IND AS -16: Property Plant and Equipments

AS – 10 : Accounting for fixed assets
AS – 6 : Depreciation accounting
Schedule II of CA2013

Ashish Mistry / Jignesh M
- Scope
- Definition
- Recognition and Measurement
- Subsequent Measurement
- Depreciation
- Component Accounting
- De-recognition & Impairment
- Certain other differences - IND AS & Existing AS
- Disclosure Requirements
- First time adoption
- Key Differences IND AS & ICDS
Scope

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

- **Does not Apply to:**
  - Property Plant & Equipment classified as held for sale (IND AS 105)
  - Biological Assets related to Agricultural activity (IND AS 41)
  - Exploration and evaluation assets (IND AS 106)
  - Mineral rights and mineral reserves

- Also applies to Investment Property – Cost Model (IND AS 40)

Existing AS 10 provides for other specific exclusions like
- Live stock
- Expenditure on Real Estate Developments
DEFINITIONS
Property, Plant and Equipment (‘PPE’)

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 recognised as PPE when they meet the above definition of PPE.
RECOGNITION AND MEASUREMENT
Recognition and Measurement

Property, Plant & Equipment shall be recognized as an asset when:

- Future economic benefits are probable
- Cost can be measured reliably

Criteria apply to all costs when incurred, including:

- Initial acquisition or construction costs
- Subsequent Costs

Property, Plant Equipment is measured initially at cost.

Existing AS 10 – allows to capitalise the subsequent cost when it increases the future benefits beyond its previously assessed standard of performance.
**Elements of Cost**

All costs involved in bringing the asset to the present location and condition necessary for it to be capable of operating in the manner intended by management.

**Cost Elements**

- **Purchase Costs**
  - Purchase Costs
  - Import Duties/Non Refundable Taxes
  - Deduct trade discounts/rebates

- **Directly attributable Costs**
  - Cost of Employee benefits
  - Cost of Site Preparation
  - Initial delivery and handling Costs
  - Transport handling Charges
  - Installation and assembly costs
  - Cost of testing
  - Professional Fees

- **Other Costs**
  - Initial estimates of dismantling costs.
  - Initial estimates of site restoration costs
  - Major inspection costs
  - Cost of Replacements
Elements of Cost

- Costs of Opening a new facility
- Costs of introducing a new product or service or conducting business in a new location;
- Administrative and other general overheads

Existing AS 10 – Admin & Gen Ohds are usually excluded, however in some circumstances such expenses are specifically attributable to construction / acquisition of asset then can be capitalized.
Elements of Cost

- Initial operating losses charged to P&L
- Abnormal losses and profits in case of self constructed asset charged to P&L
- Incidental operations during construction period charged to P&L
- Payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest

Key impacts

- Trial run
- Interest income during construction period
- Expenses incurred by new company promoted to set up new plant.
Elements of Cost

Spare parts, stand-by equipment & Servicing Equipment

✓ These are recognized in accordance with this IND AS when they meet the definition of PPE

✓ Otherwise such items are classified as Inventory

Existing AS 10 – Spares which can be used only in connection with a fixed assets and whose use is expected to be irregular, can be capitalized
- Standby assets and Servicing Equipment are generally capitalized.
Exchange of Assets

If PPE is *acquired in exchange* for other non monetary asset or for a combination of monetary asset

Measure costs at *Fair value*, unless:
- The exchange transaction has *no commercial substances*,
or
- Fair value of neither the asset received nor given up can be reliably measured

If the acquired item is not measured at fair value, its cost is measured at the *carrying amount of the asset given up*. 
SUBSEQUENT COST AND MEASUREMENT
Subsequent Measurement

- Can choose **Cost Model** or **Revaluation Model** as its **accounting policy**
- Adopted option as accounting policy will apply to **entire class** of PPE
- Revaluation shall be done **with sufficient regularity** to ensure that there is no significant gap between FV and Carrying Value
- Under revaluation model, carrying amount restated with reference to available **observable market data**

**Existing AS 10** – Revaluation approach adopted therein is **ad hoc** in nature, as adoption does not require as a part of accounting policy and **independent asset can be revalued**. Also frequency of revaluation not specified.
Revaluation Model

Revaluation

Upward

Recognized directly in Other Comprehensive Income & accumulated under Equity in revaluation surplus

Downward

Debit revaluation Surplus to the extent recognized previously and balance, if any, Charge to Profit or Loss A/c.

