FR AMENDMENTS 2017

APPLICABLE FOR CA FINAL MAY 2017 EXAMS

SYNOPSIS OF AMENDMENTS

NEWLY INTRODUCED

- AS 10 Property Plant and Equipment (replacing AS 10 Fixed Assets and AS 6 Depreciation)
- Schedule III – Division B
- Ind AS 11 – Construction Contracts and
- Ind AS 18 – Revenue

REVISIONS

- AS 2, 4, 13, 14, 21, and 29
- Consequential amendments - In Consolidation of Accounts and Amalgamation Accounting
- Companies Indian AS (Amendment) Rules, 2016
- Ind AS 1, 19, 28, 34, 101, 105, 107, 110, 112

AMENDMENTS APPLICABLE FROM NOV. 2016

- Guidance Note on Accounting for Derivative Contracts
- Guidance Note on Accounting for CSR Activities

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19 AIR

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19 AIR

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20 AIR

Pooja Pandey (CA-FINAL)

21 AIR

Nikhar Jain (CA-FINAL)

23 AIR

Priya Baldua (CA-FINAL)

30 AIR

Raunak Maheshwari (CA-FINAL)

34 AIR

Khemraj Prajapati (CA-FINAL)

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Sourabh Rathi (CA-FINAL)

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Swheta Rijwani (CA-IPCC)

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Prakhar Nagori (CA-IPCC)

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Nikhil Deshpande (CA-IPCC)

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Amrita Agrawal (CA-IPCC)

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and many more...

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AMENDMENT NOTES SYNOPSIS

The amendment notes cover all following:

NEWLY INTRODUCED MATTERS

REVISIONS

APPLICABLE FROM NOV 2016

FINANCIAL REPORTING
AMENDMENTS APPLICABLE FOR - MAY 2017

1. ACCOUNTING STANDARD 10 PROPERTY PLANT AND EQUIPMENTS

SCOPE

1. **This Standard should be applied in accounting for property, plant and equipment except when another Accounting Standard requires or permits a different accounting treatment.**

2. This Standard does not apply to:
   (a) Biological assets related to agricultural activity other than bearer plants.
   This Standard applies to bearer plants (Trees, tea Plants, etc) but it does not apply to the produce on bearer plants (Fruits, Tea Leaves, etc); and
   (b) Wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.
   However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (a) and (b) above.

3. Investment property, as defined in AS 13, Accounting for Investments, should be accounted for only in accordance with the cost model prescribed in this standard.

DEFINITIONS

<u>Agricultural Activity</u> is the management by an enterprise of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

<u>Agricultural Produce</u> is the harvested product of biological assets of the enterprise.

<u>Bearer plant is a plant that</u>
(a) is used in the production or supply of agricultural produce;
(b) is expected to bear produce for more than a period of twelve months; and
(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

The following are not bearer plants:
(i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as timber);
(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their Timber); and
(iii) annual crops (for example, maize and wheat).

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

<u>Biological Asset</u> is a living animal or plant.

<u>Carrying amount</u> is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

<u>Cost</u> is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Accounting Standards.

<u>Depreciable amount</u> is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Enterprise -specific value is the present value of the cash flows an enterprise expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm 's length transaction.

Gross carrying amount of an asset is its cost or other amount substituted for the cost in the books of account, without making any deduction for accumulated depreciation and accumulated impairment losses.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are tangible items that:

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

(b) are expected to be used during in more than a period of twelve months.

Recoverable amount is the higher of an asset's net selling price and its value in use.

The residual value of an asset is the estimated amount that an enterprise would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:

(a) the period over which an asset is expected to be available for use by an enterprise; or

(b) the number of production or similar units expected to be obtained from the asset by an enterprise.

RECOGNITION

4. **The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:**
   (a) it is probable that future economic benefits associated with the item will flow to the enterprise; and
   (b) the cost of the item can be measured reliably.

5. Items such as **spare parts, stand-by equipment and servicing equipment** are recognised in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

6. **Clubbing of Assets –***Not guided by AS*
   This Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to specific circumstances of an enterprise. An example of a 'unit of measure' can be a 'project' of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. Similarly, it may be appropriate to aggregate individually in significant items, such as moulds, tools and dies and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as property, plant and equipment, because the amount of the expenditure is not material.

