



UNDERSTANDING OF IND AS

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IND AS 16

Property, Plant & Equipment

Session Highlights

1. Applicability
2. Definition
3. Recognition
4. Cost
5. Valuation Policy
6. Depreciation
7. Revaluation
8. De-recognition
9. Disclosure, Others & First time adoption
10. Deemed Cost Exemption
11. Schedule II
12. Extra Shift Depreciation

Applicability

- ✓ **Accounting** for all property, plant and equipment unless another Standard requires or permits a different accounting treatment.

EXCEPTIONS:

- **Biological Assets** other than Bearer plants
- **Financial Instruments** (IND AS- 109, 32, 107)
- **Exploration & evaluation assets** (Guidance Note). Example – Mines, quarries, oil fields

Note : *Asset used in mining are covered in this IND AS, but mines are excluded.*

- **Property, Plant & Equipment's held for Sale.** (IND AS 105)
- Investment Property
- IR under Business Combinations

Note : Owner occupied investment property is accounted under IND AS 116, Cost Model

Definition

Held for :

- Use in the production or supply of goods or services
- Rental to Others
- Administrative purpose

Expected to be used during more than one Period

Spare parts, Stand by equipment are recognized as PPE when they meet the above definition of PPE

Recognition

➤ Cost of an item of PPE will be recognized as an asset PPE (Asset) if:

1. Future
Economic
Benefits flow
to Enterprise

2. Cost is
measurable

3. Tangible

4. Held for
more than
12 months

5. Held for
Use

PPE (Recognition Conditions)

Cost of PPE will be recognized as an "Asset"

Future Economic Benefits

Measurable Cost

These 2 are common conditions for recognizing any expenditure as asset

F.E.B expected from PPE to flow to the enterprise

If cost is not reliably measurable, asset will not be recognized

F.E.B

Flow to enterprise

Expected to be earned/Probable to be generated

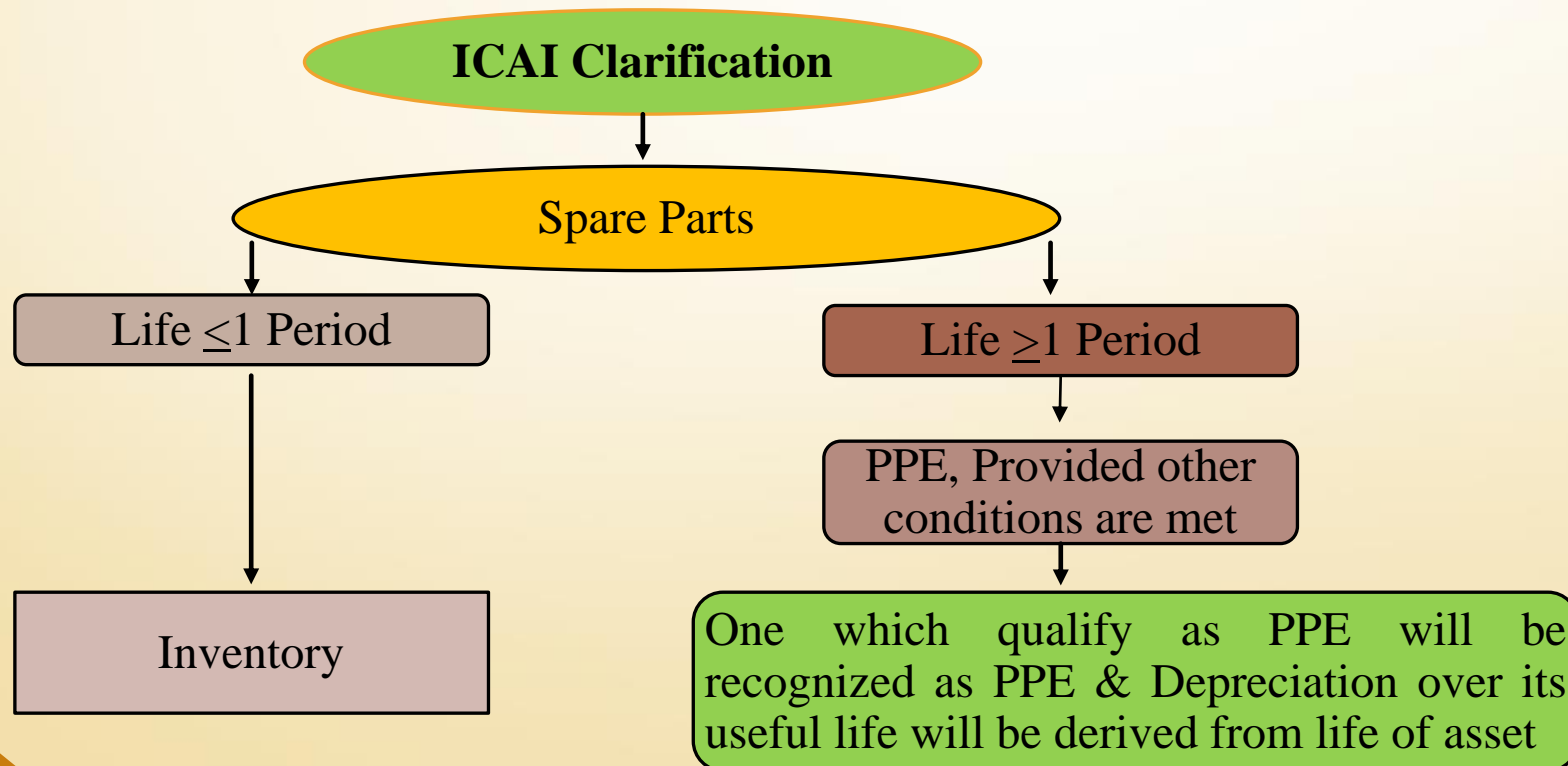
Item should be under "Control" of entity

Is to exist in substance evidence of control (not conclusive):

- Legal Ownership
- Right to Sale
- Right to prevent others from using
- Right to mortgage

Spare Parts

- If Spare parts meets the recognition criteria for PPE then recognized as PPE else inventory.
- Spare parts purchased along with PPE should form part of cost of PPE. Component accounting is relevant.
- Spare parts purchased separately, if recognized as PPE, should be separately recognized (Separate from PPE)



Spare Parts

- **Trade Parlance** : Insurance Spares (Measurement at reporting)
 - ❖ Spares of :
 - a) Significant Value
 - b) Only Specific use associated with its assets, and
 - c) Very unlikely to be used during the life of its asset
 - ❖ Such Spares, like other spares with Life > 12 months, will be recognized as PPE & depreciated from date when its ready to use , even if it is not installed & put to use. Life of such spare part will be usually equal to life of the PPE to which such spare belongs.

COST of PPE

A

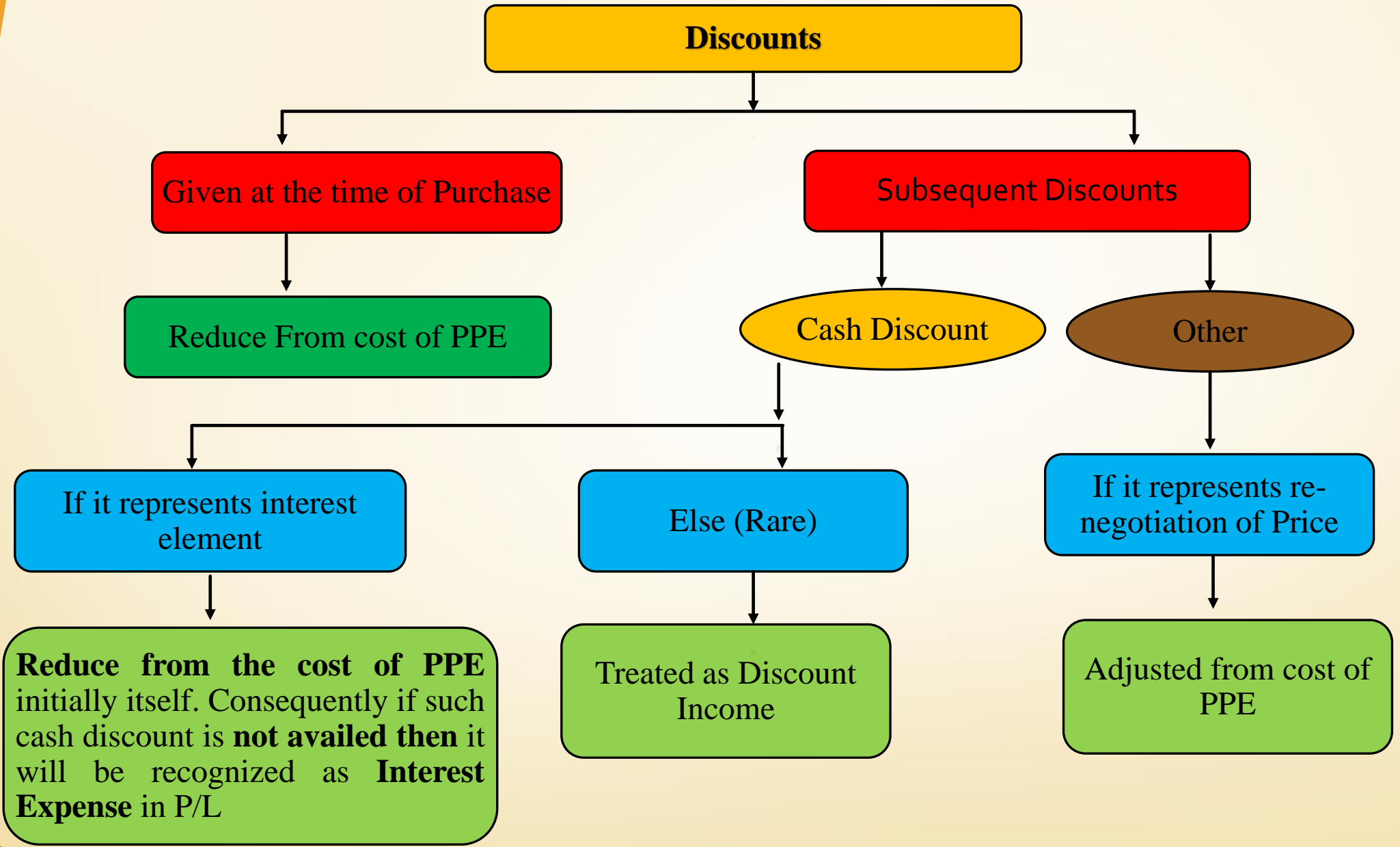
Initial Cost

Purchase Cost

Purchase Price

-
Trade Discount (Excluding
recoverable Taxes)

- Trade Discount : Discount given at the time of Sale/ Purchase
- RE- Negotiation : Subsequent discount on accounting of renegotiation of price. Usually when price originally was provisionally decided, quality discount, volume discounts, etc
- Recoverable Taxes: Not added to the cost as it does not represent cost to the enterprise but in the nature of prepaid taxes, Taxes, Non-recoverable for entity, will be added to the cost of asset.