The revaluation surplus may be transferred to retained earnings when the assets is derecognized or as it is used by the entity (not through Profit & Loss)

Existing GN on Treatment of Reserve created on revaluation state if any additional depreciation on revalued amount charged to P&L then accumulated additional depreciation on revalued amount can be moved from Revaluation Reserve to P&L / Gen Res as the case may be

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Subsequent Cost - Part Replacement

- Day to day servicing cost are charged to P&L
- Some items involve a series of linked parts which require regular replacement at different intervals and have different useful lives.
- Recognize the cost of replacing a part in the carrying amount, if recognition criteria are met.
- The carrying amount of replaced parts is derecognized
- For Example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe.
Subsequent Cost – Major inspection/ Overhaul Costs

- Performing regular major inspections for faults, regardless of parts being replaced or not, may be a condition of continuing to operate an item of Property Plant and Equipment.

- Cost of each major inspection performed is recognized in carrying amount, as a replacement, if the recognition criteria are met.

- Any remaining carrying amount of the cost of the previous inspection is derecognized.
DEPRECIATION
Depreciation

- Depreciation **begins when** the asset is available for use (ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) & **continues until** the asset is derecognized or classifies as held for sale.

- The **Residual value** –
  
  Amount can be obtained from disposal (−) costs of disposal

- The residual value & the useful life of an asset **shall be reviewed at least at each financial year end**, and if expectations differs from previous estimates, the change shall be accounted for as a change in accounting estimates.

\[
\text{Depreciable Amount} = \text{Cost} - \text{Residual Value}
\]
Useful Life of Asset - Key Factors

All the following factors are considered in determining the useful life of an asset:

- Expected usage of the asset.
- Expected physical wear and tear depending on operational factors.
- Technical or commercial obsolescence arising from:
  - Changes or improvement in production;
  - Change in market demand for production.
- Legal or similar limits on the use (e.g., expiry dates of related leases).
- Asset management policy may involve disposal of asset after a specified time. Therefore, useful life may be shorter than economic life.
- Repairs and maintenance policies may also affect useful life.
Depreciation Method

Method selected should closely reflect the pattern of consumption of economic benefits expected to be consumed by entity.
Depreciation Method

- Depreciation method shall be reviewed at least at each financial year-end.
- If there is a significant change in expected pattern of consuming future economic benefits
  - Methods shall be changed to reflect new pattern
  - Change shall be treated as *change in an accounting estimate* and accounted for as per IND AS 8 and hence will have *Prospective effect*.

Existing AS – 6: changes in method can be made if required by Accounting Standard or required by statute or for better preparation / presentation of financial statement.

Change in method treated as *Change in Accounting Policy* & hence will have *retrospective effect*. 
Each major part of an item of PPE with cost being significant in relation to total cost of the item – should be **depreciated separately**, even though it may not have different useful life, but may be grouped for determining depreciation charge.
De-recognition and Impairment
De-recognition

- Derecognize the carrying amount:
  - On disposal; or
  - When no future benefits are expected from its use.

- Any gain or loss arising from the De-recognition to be included in profit or loss.

- Gains (or proceeds) are not classified as revenue.

Impairment

- Compensation from third party for item of PPE that is impaired / Lost / Given up shall be included in P&L when compensation becomes receivable.