7. An enterprise evaluates under this recognition principle all its costs on property, plant and equipment at the time they are incurred. These costs include costs incurred:
   (a) initially to acquire or construct an item of property, plant and equipment; and
   (b) subsequently to add to, replace part of, or service it.

INITIAL COSTS

8. The definition of 'property, plant and equipment' covers tangible items which are held for use or for administrative purposes.
The term 'administrative purposes' has been used in wider sense to include all business purposes other than production or supply of goods or services or for rental for others.
Thus, property, plant and equipment would include assets **used for selling and distribution, finance and accounting, personnel and other functions of an enterprise.**
Items of property, plant and equipment may also be acquired for **safety or environmental reasons.**
Such items of property, plant and equipment qualify for recognition as assets because they enable an enterprise to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.
For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the enterprise is unable to manufacture and sell chemicals. The resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with AS 28, Impairment of Assets.

SUBSEQUENT COSTS

9. An enterprise does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the statement of profit and loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of such expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

10. **Replacement parts -**Pasts of some items of property, plant and equipment may require replacement at regular intervals. An enterprise recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard

11. **Major Inspections, etc -** A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised.
The derecognition of the carrying amount as stated above occurs regardless of whether the cost of the previous part of inspection was identified in the transaction in which the item was acquired or constructed. If it is not practicable for an enterprise to determine the carrying amount of the replaced part under inspection, it may use the cost of the replacement or the estimated cost of a future similar inspection as an indication of what the cost of the replaced part/ existing inspection component was when the item was acquired or constructed.

MEASUREMENT AT RECOGNITION

12. **An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost.**

ELEMENTS OF COST

13. The cost of an item of property, plant and equipment comprises:
    (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset **to the location and condition necessary for it to be capable of operating** in the **manner intended by management**.

(c) the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as **'decommissioning, restoration and similar liabilities',** the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

14. **Examples of directly attributable costs are:**

(a) costs of employee benefits (as defined in AS 15, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) Trial Run Costs - costs 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 (such as samples produced when testing equipment); and

(f) professional fees.

15. An enterprise applies AS 2, Valuation of Inventories, to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with AS 2 or AS 10 are recognised and measured in accordance with AS 29, Provisions, Contingent Liabilities and Contingent Assets.

16. Examples of costs that are not costs of an item of property, plant and equipment are:

(a) costs of opening a new facility or business, such as, inauguration costs;

(b) costs of introducing a new product or service(including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other **general** overhead costs.

17. **Post-Ready for Intended Use Costs -** Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the **following costs are not included** in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet tobe brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the output of an item builds up; and

(c) costs of relocating or reorganising part or all of the operations of an enterprise.

18. **Ancillary OPERATIONS during construction period -** Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an

item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in the statement of profit and loss and included in their respective classifications of income and expense.

19. **Principle for self-constructed asset costs -**The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AS 2).
Therefore, **any internal profits are eliminated** in arriving at such costs.
Similarly, the cost of **abnormal amounts** of wasted material, labour, or other resources incurred in self-constructing an asset is **not included** in the cost of the asset.
AS 16, Borrowing Costs, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

20. **Bearer plants** are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate the bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.

MEASUREMENT OF COST

21. **Cash Price & Credit Price**
The cost of an item of property, plant and equipment is the **cash price** equivalent at the recognition date.
Deferred Credit Facility - If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with AS 16.

22. **Assets Acquired Under Exchange**
One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges.
The **cost** of such an item of property, plant and equipment **is measured at fair value** unless
(a) the exchange transaction lacks commercial substance or
(b) the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.
The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up.
If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

An enterprise determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:
(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or
(b) the enterprise-specific value of the portion of the operations of the enterprise affected by the transaction changes as a result of the exchange;

(c) and the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the enterprise -specific value of the portion of operations of the enterprise affected by the transaction should reflect post-tax cash flows. In certain cases, the result of these analyses may be clear without an enterprise having to perform detailed calculations.

