

# Ind AS 16 Property, Plant and Equipment

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# Ind AS-16 Property, Plant & Equipment

## **Objective:**

The objective of IAS 16 is to prescribe the accounting treatment for property, plant, and equipment. The principal issues are:

- the timing of recognition of asset;
- the determination of their carrying amounts; and
- the depreciation charges to be recognized.

## **Scope**

Ind AS-16 applied to all Property, Plant & Equipment until and unless any other standard requires or permits a different accounting treatment.

This Standard does not apply to :

- a)PPE classified as held for sale in accordance with Ind AS 105
- b)Biological assets related to agricultural activity other than bearer plants
- c)The recognition and measurement of exploration and evaluation assets
- d)Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

# IAS-16 Property, Plant & Equipment

## **Definition:**

Property, Plant & Equipment are tangible items that:

- are held for use in the production or supply of goods or services, or
- for rental to others, or
- for administrative purposes; and
- are expected to be used during more than one period.

## **Recognition:**

The cost of an item or Property, Plant & Equipment shall be recognized as an asset if, and only if:

- a) it is probable that future economic benefits associated with the item will flow to the entity; and
- b) The cost of the item can be measured reliably.

## **Measurement at Recognition**

An item of Property, Plant & Equipment that qualifies for recognition as an asset shall be measured at its cost.

# Which is Bearer Plants?



# Ind AS-16 Property, Plant & Equipment

## **Elements of Cost:**

- Purchase price + (Import duties + Non refundable taxes) - (Trade Discounts + Rebates)
- Directly attributable costs.
- Initial estimate of the cost of dismantling and removing the item and restoring the site in which it is located.

## **Costs that are not Costs of Property, Plant & Equipment:**

- Costs of opening new facility;
- Costs of introducing new product or service;
- Costs of conducting business in new location or with new class of customer;
- Administration and other general overhead costs;
- Costs incurred in using or redeploying an item;
- Amounts related to certain incidental operations.

# Ind AS-16 Property, Plant & Equipment

## **Examples of Directly Attributable Costs:**

- Cost of employee benefits.
- Cost of site preparation.
- Initial delivery and handling cost.
- Installation and assembly cost.
- Cost of testing after deducting the net proceeds from selling any items produced.
- Professional fees.

## Practical Example - 2

ABC & Co., is installing a new plant at its production facility. It has incurred these costs:

- Cost of the plant ₹ 250,000.
- Initial delivery and handling cost Rs. 20,000.
- Cost of site preparation Rs. 60,000.
- Consultants used to advice on the acquisition Rs. 70,000.
- Interest charges paid to supplier for deferred credit Rs. 20,000.
- Estimated dismantling cost to be incurred after 7 years Rs. 30,000.
- Operating losses before commercial production Rs. 40,000.

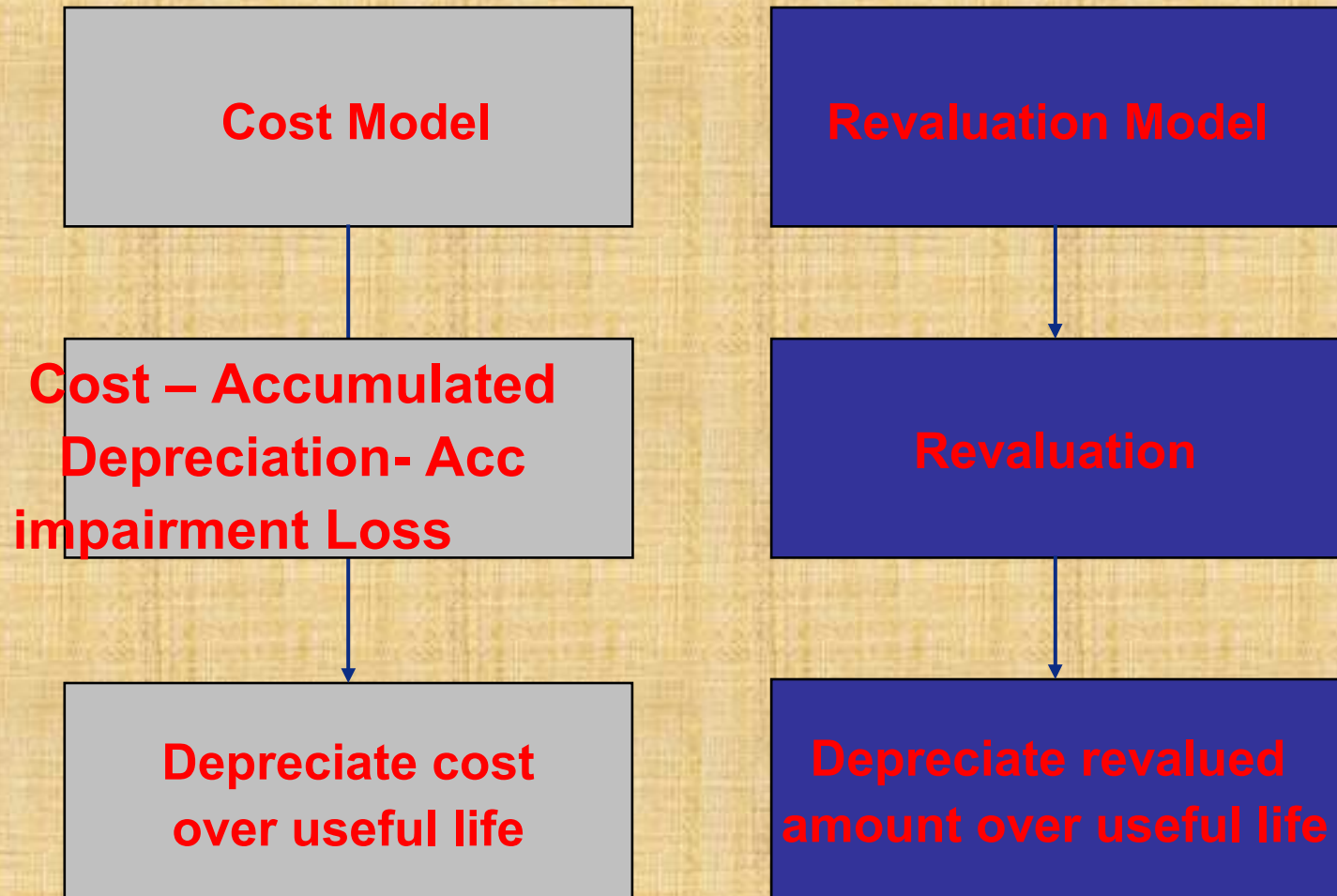
Find out the costs to be capitalized as per Ind AS-16?