Elements of Cost

- PPE is initially **recognized at cost**. Historical cost comprises of :
1. The **Purchased price** (Cash price alone if terms are on deferred credit basis)
 2. **NON- Refundable taxes** after deducting trade discount and rebates.
 3. **Cost directly attributable** to bringing the asset to the present location and condition.

Examples of Directly attributable costs are:

- Cost of Site preparation
- Costs of employee benefits (As defined in IND AS 19) arising directly from the construction or acquisition of the Item of PPE.
- Initial Delivery and handling costs.
- **Installation and assembly cost.**
- Cost of testing whether the asset is functioning properly , after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition
- Professional fees.
- **Cost directly attributable Estimated cost of dismantling , restoration** of the site on which it is located.

Elements of Cost

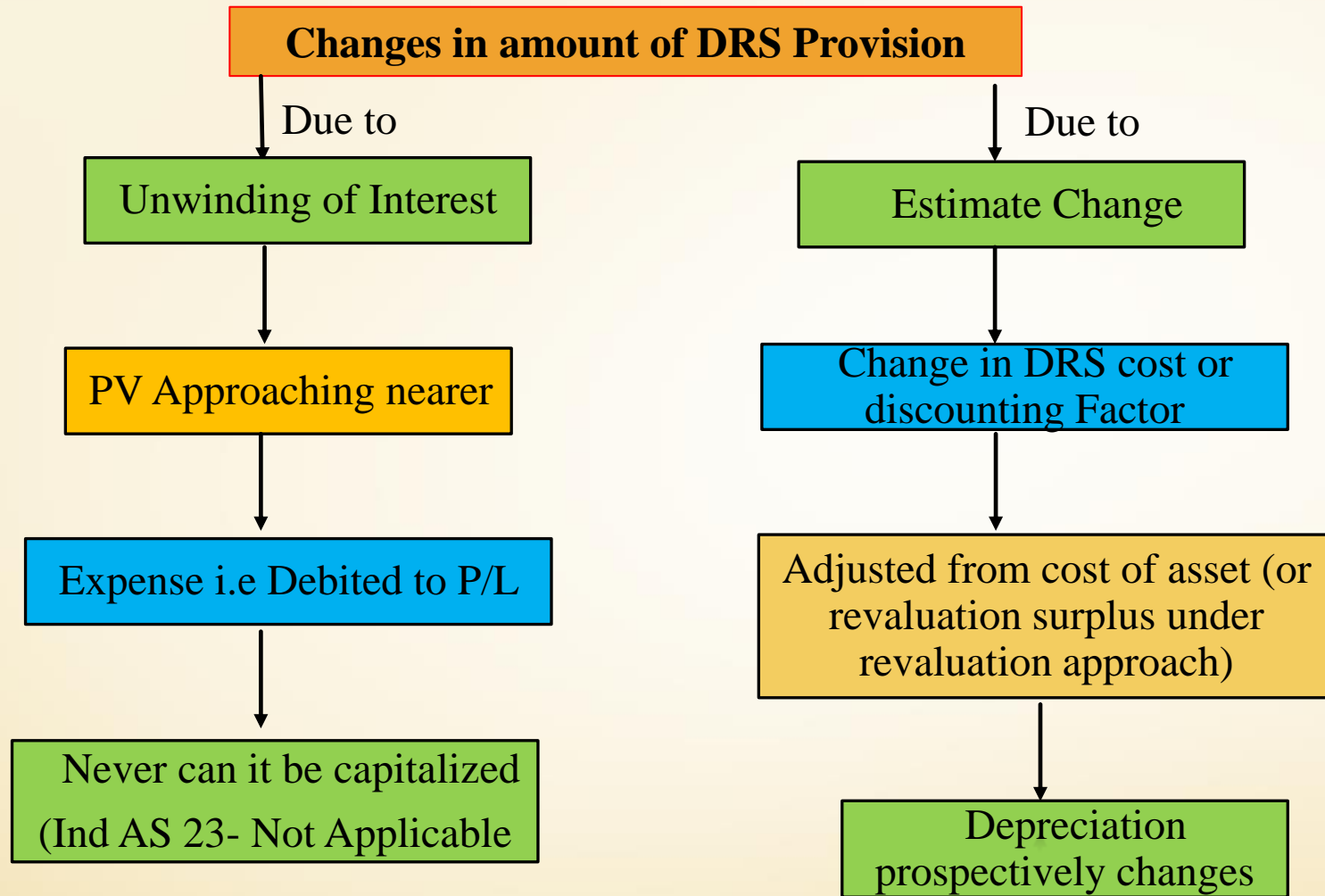
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graph TD; A[Elements of Cost] --> B[B. Expenses not included in cost of PPE]; B --> C[I. General admin overheads]; B --> D[II. Sales & Promotion overheads]; B --> E[III. Abnormal expenses]; B --> F[IV. Initial operating losses if asset is operated at loss than commercial level initially, its operating losses can not be capitalized]; B --> G[V. Cost incurred prior to acquisition of asset & not as a consequence to purchase the asset]; B --> H[VI. User training Fees];
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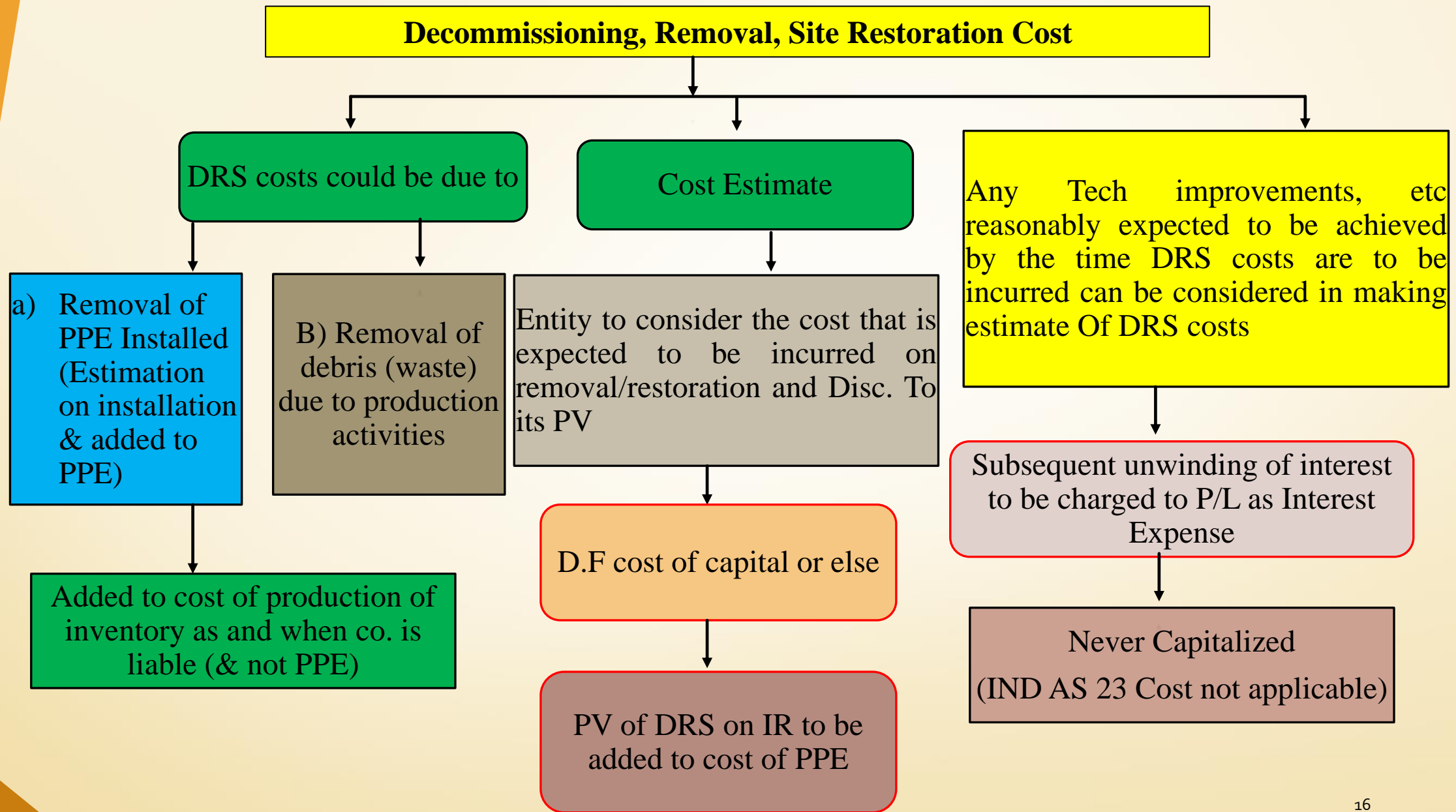
B. Expenses not included in cost of PPE

- I. General admin overheads
- II. Sales & Promotion overheads
- III. Abnormal expenses
- IV. Initial operating losses if asset is operated at loss than commercial level initially, its operating losses can not be capitalized
- V. Cost incurred prior to acquisition of asset & not as a consequence to purchase the asset
- VI. User training Fees

Decommissioning , Removal and Site Restoration Cost

- As per IND AS 37, Provision, Contingent Liabilities & Contingent Assets and Liabilities that is not in the hands of entity to be avoided is an obligation, such obligation/ liability should be provided for it is probable (likely)
- On purchase of asset if an entity incurs an obligation for dismantling asset & restoring the site, which is unavoidable then provision should be recognized for such obligation, termed here as “Provision for DRS Cost”
- **Provision of DSR** = PV of expected DRS cost at the date when it is expected to be incurred
- DRS expense shall be added to the cost of PPE at discounted value unless such expense relates to production of inventories.
- **A provision for such expense** will be recognized as per IND AS 37, which requires **recognition of a liability when there is present obligation arising out of past events on reporting date.**





Subsequent Expenditure

Additions

- If it satisfies the recognition criteria, capitalized .
- Capitalized to cost of asset else charged to P/L
- Facts to be considered to determine whether it will be added to cost/recognized as separate asset.
- If 3 conditions of definition of PPE is satisfied then recognize as separate asset.