The fair value of an asset is reliably measurable if (a) the variability in the range of reasonable fair value measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used when measuring fair value. If an enterprise is able to measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

SLUMP PURCHASES- Where several items of property, plant and equipment are purchased for a consolidated price, the consideration is apportioned to the various items on the basis of their respective fair values at the date of acquisition. In case the fair values of the items acquired cannot be measured reliably, these values are estimated on a fair basis as determined by competent valuers.

LEASES - The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with AS 19, Leases.

GOVERNMENT GRANT - The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with AS 12, Accounting for Government Grants.

MEASUREMENT AFTER RECOGNITION

23. **An enterprise should choose either the COST MODEL or the REVALUATION MODEL as its accounting policy and should apply that policy to an entire class of property, plant and equipment.**

COST MODEL

24. **After recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.**

REVALUATION MODEL

25. **After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.**
Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

26. The fair value of items of property, plant and equipment is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers.

27. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an enterprise may need to estimate fair value using an **income approach** (for example, based on discounted cash flow projections) **or a depreciated**

replacement cost approach which aims at making a realistic estimate of the current cost of acquiring or constructing an item that has the same service potential as the existing item.

28. The **frequency of revaluations** depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience **significant and volatile changes in fair value,** thus necessitating **annual revaluation**. Such frequent revaluations are unnecessary for items of property, plant and equipment with only **insignificant changes** in fair value. Instead, it may be necessary to revalue the item **only every 3 or 5 years**.

29. When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:
    (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
    (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset. The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with treatment prescribed under.

30. **If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.**

31. A class of property, plant and equipment is a grouping of assets of a similar nature and use in operations of an enterprise. The following are examples of separate classes:
    (a) land;
    (b) land and buildings;
    (c) machinery;
    (d) ships;
    (e) aircraft;
    (f) motor vehicles;
    (g) furniture and fixtures;
    (h) office equipment; and
    (i) bearer plants.

32. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

33. **Accounting for Revaluation Profit -** An increase in the carrying amount of an asset arising on revaluation should be credited directly to owners' interests under the heading of revaluation surplus. However, the increase should be recognised in the statement of profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of profit and loss.

34. **Accounting for Revaluation Loss -** A decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

35. **Transfer from Revaluation Reserves to Reserves -** The revaluation surplus included in owners' interests in respect of an item of property, plant and equipment may be transferred to the revenue reserves when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an enterprise. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the revenue reserves are not made through the statement of profit and loss.

DEPRECIATION

36. **Component-wise Depreciation** - Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.
Separating - An enterprise allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates each such part separately. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.
Clubbing - A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.
An enterprise may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

37. **Accounting for Depreciation -** The depreciation charge for each period should be recognised in the statement of profit and loss unless it is included in the carrying amount of another asset. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see AS 2). Similarly, the depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with AS 26, Intangible Assets.

Depreciable Amount and Depreciation Period

38. **The depreciable amount of an asset should be allocated on a systematic basis over its useful life.**

39. **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 AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.**

40. Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

41. The depreciable amount of an asset is determined after deducting its residual value.

42. The residual value of an asset may increase to an amount equal to or greater than its carrying amount. If it does, depreciation charge of the asset is zero unless and until its residual value subsequently decreases to an amount below its carrying amount. ***However no reversal of depreciation is made.***

43. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is retired from active use and is held for disposal and the date that the asset is

derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use (but not held for disposal) unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

44. The future economic benefits embodied in an asset are consumed by an enterprise principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:
    (a) expected usage of the asset. Usage is assessed by reference to the expected capacity or physical output of the asset.
    (b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
    (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.
    (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

45. The useful life of an asset is defined in terms of its expected utility to the enterprise. The asset management policy of the enterprise may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the enterprise with similar assets.

46. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quanies and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

47. If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

DEPRECIATION METHOD

48. **The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.**

49. **The depreciation method applied to an asset should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.**

50. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basisover its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the residual value of

the asset does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The enterprise selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or that the method is changed in accordance with the statute to best reflect the way the asset is consumed.

51. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

CHANGES IN EXISTING DECOMMISSIONING, RESTORATION AND OTHER LIABILITIES

52. **The cost of property, plant and equipment may undergo changes subsequent to its acquisition or construction on account of changes in liabilities, price adjustments, changes in duties, changes in initial estimates of amounts provided for dismantling, removing, restoration and similar factors and included in the cost of the asset in accordance with paragraph 16. Such changes in cost should be accounted for in accordance with paragraphs below.**

53. **If the related asset is measured using the cost model:**
    - **(a) subject to (b), changes in the liability should be added to, or deducted from, the cost of the related asset in the current period.**
    - **(b) the amount deducted from the cost of the asset should not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess should be recognised immediately in the statement of profit and loss.**
    - (c) **if the adjustment results in an addition to the cost of an asset, the enterprise should consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the enterprise should test the asset for impairment by estimating its recoverable amount, and should account for any impairment loss, in accordance with AS 28.**

54. **If the related asset is measured using the revaluation model:**
    - **(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:**
        - **(i) a decrease in the liability should (subject to (b)) be credited directly to revaluation surplus in the owners' interest, except that it should be recognised in the statement of profit and loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the statement of profit and loss;**
        - **(ii) an increase in the liability should be recognised in the statement of profit and loss, except that it should be debited directly to revaluation surplus in the owners' interest to the extent of any credit balance existing in the revaluation surplus in respect of that asset.**
    - **(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess should be recognized immediately in the statement of profit and loss.**
    - **(c) a change in the liability is an indication that the asset may have to be revalued iii order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.**

Any such revaluation should be taken into account in determining the amounts to be taken to the statement of profit and loss and the owners' interest under (a). If a revaluation is necessary, all assets of that class should be revalued.

55. **The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability should be recognised in the statement of profit and loss as they occur. This applies under both the cost model and the revaluation model.**

IMPAIRMENT

56. To determine whether an item of property, plant and equipment is impaired, an enterprise applies AS 28,Impairment of Assets. AS 28 explains how an enterprise reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of an impairment loss.

COMPENSATION FOR IMPAIRMENT

57. **Compensation from third parties for items of property, plant amid equipment that were impaired, lost or given up should be included in the statement of profit and loss when the compensation becomes receivable.**

58. Impairments or losses of items of property, plant and equipment. related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:
    (a) impairments of items of property, plant and equipment are recognised in accordance with AS 28;
    (b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
    (c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable: and
    (d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

RETIREMENTS

59. **Items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their carrying amount amid net realisable value. Any write-down in this regard should be recognized immediately iii the statement of profit and loss.**

DERECOGNITION

60. **The carrying amount of an item of property, plant and equipment should be derecognised**
    (a) On disposal; or
    (b) When no future economic benefits are expected from its use or disposal.

61. **The gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognised (unless AS 19, Leases, requires otherwise on a sale and leaseback). Gains should not be classified as revenue, as defined in AS 9, Revenue Recognition.**

62. **However, an enterprise that in the course of its ordinary activities, routinely sells items of property, plant and equipment that it had held for rental to others should transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets should be recognised in revenue in accordance with AS 9, Revenue Recognition.**

63. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g. by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an enterprise applies the criteria in AS 9 for recognising revenue from the sale of goods. AS 19, Leases, applies to disposal by a sale and leaseback.

64. If under the recognition principle in paragraph 7, an enterprise recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an enterprise to determine the carrying amount of the replaced part, it may use the cost of there placement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

65. **The gain or loss arising from the derecognition of an item of property, plant and equipment should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

66. The consideration receivable on disposal of an item of property, plant and equipment is recognised in accordance with the principles enunciated in AS 9.

DISCLOSURE

67. **The financial statements should disclose, for each class of property, plant and equipment:**
    - **(a) the measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;**
    - **(b) the depreciation methods used;**
    - **(c) the useful lives or the depreciation rates used. In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;**
    - **(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; amid**
    - **(e) a reconciliation of the carrying amount at the beginning and end of the period showing:**
        - **(i) Additions;**
        - **(ii) Assets retired from active use and held for disposal;**
        - **(iii) Acquisitions through business combinations;**
        - **(iv) Increases or decreases resulting from revaluations under paragraphs 34, 42 amid 43 and from impairment losses recognised or reversed directly in revaluation surplus in accordance with AS 28;**
        - **(v) Impairment losses recognised in the statement of profit and loss iii accordance with AS 28;**
        - **(vi) Impairment losses reversed ill the statement emit of profit and loss in accordance with AS 28;**
        - **(vii) Depreciation;**
        - **(viii) The net exchange differences arising on the translation of the financial statements of a non-integral foreign operation in accordance with AS 11, The Effects of Changes in Foreign Exchange Rates; and**
        - **(ix) Other changes.**