# Practical Example Solution

- Cost to be capitalized include:
- Cost of the plant Rs. 250,000.
- Initial delivery and handling cost Rs. 20,000.
- Cost of site preparation Rs. 60,000.
- Consultants used to advice on the acquisition Rs. 70,000.
- Estimated dismantling cost to be incurred after 7 years Rs. 30,000.
- Total Cost =  $(250,000 + 20,000 + 60,000 + 70,000 + 30,000) = 430,000$ .
- Interest charges can be capitalized as per allowed alternative treatment of Ind AS-23 Borrowing Cost.



# Measurement after recognition



# Revaluation model

- Revaluation shall be made with sufficient regularity.
- Revalue all assets of the same class.
- Revaluation increases credited to:
  - Other comprehensive income and accumulated in equity
  - Profit or loss to the extent they reverse previous revaluation decrease of that asset.
- Revaluation decreases debited to:
  - The decrease shall be recognised in profit or loss
  - The decrease shall be recognised in other comprehensive income to the extent of any revaluation surplus related to that asset.

## Practical Example - 3

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

# Practical Example Solution

Method – I:

Accumulated depreciation	Dr	55,000	
To Asset	Cr		55,000
Asset	Dr	20,000	
To OCI	Cr		20,000

The net result is that the asset has a carrying amount of Rs. 65,000 (100,000 – 55,000 + 20,000).

# Practical Example Solution

Method – II:

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%

**Entries to be Made:**

Asset (100,000 x 44.44%)	Dr	44,440	
Accumulated Depreciation (55,000 x 44.44%)			Cr 24,442
Surplus on Revaluation			Cr 20,000

# Depreciation

- The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately (Component based)
- The method used shall reflect the pattern of asset's future economic benefits
- Reviewed at least at each balance sheet date:
  - Residual value.
  - Useful life.
  - Depreciation method.
- Changes are changes in estimate, so adjust current and future periods only.

# Impairment

- Assess at each balance sheet date indicators of impairment.
- If indication, assess recoverable amount (higher of fair value less costs to sell and value in use).
- If recoverable amount < carrying amount → impairment loss.
- Recognise impairment loss as expense immediately.
  - Unless carried at revalued amount (revaluation decrease).
  - Use “new” carrying amount to calculate future depreciation.
- Refer to Ind AS 36 for impairment loss calculation.

# Derecognition

- Derecognition:
  - On disposal, or
  - When no future benefits expected from use or disposal.
- Difference between carrying amount and net disposal proceeds recognised as gain/loss in profit or loss.
- Gains not classified as revenue.
- Apply Ind AS 18 *Revenue* in determining date of disposal.
- Consideration receivable measured at fair value.



# Subsequent costs

- Do not recognize day-to-day servicing costs of the asset in the carrying amount (Recurring costs).
- Recognize in the carrying amount of PPE the cost of replacing part of such an item when the cost is incurred if the recognition criteria met.
- Recognize in the carrying amount of PPE cost of major inspection if the recognition criteria met. Any remaining carrying amount of previous inspection is de-recognized.
- Derecognise replaced parts (physical or otherwise) if identified separately.

## Practical Example - 1

- ABC & Co., has acquired a heavy road transporter at a cost of Rs. 100,000 (with no breakdown of component parts). The estimated useful life is 10 years. At the end of the sixth year, the power train requires replacement, as further maintenance is uneconomical due to the off-road time required. The remainder of the vehicle is perfectly road worthy and is expected to last for the next four years. The cost of the new power train is Rs. 45,000.
- Can the cost of new power train can be recognized as the asset, and if so, what treatment should be used?