Replacements & Non-Recurring expenses (Frequency More than 1 Year)

- Derecognize the carrying amount of existing part/ non recurring cost
- Capitalize the replacement part/non-recurring expense to cost of PPE
- Not applicable for recurring replacements or day to day servicing costs

Cost : Modes of Acquisition

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graph TD; Root[Cost : Modes of Acquisition] --> A[A. CASH]; Root --> B[B. Credit]; Root --> C[C. Leases];
```

A. CASH

Cash Price Treated as cost of PPE subject to discounts and recoverable taxes,

B. Credit

If asset acquired for deferred consideration then interest element to be excluded from cost of PPE

C. Leases

- Initial recognition to be as per IND AS 116
- Subsequent accounting including of PPE depreciation – IND AS 16

D. Exchange

Whether exchange has commercial Substance?

Recognize PPE acquired at CA of asset Given

Whether FV of asset given or acquired is reliably measurable?

Recognize asset acquired at FV of asset given up.

(Principle: Cost principle unless FV of asset acquired is more reliably determinable)

- If the transaction has commercial substance and fair value of asset given or acquired is determinable then record PPE at fair value of asset acquired is more evident.
- If the transaction doesn't have commercial substance or fair value of both asset given or acquired is not determinable then recognise asset acquired at carrying amount of asset given up.

1) Commercial Substance

Transaction will have commercial substance if:

- Configuration of cash flows from asset given to assets acquired are different
OR
- Entity specific fair value (i.e PV of Cash Flows from asset that may be earned by entity) is significantly different from the value of asset exchanged.

2) Evident Fair Value

FV that is more precise is considered to be more evident.

Explanations:

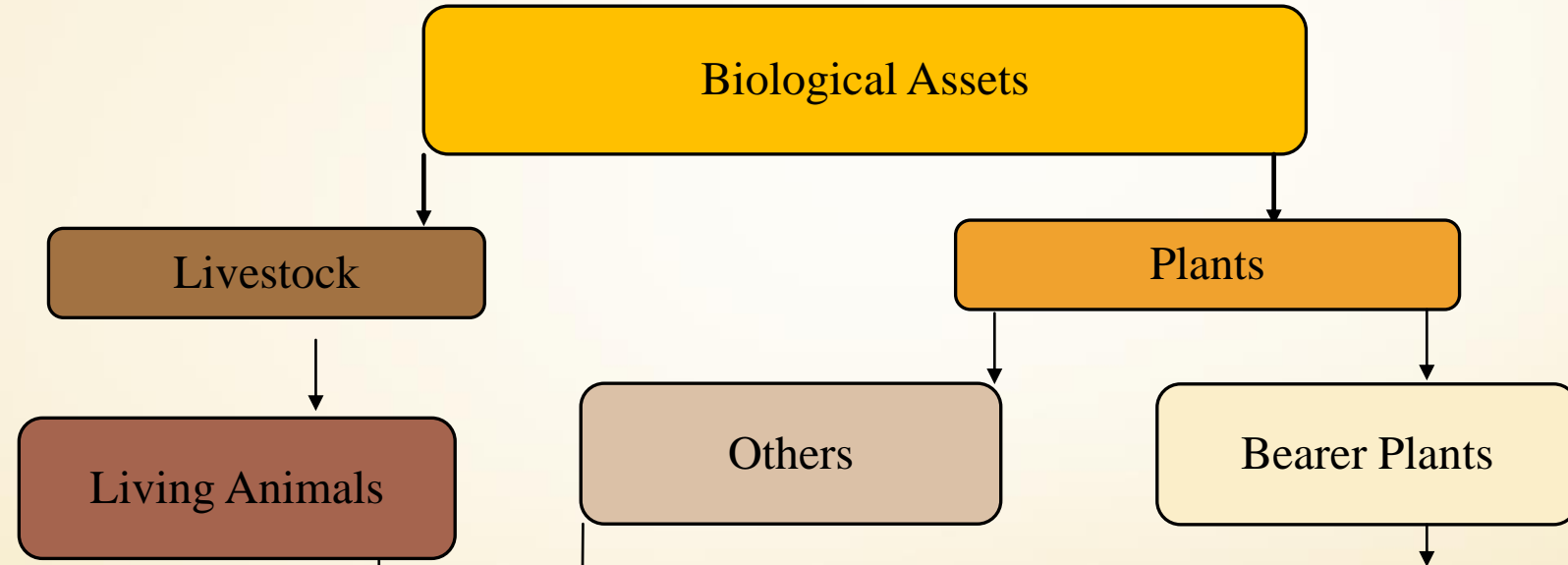
- Active market price is more evident than arm's length price.
- Value of new asset is more evident than value of old asset.

3) If PPE acquired against consideration of

- **Shares** : As per Ind AS 102, fair value of PPE to be recognized as cost unless it is not available, wherein fair value of equity instruments granted to be recognized as cost.
- **Receivables/monetary items**: Not treated as exchange. Receivables are 1st recognized as its recoverable amount and this amount will be treated as cost of PPE acquired

E. Bearer Plants