68. **The financial statements should also disclose:**
    - **(a) The existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;**
    - **(b) The amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;**
    - **(c) The amount of contractual commitments for the acquisition of property, plant and equipment;**

(d) If it is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of profit and loss; and

(e) The amount of assets retired from active use and held for disposal.

69. Selection of the depreciation method and estimation of the useful life of assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reasons, it is necessary to disclose:
   (a) Depreciation, whether recognised in the statement of profit and loss or as a part of the cost of other assets, during a period; and
   (b) Accumulated depreciation at the end of the period.

70. In accordance with AS 5, an enterprise discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:
   (a) Residual values;
   (b) The estimated costs of dismantling, removing or restoring items of property, plant and equipment;
   (c) Useful lives; and
   (d) Depreciation methods.

71. **If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:**
   (a) The effective date of the revaluation;
   (b) Whether an independent valuer was involved;
   (c) The methods and significant assumptions applied in estimating fair values of the items;
   (d) The extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and
   (e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

72. In accordance with AS 28, an enterprise discloses information on impaired property, plant and equipment in addition to the information required by paragraph 81(e), (iv), (v) and (vi).

73. An enterprise is encouraged to disclose the following:
   (a) The carrying amount of temporarily idle property, plant and equipment;
   (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
   (c) For each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;
   (d) The carrying amount of property, plant and equipment retired from active use and not held for disposal.

TRANSITIONAL PROVISIONS

74. **Where an entity has in past recognized an expenditure in the statement of profit and loss which is eligible to be included as a part of the cost of a project for construction of property, plant and equipment in accordance with the requirements of paragraph**

9, it may do so retrospectively for such a project. The effect of such retrospective application of this requirement, should be recognised net-of-tax in revenue reserves.

75. The requirements regarding the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction should be applied prospectively only to transactions entered into after this Standard becomes mandatory.

76. On the date of this Standard becoming mandatory, the spare parts, which hitherto were being treated as inventory under AS 2, Valuation of Inventories, and are now required to be capitalised in accordance with the requirements of this Standard, should be capitalised at their respective carrying amounts. The spare parts so capitalised should be depreciated over their remaining useful lives prospectively as per the requirements of this Standard.

The requirements regarding the revaluation model should be applied prospectively. In case, on the date of this Standard becoming mandatory, an enterprise does not adopt the revaluation model as its accounting policy but the carrying amount of item(s) of property, plant and equipment reflects any previous revaluation it should adjust the amount outstanding in the revaluation reserve against the carrying amount of that item. However, the carrying amount of that item should never be less than residual value. Any excess of the amount outstanding as revaluation reserve over the carrying amount of that item should be adjusted in revenue reserves".

2. SCHEDULE III – DIVISION II

Applicable for companies preparing and presenting as per Indian AS

Notification dated 6th April, 2016, effective from FY commencing 1-4-2016

Division II (inserted after Division I)

Financial Statements for a company whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015.

GENERAL INSTURCTIONS FOR PREPARATION OF FINANCIAL STATEMENTS OF A COMPANY REQUIRED TO COMPLY WITH Ind AS – Same as for Division I

HIGHLIGHTS OF DIFFERENCES

- **BALANCE SHEET**
  - **First ASSETS are presented and then EQUITY & LIABILITIES**
  - **NON – CURRENT ASSETS**
    - Tangible assets entry replaced with Property, Plant & Equipment
    - Investment Property disclosed separately from Investments
    - Goodwill disclosed separately from Intangible Assets
    - Biological Assets (Livestock, etc) shown separately and not as a part of PPE (Tangible Assets) however Bearer plants still shown under PPE as a sub line item
    - Other Financial Assets to be disclosed separately
    - Loans only to be disclosed instead of Loans and Advances. Advances shown under Other Assets
    - Investments, Loans and Trade Receivables, etc clubbed under the sub-head of Financial Assets
    - Change in sequencing of items
  - **CURRENT ASSETS**
    - Investments, Trade Receivables, Cash and Cash Equivalents, Loans etc clubbed under the sub-head of Financial Assets
    - Separate sub-heading for disclosure Current Tax Assets (Advance tax net of current tax)
    - Loans only to be disclosed instead of Loans and Advances. Advances shown under Other Assets

