business in a new location or with a new class of customer
- Administration and other general overheads



Spare Parts and Servicing Equipment

Whether to Capitalise ?



Expensed Out	Capitalised	
Usually carried as Inventory and expensed out as consumed	Major Spares and Standby equipment which are expected to be used in more than one period	Spares which can be exclusively used only in connection with particular equipment.

Stop Capitalisation

Cut Off

Start Depreciating

Cost – Interest are Capitalised

Cost- Interest NOT Capitalised

Capitalised during this stage

Construction – Development – Acquisition Stage	When Asset in location – condition necessary for it to be capable of operated in the manner as intended by the Management
Directly Attributable Cost	**These Costs are never capitalised**
Employee Benefit Costs	Opening a new facility;
Costs of site preparation;	Introducing a new product or service
Initial delivery and handling costs;	Conducting business in a new location or with a new class of customer
Installation and assembly costs;	Administration and other general overheads
Cost of Testing , Professional Fees.	
De-commissioning Cost	

Treatment of Incidental Operations !

If such operations are required before or during the construction or development,

Then cost related to such operations are to be capitalised else not to be capitalised.

Subsequent Recognition

New assets or parts to be recognised and the replaced parts are de-recognised, even if not recognised separately earlier.

Initial Measurement - Generally Cost & at Cash Equivalent Price

If the payment is deferred beyond normal credit period

- Total Price – Cash Equivalent Price = Interest
- Interest to be capitalised or not depends on Ind AS 23

Exceptions to initial measurement at cost– measured at Fair Value

- When PPE/asset is received as Government Grant (*)
- Finance Lease
- Exchange with non-monetary assets
- -- FV of assets given up or received whichever can be measured reliably.. If none of them can be measured at cost then at cost.

Subsequent Measurement

- Either Cost or Revaluation Model
- To be applied to entire class – No cherry-pick model, to be done asset by asset and not block of assets
- Different models can be applied for different classes of assets such as Land, Building, Equipment and Computers.
- Revaluation can be accounted for in two ways:
  EITHER:
  A. Eliminate the accumulated Depreciation fully, ie., Netting off
  Debit Accumulated Depreciation
  Credit Assets
  OR
  B. Restate Asset & Accumulated Depreciation - Gross up

Revaluation Treatment -Asset by Asset

Upward Revaluation	Devaluation
If no earlier devaluation	**If no earlier upward revaluation**
- Debit Assets - Credit Revaluation Reserve	- Debit Profit or Loss Account - Credit Assets
If earlier devaluation	**If earlier upward revaluation**
- Debit Assets - Credit Profit & Loss Account ***to the extent of earlier devaluation.***	- Debit Revaluation reserve ***to the extent of balance*** in Revaluation Reserve Account - Credit Assets
In both these cases do account for Deferred Tax as per Ind AS 12 Income taxes.	

Yearly Treatment

1.Yearly from Revaluation Reserve directly to Retained Earnings or
2. When the asset is derecognised transfer to retained earnings.
If an entity make such transfers , it should be net of tax- This is not known as reclassification adjustment in terms of Ind AS 1.

Practical Example - 2

ABC & Co., has an item of plant with an initial cost of $ 100,000. At the date of revaluation accumulated depreciation amounted to $ 55,000. The fair value of asset, by reference to transactions in similar assets, is assessed to be $ 65,000.

Method – A : Netting Approach

Accumulated Depreciation	Dr	55,000	
Asset Cost	Cr		55,000
Asset Cost	Dr	20,000	
Revaluation reserve	Cr		20,000

Method B : Gross Up Approach

`Method – B : Gross-up approach

Carrying amount (100,000 – 55,000) =	$45,000
Fair value (revalued amount)	65,000
Surplus	20,000
% of surplus (20,000/ 45,000)	44.44%

Accounting Entries

Asset (100,000 x 44.44%)	Dr	44,440	
Accumulated Depreciation (55,000 x 44.44%)	Cr		24,440
Surplus on Revaluation	Cr		20,000

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Cost	1,44,440
Accumulated Depreciation	79,440
Carrying Amount	65,000

Quiz

Cost of Acquisition	10,00,000
Carrying Amount at the time of de-recognition	4,00,000
Credit in the revaluation reserve at the time of de-recognition	1,50,000
Asset with credit of one year	1,00,000
Market rate of interest	10%

Pass Journal Entry of the above transaction.

Depreciation

To be charged on Systematic Basis- Proportionately
Separately identifiable & Material parts - depreciated separately
Depreciation begins when as asset is ready to be used
Ceases at earlier of :
When asset is classified under Ind As 105 , or
When the asset is de-recognized
The plant is depreciated even if it remains idle – means what ?
Land & Building are separable assets and there to be accounted for separately even though they are acquired together.
Zero Depreciation when – (a) Residual Value is => Carrying amount (b) unit of production and no production (c) Asset classified under Ind AS- 105.

Cost or Revalued Amount − Residual Value = Depreciable Amount

Depreciable Amount ÷ Useful Life (Years) = Amount of Depreciation

Standard mandates yearly review of ***useful life, residual value and method of depreciation***. Changes wherein are regarded as changes in estimate , hence accounted for prospectively – Ind AS 8.

De-recognition of assets

- An asset is de-recognized when no future benefits are expected.
- Gains or losses are recognized in Profit or Loss.
- Balance to the credit of revaluation of the said fixed asset is transferred directly to retained earnings, either by way of sale or finance lease.
- Apply conditions prescribed in Ind AS 18 and Ind AS 17, respectively

Class	Land	Bldg	Plant
Items	20	25	100
Post IFRS Treatment	Revaluation	Cost	Cost
On the date of Transition	10	20	70

Can be Cherry Pick

Difference between IAS and Ind As

Particular	IAS 16	Ind As 16
Carrying amount of PPE in case of Govt. grants	The Standard provides for the reduction of the Government grants from the Carrying value of an item of PPE as per IAS 20	Such reduction is not permitted under the Ind As 20: Accounting for Government grants and Disclosure of Government Assistance, hence the provision is not retained in the Ind As 20