✓ **Recognized at cost**, similar to self constructed assets (will be Discussed)



Plants held for bearing produce to be harvested but does not includes

- a) Plant **Life** \leq 12 Months
- b) Plants themselves held for **Harvest/sale as goods**
- c) Plants that are held for **bearing produce & for sale other than sales as residue**

E. Self Constructed Assets

- Costs attributable + cost reasonably allocate will be added to cost of PPE till asset is ready for management intended use.
- Capital advance given like advance to labour contractor , not to be added to “**Capital Work in progress**” but shown separately as NON-Current Assets as **Advances – Capital Advance**.
- Borrowing costs capitalised as per IND AS 23 on borrowing cost.
- Depreciation on own equipment used in construction will be included on pro-rata basis.
- No opportunity cost, Abnormal losses, income/ expense that do not relate to construction of asset are included in cost.
- Till PPE is under development shown as CWIP under Non-Current Assets.

Directly attributable means

Includes

- Direct Material, labour, Transit freight & insurance of material use in construction
- Trial Run Expense
- Installation
- Professional Fees
- Depreciation on equipment's used in construction of asset

Excludes

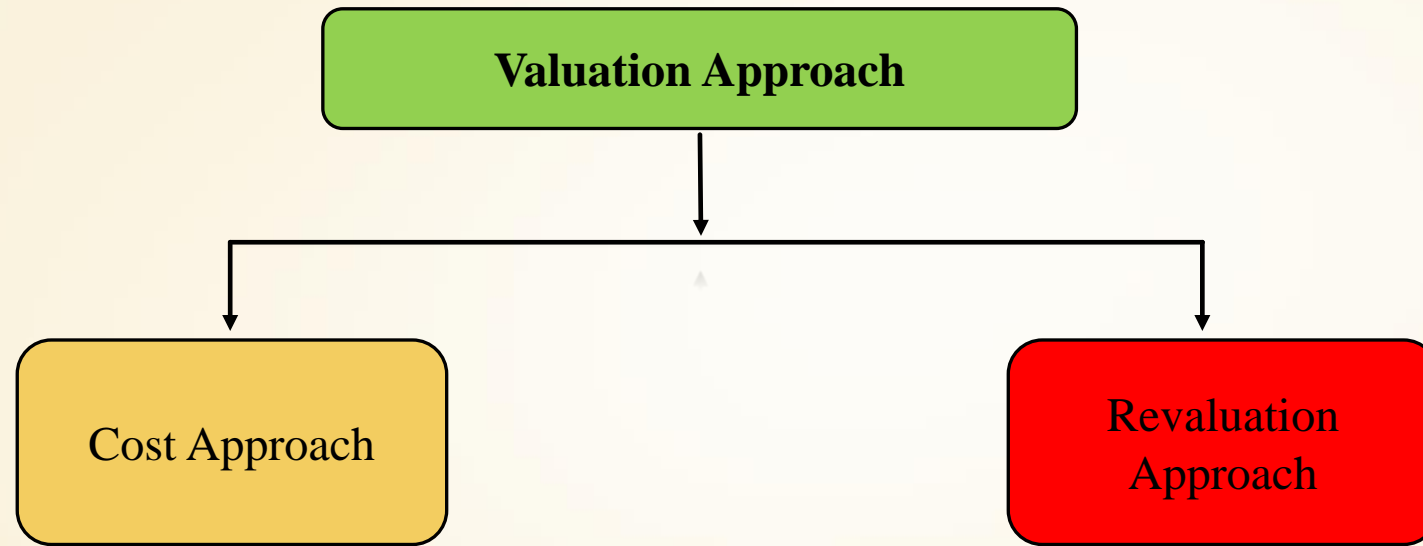
- User Training fees
- General admin. Overheads (Audit fees etc.)
- Expenses prior to construction
- Ancillary operation expense/revenue
- Abnormal loss
- Inauguration expense
- Selling & distribution expense
- Initial operating losses till asset reaches commercial capacity levels
- Cost of relocation, dismantling etc. of old asset
- Borrowing cost unless permitted by IND AS 23

G. Unit of Measurement

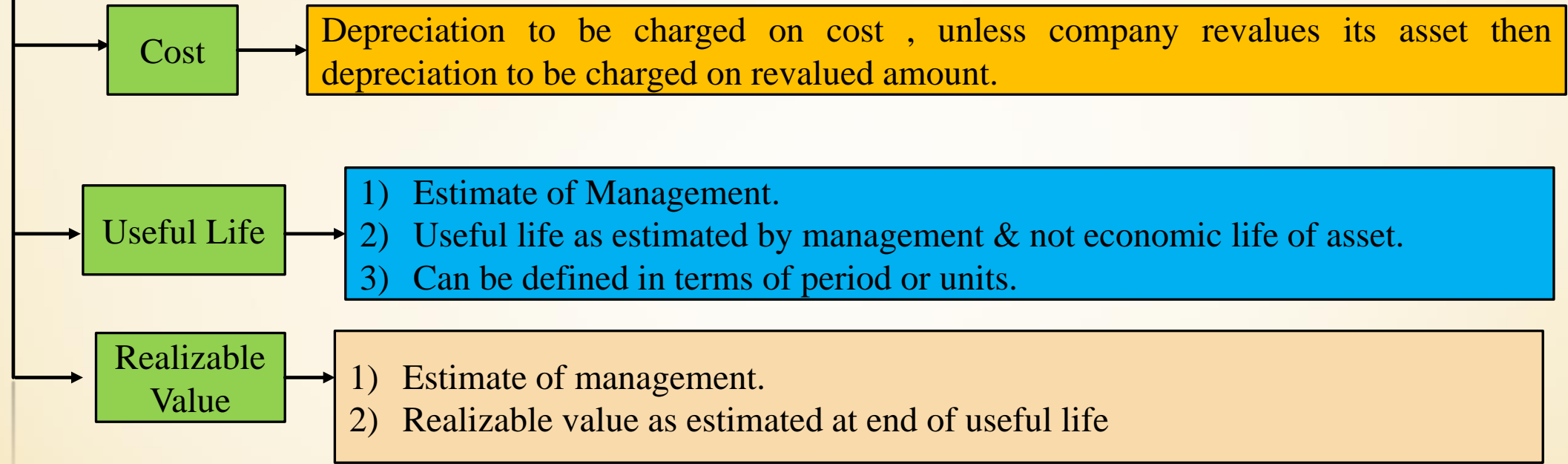
- ❖ Entity to determine the unit of measurement of PPE acquired
- ❖ Assets of different class/ life/ use should be recognized separately .

Example: Purchase of College Premises

Entity may record all buildings of College as one building or segregate and separately record various blocks of building as separate buildings (like Canteen block, Sports block, Residential block)



Factors of Depreciation



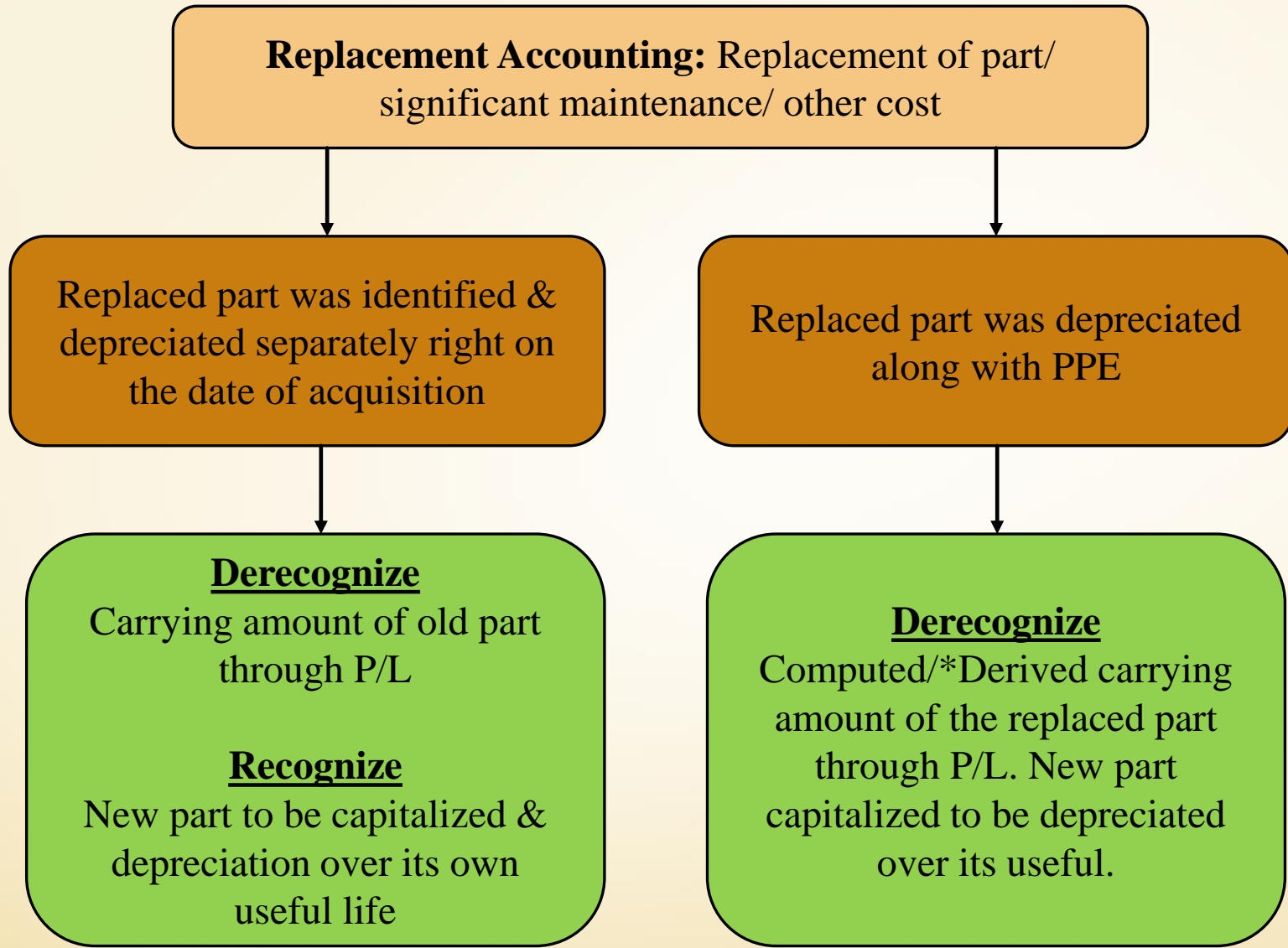
Method of Depreciation

- 1) No restriction on choice of method.
- 2) **Time based** : Example = SLM/WDV or Usage based (Production Units, Machine Hour)
- 3) **IND AS** requires that method of charging depreciation to be such that it reflects “**Pattern of Consumption of future economic benefits from the asset**”.