- Impairment of Assets including PPE dealt by IND AS 36
Disclosures

- **Measurement basis** for determining gross carrying value
- Depreciation methods used
- Useful lives or depreciation rates used
- Gross carrying amount and accumulated depreciation at the beginning and end of the period
- **Reconciliation of the carrying amount** at the beginning and end of the period (Addition, Deletion, Assets classified as held for sale, Business Combination, Revaluation, impairment, exchange difference & Other charges)
- **Comparative information** required
- Existence and amounts of **restrictions on title** to assets
- Property Plant and equipments **pledged as security** for liabilities
Disclosures

- Amount of expenditures recognized in the course of construction
- *Contractual commitments* for acquisition of Property Plant and Equipment
- Amount of compensation from third parties for items of property plant and equipments (if not disclosed separately in P&L)
Disclosure for Revalued Assets

- Effective date of Revaluation
- Whether an independent valuer was involved
- Methods and significant assumptions applied in estimating fair values.
- Extent to which fair value were determined based on observable prices or other valuation techniques
- Carrying amount of each class of revalued Property Plant and Equipment if the cost model had been applied
- Revaluation surplus, including movement and any restrictions on distribution of balance to shareholders
Other Differences
IND AS & Existing AS
Other Differences - IND AS & Existing AS

Existing AS 10 Specifically deals with following situation (not dealt in IND AS 16)

- Fixed Assets **owned** by the entity **jointly** with others
- Several Assets purchased for a **consolidated price**

IND AS 16 Specifically deals with certain situation (not covered in Existing AS 10)

- **Self constructed assets** – **cost of abnormal amounts** (wasted material, labour or other resources) incurred in the construction is not included
- **Payment** for acquiring is **deferred beyond normal credit** period, then difference between cash price equivalent and actual total payment is recognized as interest.
Appendix

A. Changes in Existing Decommissioning, Restoration and Similar Liabilities

B. Stripping Costs in the Production Phase of a Surface Mine
Appendix A

- Subsequent re-measurement of decommissioning or similar liability recognised as cost of asset changes due to:
  - Change in estimate of outflow of resources
  - Change in market base discount rate
  - Increase that reflect passage of time – unwinding discount is charged to P&L
Appendix A

Cost model

1. Change in liability add or reduce the cost of related asset
2. Amount deducted shall not exceed carrying cost and shall be recognised in P&L
3. Amount added then consider indication of impairment as per INDAS 36
Appendix A

Revalued model

- Decrease in liability – credited to from OCI/Revaluation surplus, except where revaluation deficit was recognised on that asset in P&L

- Increase in liability – reduced OCI/Revaluation surplus to the extent available and balance to P&L

- Decrease in liability cannot exceed the amount that would have been carried under cost model
Appendix B

- Recognition of Production stripping cost as asset
- Initial measurement of stripping activity asset
- Subsequent measurement of stripping activity asset
First time adoption
First time adoption

For first time translation entity has four options:

1. Measure PPE at fair value and use that fair value as deemed cost.

2. Previous GAAP revaluation at deemed cost if comparable to fair value or depreciated cost adjusted for change in price index.

3. If there is no change in functional currency, book value as per previous GAAP can be continued as deemed cost adjusted for decommissioning liability.

Carve out in Ind AS – IFRS does not have this option.
KEY DIFFERENCES

Ind AS and ICDS
<table>
<thead>
<tr>
<th>Issue</th>
<th>IND AS 16</th>
<th>ICDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange fluctuation</td>
<td>Charged to Profit &amp; Loss, except treated as part of borrowing cost</td>
<td>Capitalised as per ICDS VI – Effect of changes in Foreign exchange rates i.e. as per section 43A of IT Act</td>
</tr>
<tr>
<td>Cessation of cost to be capitalised</td>
<td>When assets is ready for the used intended by management</td>
<td>Startup commissioning, experimental test run cost to be capitalised. Expenditure incurred after commercial production for intended sale or captive consumption to be charged to revenue</td>
</tr>
<tr>
<td>Self constructed asset</td>
<td>Abnormal cost to be charged to P&amp;L</td>
<td>No guidance</td>
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<tr>
<td>Issue</td>
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<td>ICDS</td>
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</tr>
<tr>
<td>Improvement and repairs</td>
<td>Cost of replacement capitalised if meets definition of PPE</td>
<td>Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.</td>
</tr>
<tr>
<td>Cessation of cost to be capitalised</td>
<td>When assets is ready for the used intended by management</td>
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THANK YOU

FOR YOUR ATTENTION