# Practical Example Solution

- The new power train will produce economic benefits to the ABC & Co.; and
- Cost of the power train can be measured reliably. Hence, the item should be recognized as the asset.
- The cost Rs. 45,000 of new power train will be added to the carrying amount.
- The original invoice of the transporter did not specify the cost of the power train. Therefore, the cost of replacement Rs. 45,000 will be used as indicative price and discount to year 1, i.e.,  $(45,000 / 1.05^6) = 33,500$ .  
It is assumed that discount rate used is 5%.
- Revised Cost =  $(100,000 - 33,500 + 45,000) = 111,500$

# Asset Exchange Transactions

- Acquired asset will be measured at fair value if:
  - Exchange has commercial substance.
  - Fair value of the asset acquired can be measured reliably.
- Acquired asset will be measured at carrying amount of the asset given up if:
  - Exchange lacks commercial substance.
  - Fair value of the asset acquired can not be measured reliably.

# Appendix A Changes in existing decommissioning, restoration and similar liabilities

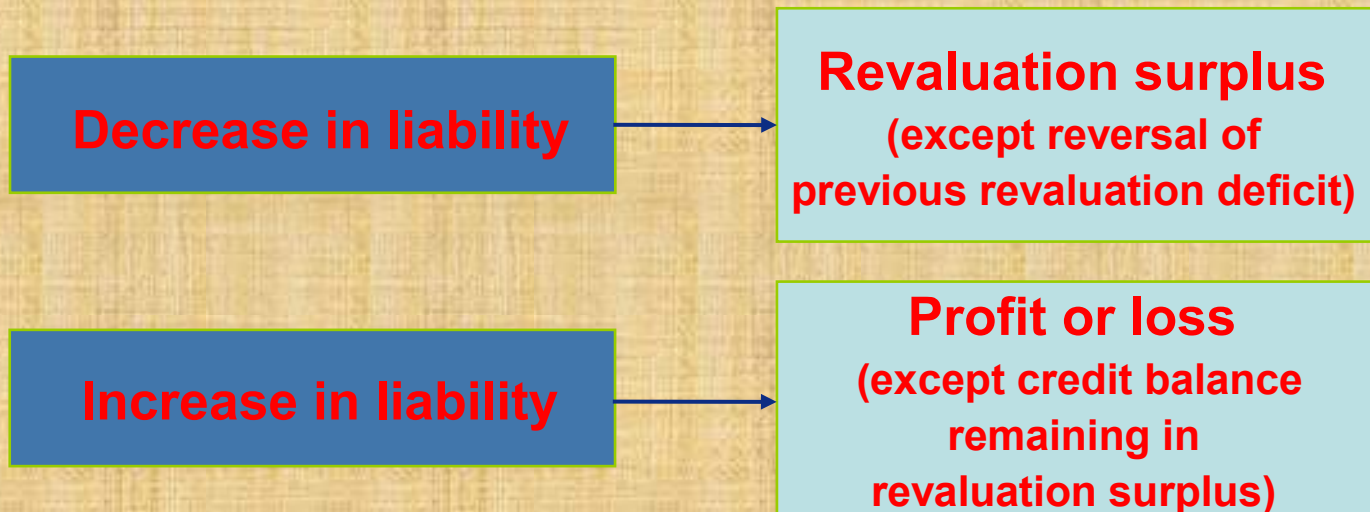
- Changes due to a change in:
  - Estimated outflow of resources embodying economic benefits .
  - Current market-based discount rate
  - n increase that reflects the passage of time (also referred to as the unwinding of the discount)
- Added to / deducted from cost of underlying asset and depreciated prospectively over remaining useful life.
- Applies regardless of accounting policy (cost or revaluation model) but implementation varies.

# Appendix A Changes in existing decommissioning, restoration and similar liabilities

- Cost model:
  - Changes in liability added/deducted from asset cost in current period.
  - No negative carrying amount possible; any excess recognised immediately in profit or loss.
  - Increase in carrying amount triggers consideration of impairment. calculation of recoverable amount might be necessary.

# Appendix A Changes in existing decommissioning, restoration and similar liabilities

- Revaluation model:
  - Change in liability does not affect valuation of asset (impact on valuation reserve)



- Change in liability: indication that asset might have to be revalued

# Presentation & Disclosure

- Measurement basis
- Depreciation methods
- Useful lives or depreciation rates
- Gross carrying amount and accumulated depreciation at beginning and end of period
- Reconciliation at beginning and end of period showing:
- Comparative information required



# Presentation & Disclosure

- Existence and amounts of restrictions on title to assets.
- PPE pledged as securities for liabilities.
- Amount of expenditures on account for PPE in the course of construction.
- Commitments for acquisition of PPE.
- Compensation from third parties.

# Presentation & Disclosure

- Disclosure requirements for revalued assets:
  - Date of revaluation.
  - Whether independent valuer was used.
  - Methods and significant assumptions applied in estimating fair values.
  - Extent to which fair values were determined directly or estimated.
  - Carrying amount of each class of revalued PPE as under the cost model.
  - Revaluation surplus, including movement and any restrictions of distribution of balance to shareholders.

**Thank You**