- 4) **Can depreciation to be charged in proportion of Revenue?**

REVENUE is not reflective of consumption of PPE as it is affected by various factors other than those relating to consumption of asset like competition, opportunities in market, goodwill of company etc. Hence Revenue based depreciation not to be charged unless life is defined in terms of revenue or where revenue represents consumption of future economic benefits from asset.

Depreciation under Cost Approach (Key Notes)

- Systematic allocation of depreciation amount:
Cost – estimated residual value over its useful life
- Depreciation is charged to P/L unless PPE is used in connection with production/construction/development of asset.
- Method of charging depreciation should be such that “**depreciation charged reflects the pattern over which future economic benefits of assets are expected to be consumed by the enterprise.**”
- IND AS doesn't prescribe any particular methods & permits use of any method including SLM/WDV/usage based method.
- Under any method, depreciation is charged from date when asset is ready to use.
- However, under **Usage based methods** “NO” depreciation is charged, if asset is not used during the period, hence such method should be used if appropriate.
- Choice of method to be based on not just the pattern of consumption of asset but also considering other factor like technological obsolescence, regulatory factors etc.
- **Assets to be depreciated till it is:**
 - A. Derecognized or
 - B. Classified as held for Sale
 - C. Carrying value < Realizable value
 - D. Retired from use (Impairment)



Computed/ Derived carrying Amount

Step 1 : Identify cost of replaced part on the date of acquisition by identifying cost on DoA/ considering cost of such part on replacement subject to adjustment for inflation

Step 2 : Derive carrying amount by reducing proportionate depreciation charged

Component Accounting

IND AS requires component of asset of:

Material Value

Having Life

To be depreciated along with asset over useful life of asset

To be depreciated over its own useful life

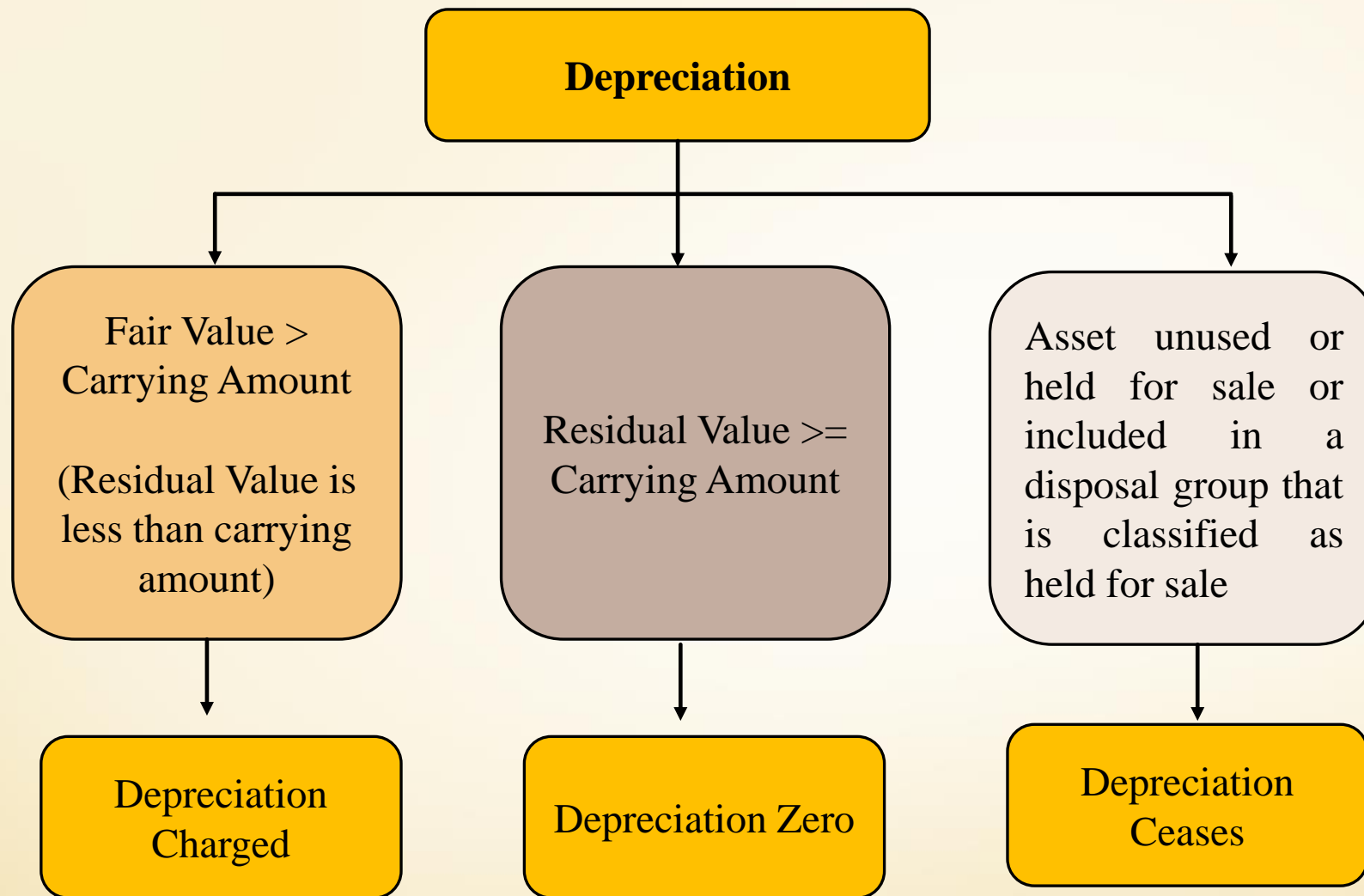
Insignificant Values

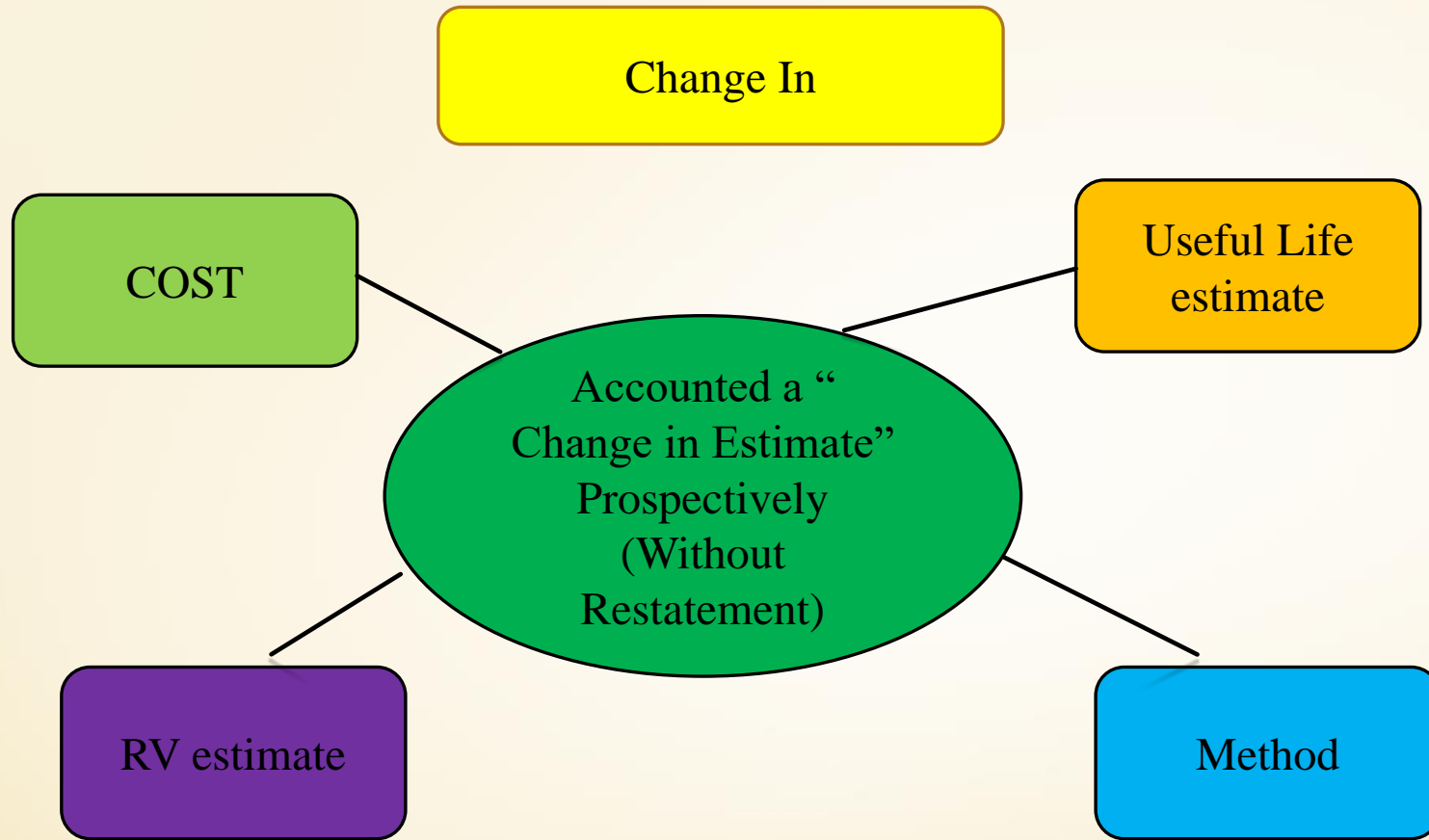
To be dubbed together and depreciation over its useful life or along with asset as per asset's useful life

Component accounting is relevant for computation of depreciation and doesn't require component wise presentation of PPE in FS.

