ACCOUNTING STANDARD -10
PROPERTY, PLANT AND EQIUPMENT

OBJECTIVE

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment.

FORMULATION OF AS 10

- AS 10 'Accounting for Fixed Assets' was replaced by AS 10 'Property, Plant and Equipment', to focus solely on tangible assets because AS 26 addresses intangible assets separately.
- AS 6 on Depreciation Accounting was eliminated and all of its provisions were transferred to AS 10.

SCOPE OF STANDARD

- This Standard should be applied in accounting for property, plant and equipment

Property, plant and equipment (PPE) are tangible items that:

a) are held for use in the production or supply of goods or to provide services, for rental to others, or for administrative purposes; and

b) are expected to be used more than a period of 12 months.

Examples:

- Land and Buildings
- Machinery and Equipment
- Vehicles
- Furniture and Fixtures
- Computer Hardware
- Leasehold Improvements
- Land Improvements
- Plant Assets
- Office Equipment
- Aircraft and Ships
- Tools and Instruments
- Construction-in-Progress (CIP)

THIS STANDARD DOES NOT APPLY TO:

- ✓ Biological Assets like live animals or plants pertaining to agricultural activity other than bearer plants. This standard applies to Bearer plants but is not applicable to the produce on bearer plants.
- ✓ Wasting assets that include mineral rights, expenditure on the exploration for an extraction of minerals, oil, natural gas and similar other non-regenerative resources.
- ✓ Assets held for sale

BEARER PLANT

Bearer plant here means a plant that is:

- Used in the production or supply of agricultural produce
- Is expected to give produce for more than 12 months
- Has a remote chance of being sold as an agricultural produce except for incidental scrap sales (when the plant no longer bear produce, they are cut down and sold as scrap eg. for use as firewood)

AS 10 applies to Bearer plants but is not applicable to the produce on bearer plants.

RECOGNITION CRITERIA OF ASSETS

The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:

a)it is probable (more likely than not) that future economic benefits associated with the item will flow to the enterprise and

b)Cost of the item can be measured reliably. (the acquisition cost is computable)

Items like spare parts, stand-by-equipment and servicing equipment

- If the definition of PPE is met → Accounted as per AS 10 (treated as PPE)
- If definition of PPE is not met → Accounted as per AS 2 'Valuation for Inventories' (treated as inventory)

DETERMINATION OF COST

Under this recognition principle, all the costs on PPE shall be evaluated by the enterprise at the time they are incurred.

The cost of PPE includes;

- Initial Cost : cost incurred initially to acquire or construct the PPE
- Subsequent Cost : costs incurred subsequently to add to, replace part of, or service it.

INITIAL RECOGNITION

The cost of PPE comprises;

- Its purchase price, including import duties and non -refundable purchase taxes, after deducting trade discounts and rebates.
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating (eg. costs of site preparation, initial delivery and handling costs, installation and assembly costs, costs of testing whether the asset is functioning properly, professional fees etc.
- The estimate of decommissioning, restoration and similar liabilities (costs of dismantling, removing the item and restoring the site on which it is located).

SUBSEQUENT COST

- **Day to Day Service Cost**

Day-to-day service costs are expenses incurred for the regular maintenance and repair of an asset to keep it in its intended operating condition.

- **Replacement and Major Inspection**

Replacement costs are incurred when a part or component of an asset is replaced to maintain its functionality. Replacing a significant part(often referred to as a "spare part") is considered a capital expenditure and should be added to the carrying amount of the asset if it enhances its future economic benefits or extends its useful life.

MEASUREMENT AT BALANCE SHEET DATE

Once assets are recognized as an item under PPE as per AS 10, the business entity can use one of the two models to determine the carrying amount of the assets so acquired.
Thus, the model chosen becomes the accounting policy which is used to calculate the carrying amount of all the assets categorized under PPE.
Accordingly, the two models include the Cost Model and the Revaluation Model.

COST MODEL

Once an asset is recognized, the item of PPE may be carried at its cost less accumulated depreciation and any accumulated impairment losses as per the Cost Model.

REVALUATION MODEL

Under the revaluation model, after the asset is recognized, an item of PPE should be carried at a revalued amount. Provided the fair value of such an item of PPE can be reliably measured.

The revalued amount is nothing but the Fair Value of the item of PPE at the date of revaluation less any subsequent accumulated depreciation as well as impairment losses.

It must be noted that the revaluations of these items of PPE must be made at regular intervals. This is to make sure that the carrying amount does not significantly vary from the value that is so ascertained using the fair value on the balance sheet date.

DEPRECIATION

DEPRECIATION IN ACCOUNTING SERVES TO ALLOCATE THE COST OF FIXED ASSETS OVER THEIR USEFUL LIFE AND ACKNOWLEDGES THE ASSET'S DECREASING VALUE DUE TO WEAR, OBSOLESCENCE, OR TIME.

DEPRECIABLE ASSETS: THOSE ASSETS WHICH

- are expected to be used for more than one accounting period.
- have a limited useful life.
- have held for use in production of goods and services

THIS STANDARD IS APPLICABLE TO ALL DEPRECIABLE ASSETS EXCEPT:

- FORESTS, PLANTATIONS
- WASTING ASSETS, MINERALS AND NATURAL GAS
- EXPENDITURE ON RESEARCH AND DEVELOPMENT
- GOODWILL
- LIVESTOCK, CATTLE, ANIMAL HUSBANDRY.

PERIOD OF CHARGING DEPRECIATION

THE BUSINESS ENTITY DISCONTINUES TO DEPRECIATE AN ASSET AT A DATE EARLIER OF:

- THE DATE ON WHICH THE ASSET IS NO LONGER ACTIVELY USED AND IS HELD FOR DISPOSAL AND THE
- DATE AT WHICH THE ASSET IS DERECOGNIZED

DEPRECIATION METHODS

THE BUSINESS MUST CHOOSE A DEPRECIATION METHOD BASED ON HOW IT EXPECTS TO USE AN ASSET TO REALIZE FUTURE ECONOMIC BENEFITS.

THE METHODS ARE

- STRAIGHT LINE METHOD - A CONSTANT CHARGE OVER USEFUL LIFE
- DIMINISHING BALANCE METHOD - A DECREASING CHARGE OVER USEFUL LIFE
- UNITS OF PRODUCTION METHOS - CHARGE BASED ON EXPECTED USE OR OUTPUT

DISCLOSURE

1. INITIAL AND FINAL FIXED ASSET VALUES, INCLUDING DISPOSALS, ACQUISITIONS, AND CHANGES OVER THE ACCOUNTING PERIOD.
2. CONSTRUCTION OR ACQUISITION-RELATED EXPENSES FOR FIXED ASSETS.
3. REVALUATION DETAILS, METHOD, AND INVOLVEMENT OF EXTERNAL VALUER (IF APPLICABLE).
4. ADJUSTMENT OF LOSSES AGAINST REVALUATION RESERVE IF APPLICABLE.