Residual Value

- The **Residual value** and the **Useful life of an asset** should be **reviewed at least at each financial year end** and if expectations differ from previous estimates, the **Change(s) should be accounted for as a change in an accounting estimate** in accordance with IND AS 8, Accounting policies, Changes in accounting estimates and errors.
- The **residual value of an asset may increase to an amount equal to or greater than the assets carrying amount**. If it does, the asset's **depreciation charge is Zero** unless and until its residual value subsequently decreases to an amount below the asset's carrying amount
- Depreciation is recognized even if the **fair value of the asset exceeds** its carrying amount.
- **Repair and maintenance** of an asset do not negate the need to depreciate it.





Revaluation of Property, Plant & Equipment

A

Para 29 requires entity to **make a choice between cost approach (Para 30) & Revaluation approach (Para 31)**

B

Choice is a matter of accounting policy

C

The choice should be made for a class of asset and not for assets on selective basis.

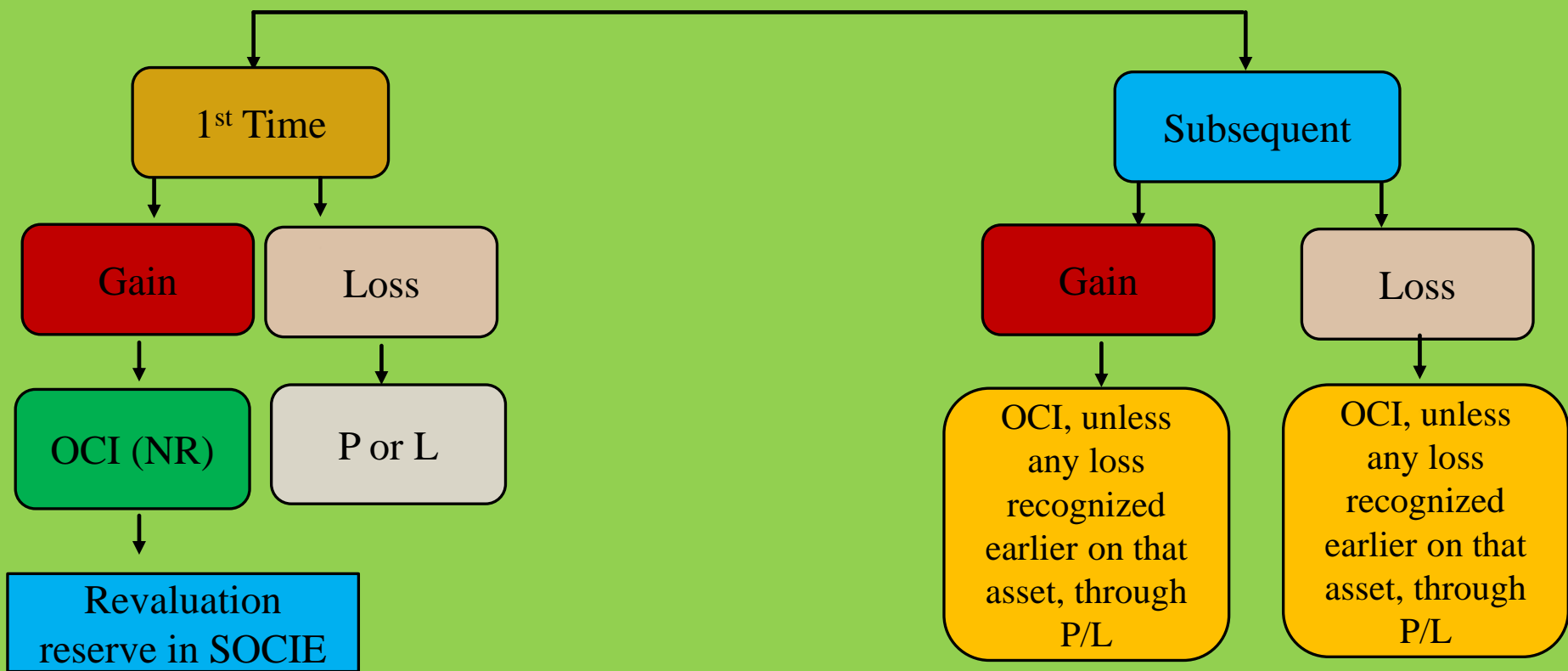
D

Class of assets are group of assets with similar characteristics

E

Entity following Revaluation approach :

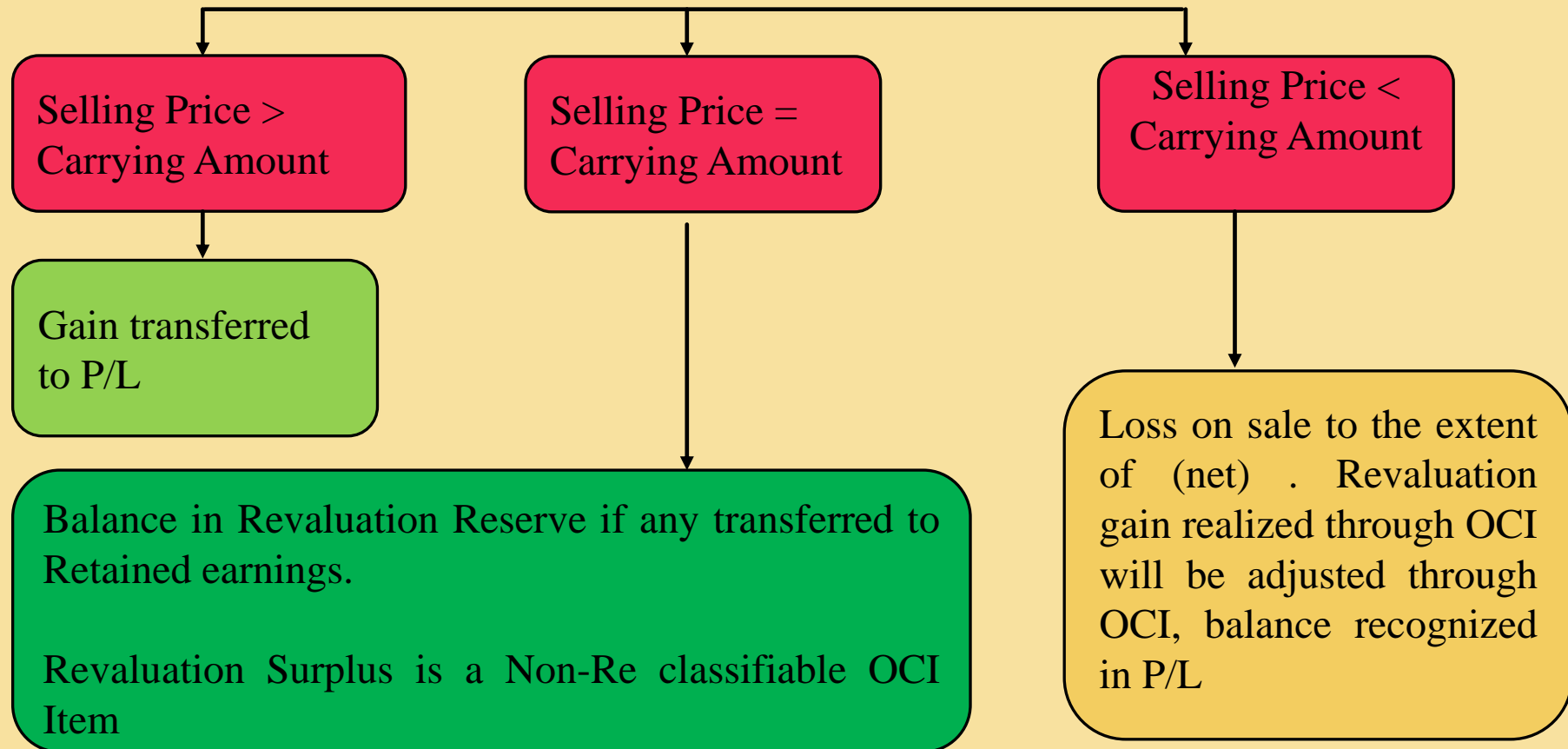
1. Should **revalue the complete class of asset** unless the fair value of any asset is not determinable.
2. Revaluation to be done **at fair value** i.e. price at which asset can be sold in an orderly transactions between market participants (Selling price)
3. **Revaluation gain/loss:**



4. Depreciation charged on revalued amounts & debited to P/L.

5. Excess of depreciation charged on revalued asset in comparison to depreciation on cost, can be transferred from OCI to retained earnings by the entity.

6. On sale of Asset :



7. Asset held for sale : Accounted under IND AS 105 no further revaluation on such assets.

F Frequency of revaluation

- Entity to decide based on volatility of fair value of PPE.
- **Volatile value assets- annual revaluation.**
- **Others- once 3-5 years.**
- Entity to ensure fair value and carrying amount are not significantly different.
- Revaluation may be done anytime during the year but it should be done same time every year

G**Accounting entry for Revaluation Gain****Option 1:**

Accumulated depreciation
(Provision for Depreciation)

Dr. {To the extent of accumulated depreciation}

PPE

Dr. {Balance Available}

To PPE

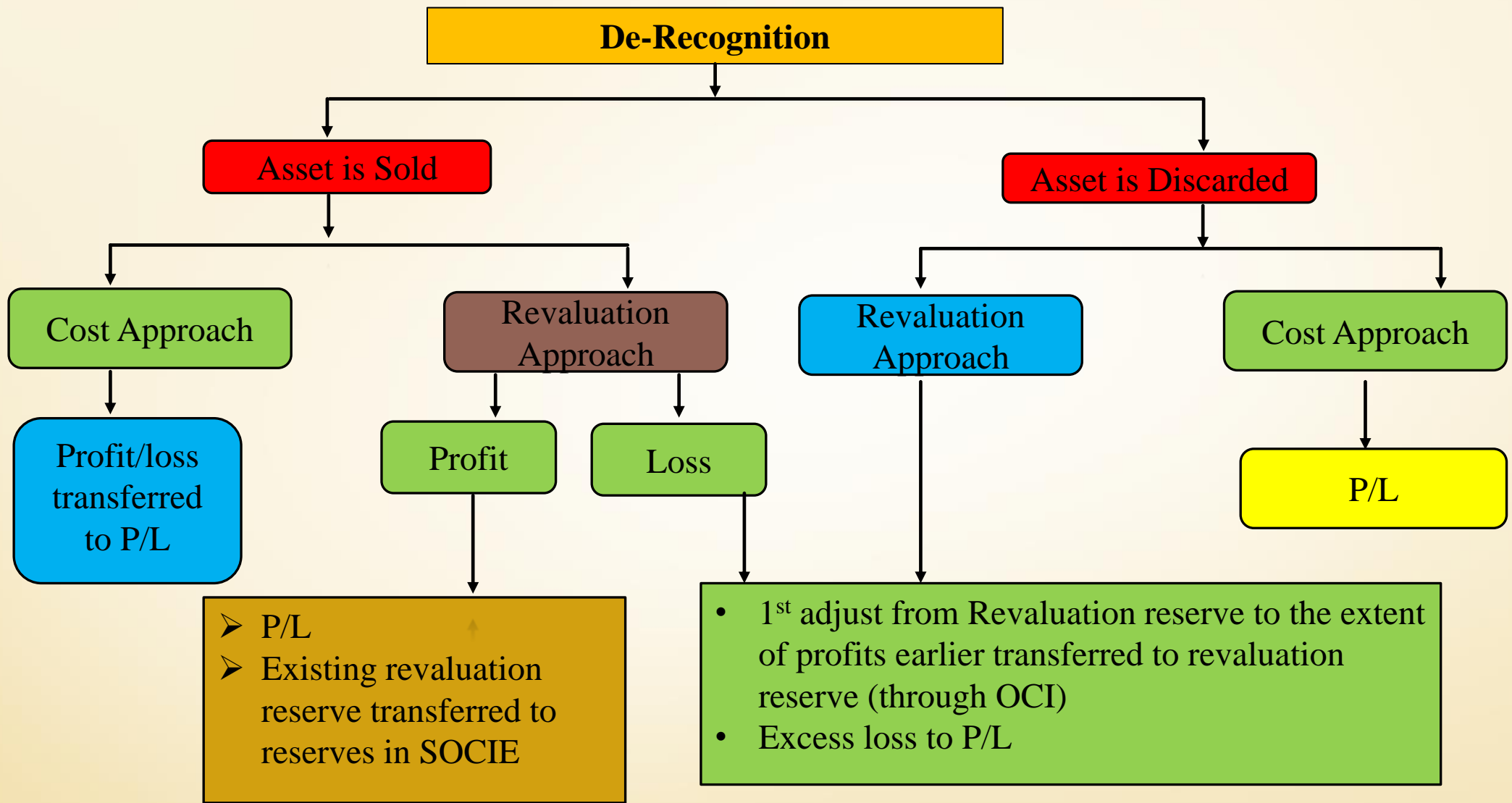
{Excess, if Any}

To OCI

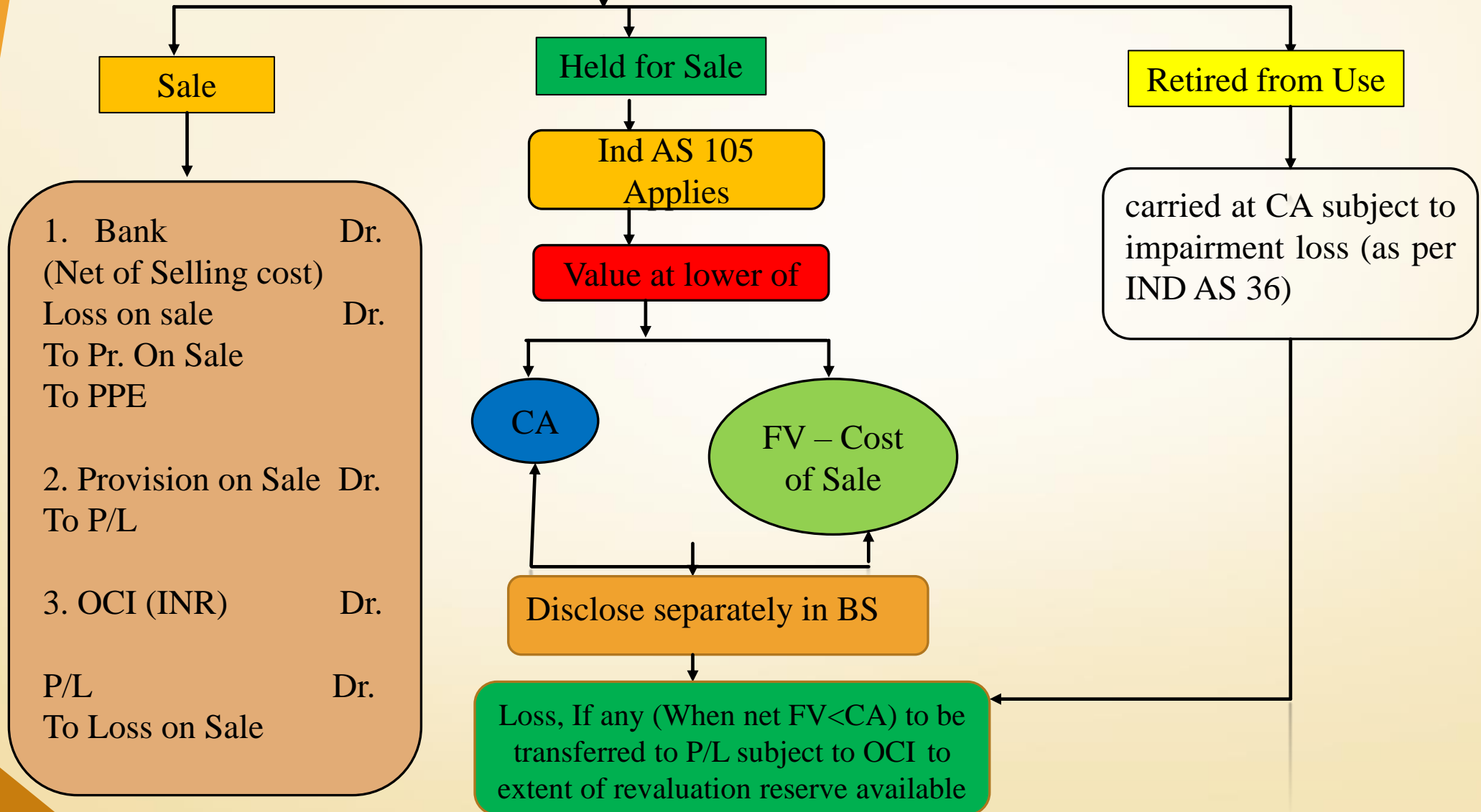
{Deficit if any revaluation gain}

Option 2:

Increase the proportionate cost & accumulated depreciation to bring asset to its revalued amount from carrying amount.



De-recognition Accounting



Schedule II to Companies Act

1. Applies to all companies except companies for which useful life/Realizable value/ rate of Depreciation is prescribed elsewhere in other law
2. **Prescribes:**
 - a) **Useful life of assets :** Any company, using any life other than it needs to should :
 - 1) Obtain professional certificate.
 - 2) Disclose fact in financial statement.
 - b) **Residual Value:** Permits residual value up to 5% of cost. If company estimates greater realizable value the (i) & (ii) above applies.
3. Depreciation is charged from the date when asset is ready to use.
4. Depreciation is charged on cost/revalued amounts.
5. **Methods :**
SLM/WDV/any other **appropriate method.**

Schedule II to Companies Act

6. Change in useful life/ Residual Value : Accounted for Prospectively

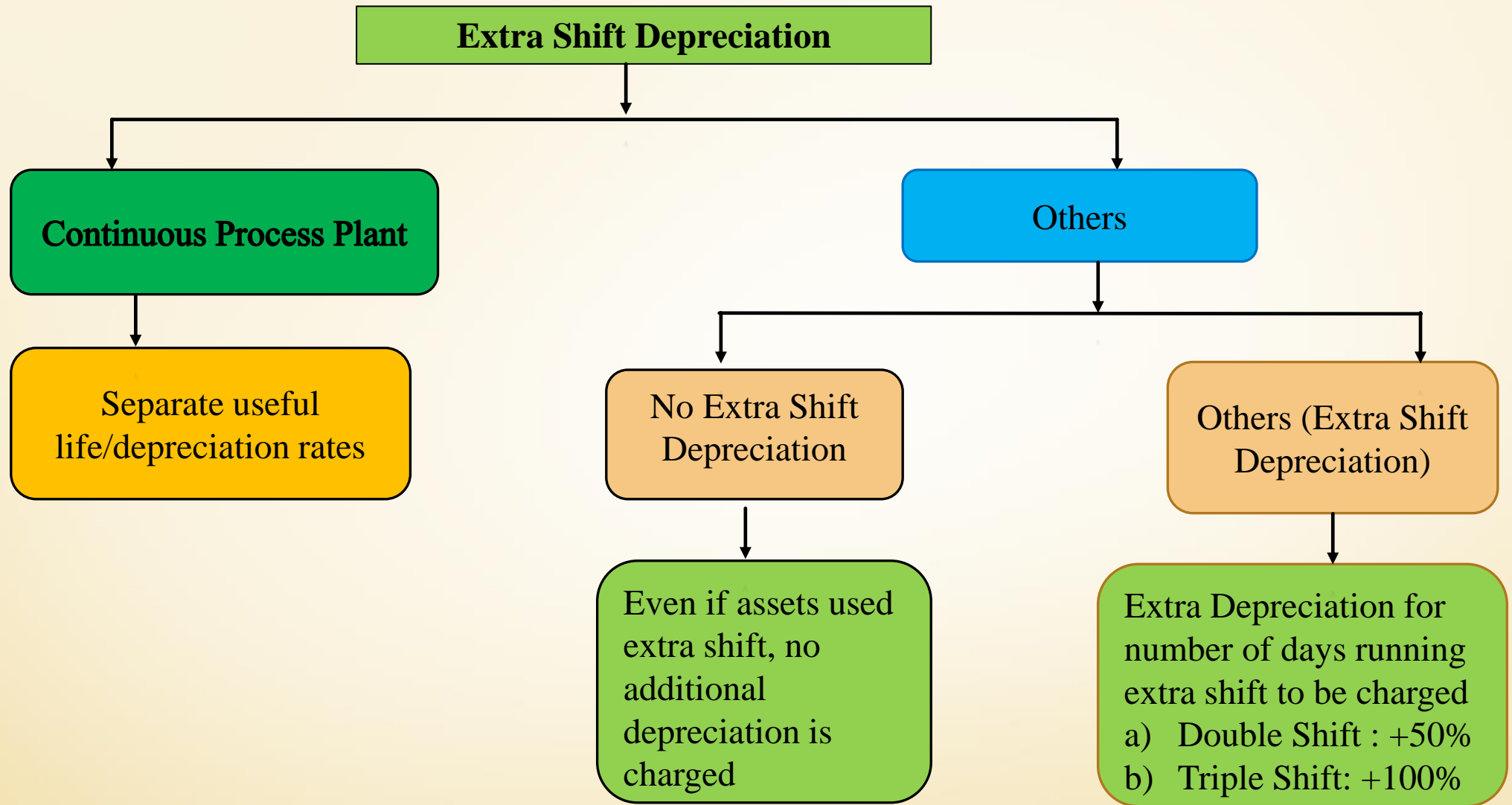
7. If used asset is purchased then the useful life of asset given under schedule II to be reduced by life of asset that is already consumed .

8. First time adoption of Schedule II

Schedule II was made effective on 01/04/2014 and was applied retrospectively with adjustment made from carrying amount of PPE and opening reserves (Subject to DTA/DTL)

9. Time proportion depreciation to be charged

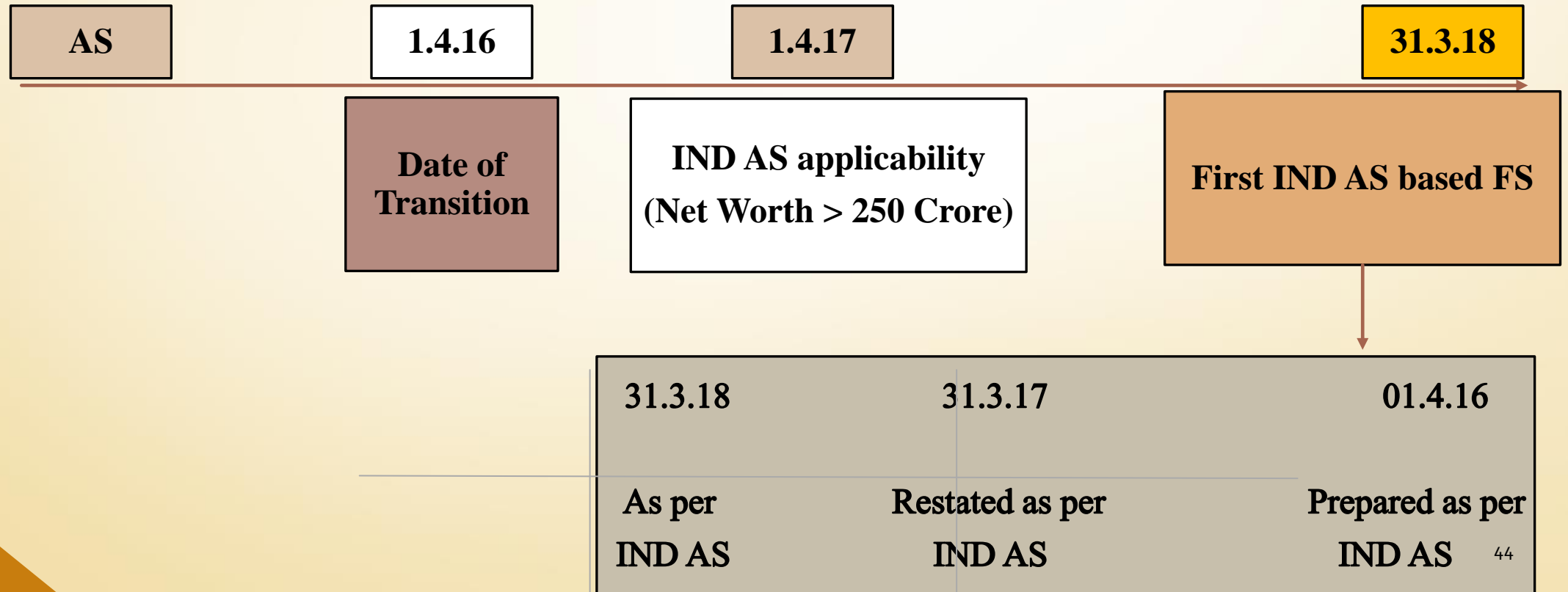
10. Component accounting mandated by Schedule II.



***Continuous process plant is designed due to the nature of process to run continuously i.e in all 3 Shifts. Because it involves substantial time & cost to shut down & then start up**

First Time Adoption (FTA) IND AS 101

A. Basic Principles of FTA



Steps to be Followed

1. Determine the Date of Transition

2. Restate DoT BS from previous GAAP FS to FS as per IND AS ensuring

a) Recognize all assets and liabilities whose recognition is required by Ind As

b) Not recognize items as assets or liabilities if Ind AS do not permit such recognition

d) Apply Ind AS in measuring all recognised assets and liabilities

c) Reclassify items that it recognised in accordance with previously GAAP as one type of asset, liability or component of equity , but are a different type of asset, liability or component of equity in accordance with Ind As

Steps to be Followed

3.

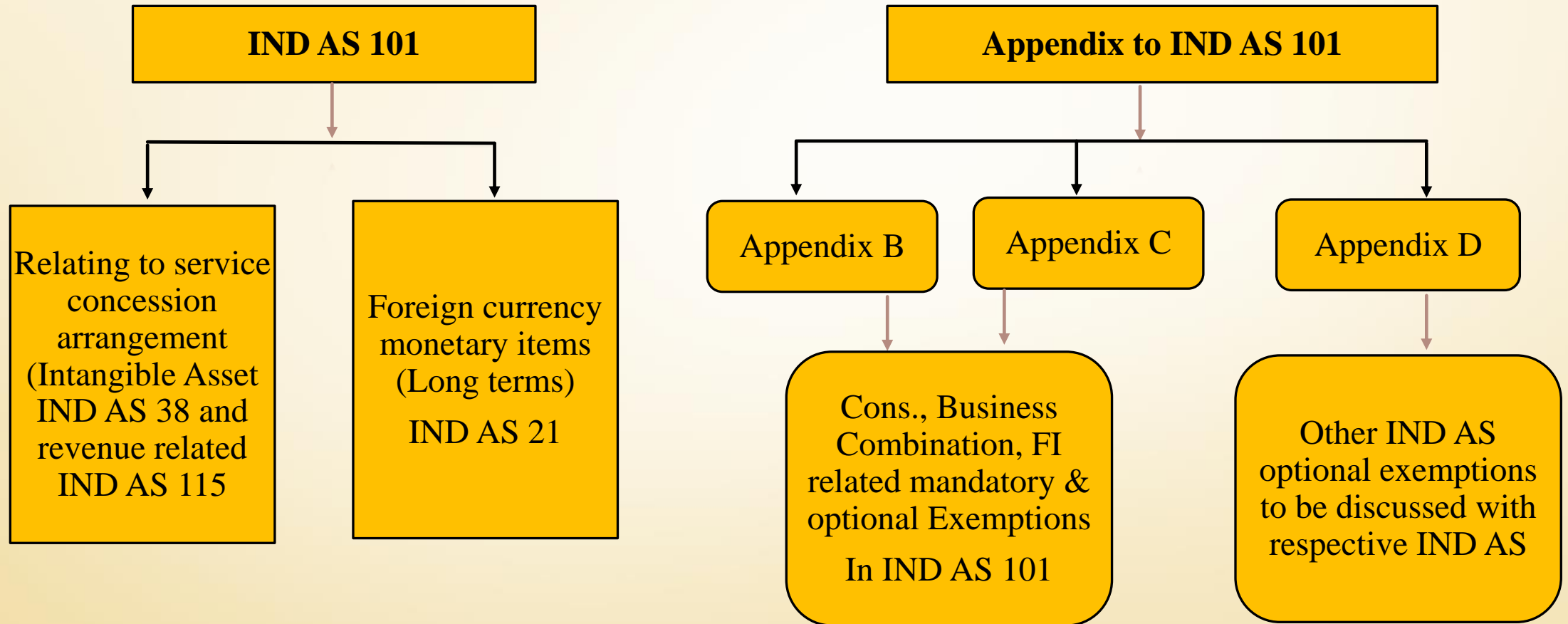
Difference to be adjusted from opening reserves(on DoT, subject to any deferred tax adjustment

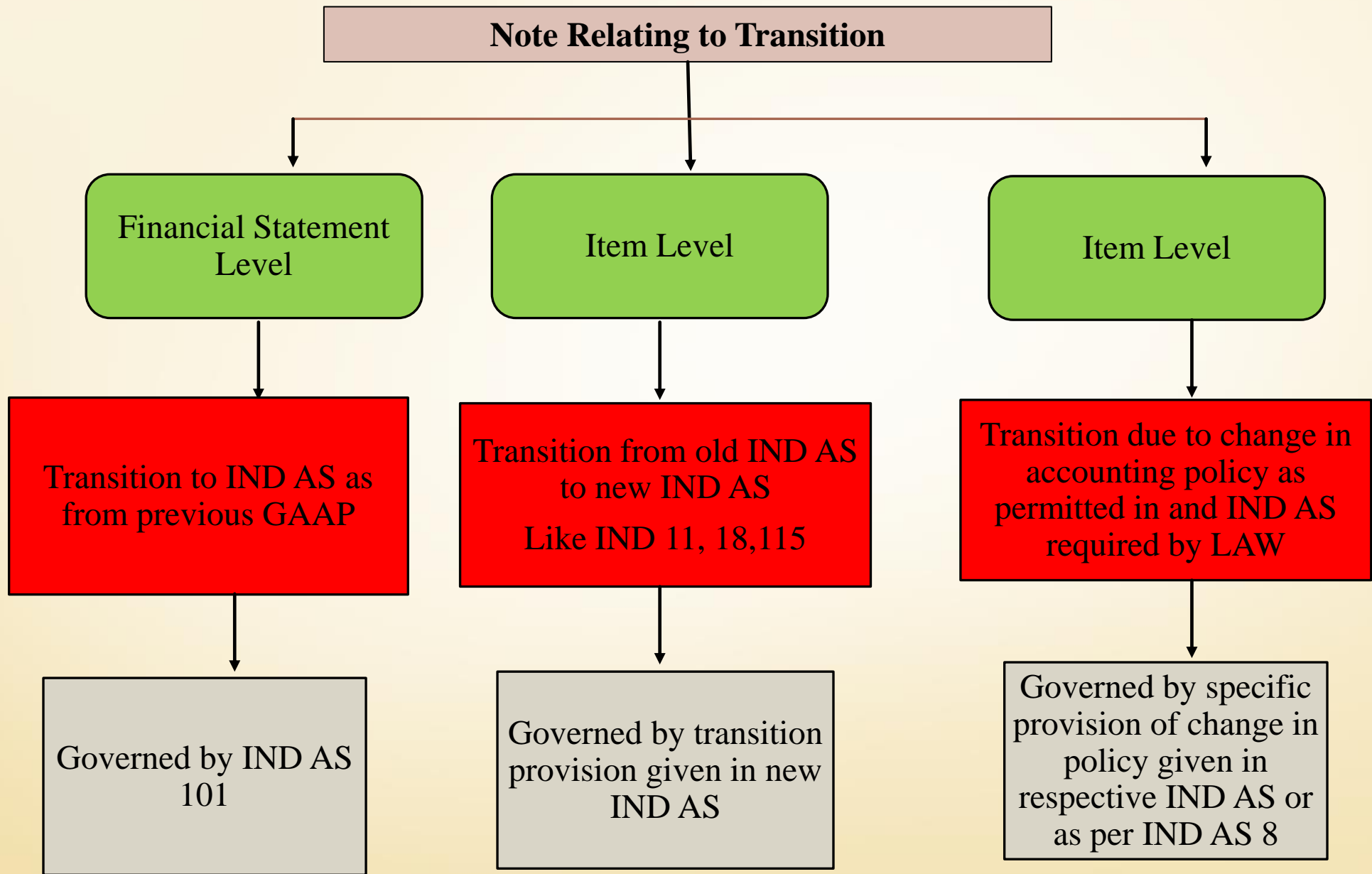
4.

Present first IND AS FS along with additional disclosures of IND AS 101 with an “Explicit Unreserved Statement” that “FS” are prepared as per IND AS

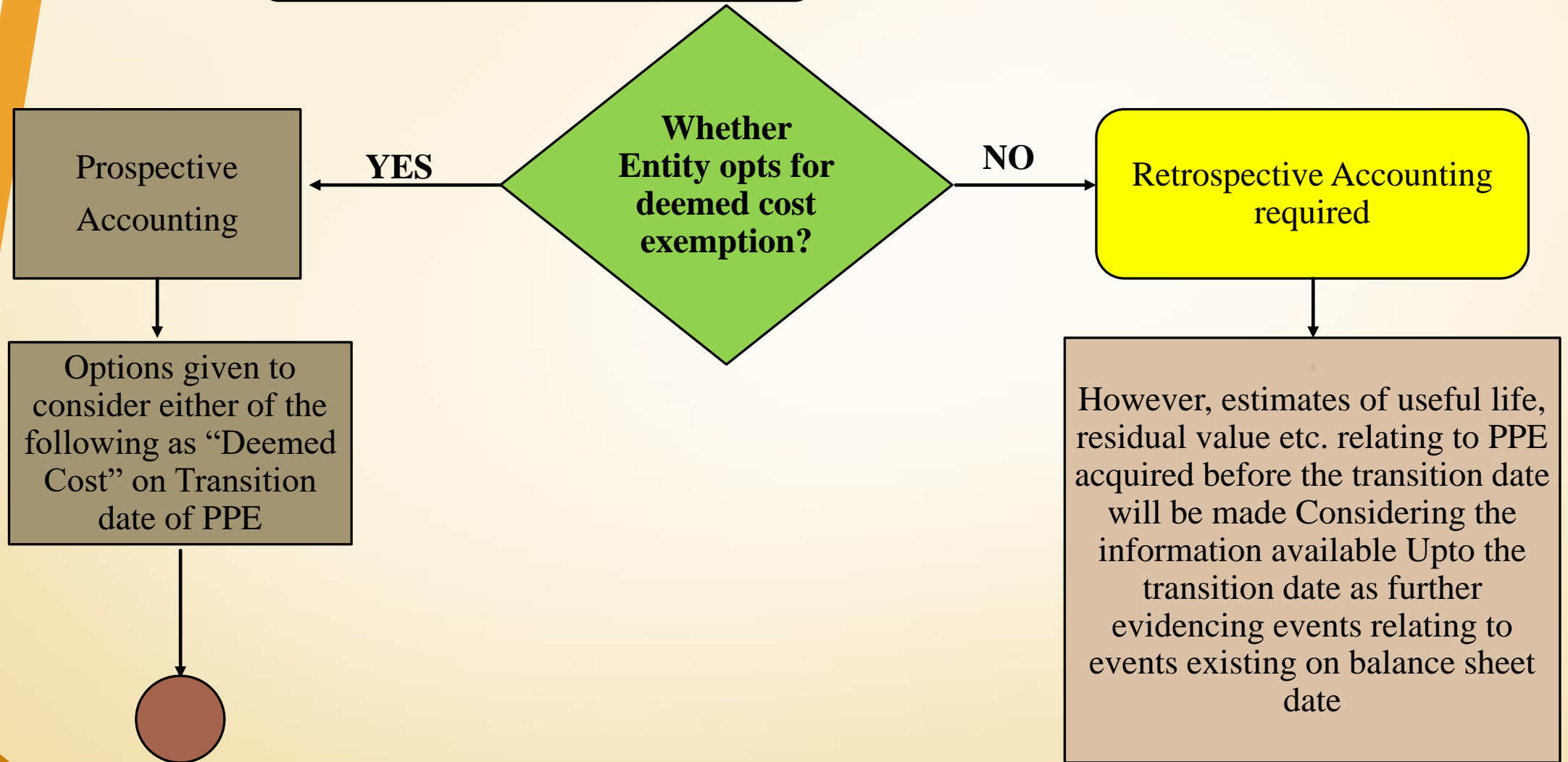
Exemption given in 101

Exemption from retrospective application of IND AS on the Date of Transition
(Once in lifetime exemption available on year of transition to IND AS and not later)





Deemed Cost Exemption



Option 1

Para D5 to 7 Revalue PPE on Transition date at fair value and consider, such FV as deemed cost, (FV as per IND AS unless the PPE is revalued under previous GAAPs &

- a) FV on transition date is not significantly different from carrying amount of PPE
- b) Revaluation was done under restructuring/ public issues , or
- c) Revaluation done previously is adjusted from price changes

Option 2

Para D7AA

Consider the Carrying amount of PPE as per previous GAAPs, as deemed cost on transition date subject to adjustment for **(Cost of DRS)**

PPE of Subsidiaries:

- If subsidiaries were consolidated consider carrying amount used in consolidated financial statements.
- If subsidiaries not consolidated consider carrying amount of PPE of subsidiary as appearing in SFS of subsidiary

Cost of DRS to be added to carrying amount of PPE:

- 1) Determine present value of DRS on date of acquisition of PPE. (Not DoT)
- 2) Depreciate DRS for number of years for which PPE has been in use as per life of PPE. Such depreciated DRS will be added to cost of PPE

- Company whether opting option 1 or 2 is free to choose its accounting approach for future accounting under IND AS as costs approach/ revaluation approach.
- Optional exemption is for “**Measurement only**, there is no “**Recognition Exemption**” for PPE. i.e PPE appearing under old GAAP, if does not qualifies to be PPE then it has to be written off and vice-versa.
- Option selection is available for entity as a whole & not class wise.
- Option for PPE, Intangible Assets and investment property , Para D5 to 7 not available to IP.
- Post DoT entity to measure PPE in its IND AS Financial Statements as per its measurement policy of cost or revaluation irrespective of option on DoT.
- Option not available if any item was not recognized as PPE under previous GAAPs



THANK YOU