- **EQUITY**
  - Only Equity Share capital to be shown as capital
  - Other Equity to disclose Share Warrants, Money received against share warrants pending allotment, Equity component of Compound FI, Reserves and Surplus, etc
  - Format (table) prescribed for disclosure of Equity Share Capital and Other Equity Items **– STATEMENT OF CHANGES IN EQUITY**

- **NON-CURRENT LIABILITIES**
  - Borrowings, Trade Payables, etc clubbed under the sub-head of Financial Liabilities

- **CURRENT LIABILITIES**
  - Borrowings, Trade Payables, etc clubbed under the sub-head of Financial Liabilities

- **OTHERS**
  - PY Opening restated Balance Sheet to be presented in case of :
    - Change in Accounting policy
    - Rectification of prior year errors / Restatement of Items
  - Compound FI to be split between EQUITY and LIABILITY component and disclosed under separate heads in line with requirement of Indian AS (Ind AS 32 and 109)
  - Preference Shares including Premium received to be classified as EQUITY or LIABILITIES in line with requirement of Indian AS (Ind AS 32 and 109)
  - Regulatory Deferral Balances to be disclosed separately as per requirement of respective Ind AS

STATEMENT OF P&L (SPL)

- **FORMAT**
  - No disclosure of Extraordinary items in the face of SPL as it is not required by Ind AS
  - Other Comprehensive Income transfers to be disclosed separately after computing Profit (Loss) for the period divided as:
    - OCI items that will be reclassified to P&L alongwith its tax effect
    - OCI items that will NOT be reclassified to P&L alongwith its tax effect
  - EPS from continuing, discontinuing and total operations, both Basic and Diluted, to be disclosed on the face of SPL
- **PREPRATION AND DISCLOSURES**
  - Preference dividend on preference shares classified as LIABILITIES to be disclosed under Interest Expenses
  - Separate Disclosures required for Other Comprehensive Incomes
  - Miscellaneous item of income or expenses limits revised to 1% of revenue from operations or **10,00,000 Lacs** (instead of 100,000 in Division I of Schedule IIII), whichever is higher
  - Changes in Regulatory Deferral Balances to be disclosed separately as per requirement of respective Ind AS

CONSOLIDATED FINANCIAL STATEMENTS (CFS)

- Minority Interest renamed to **Non-Controlling Interest (NCI)**
- Share of NCI in Profits and also in Total Comprehensive Income to be disclosed separately
- Investments in JV to be accounted for as per EQUITY method only, and accordingly disclosure made in statement of information to be disclosed for Subsidiaries, JV and Associates
- In statement of information to be disclosed for Subsidiaries, JV and Associates, Share in OCI and Share in Total Comprehensive income to be disclosed separately

PART I –BALANCE SHEET

Name of the Company…….
Balance Sheet as at …… **(Rupees in……)**

	Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
	1	2	3	4
(1)	**ASSETS** **Non-current assets** (a) Property, Plant and Equipment (b) Capital work-in-progress (c) Investment Property (d) Goodwill (e) Other Intangible assets (f) Intangible assets under development (g) Biological Assets other than bearer plants (h) Financial Assets (i) Investments (ii) Trade receivables (iii) Loans (iv) Others (to be specified) (i) Deferred tax assets (net) (j) Other non-current assets			
(2)	**Current assets** (a) Inventories (b) Financial Assets (i) Investments (ii) Trade receivables (iii) Cash and cash equivalents (iv) Bank balances other than (iii) above (v) Loans (vi) Others (to be specified) (c) Current Tax Assets (Net) (d) Other current assets			
	Total Assets			
(1)	**EQUITY AND LIABILITIES** **Equity** (a) Equity Share capital (b) Other Equity **LIABILITIES** **Non-current liabilities** (a) Financial Liabilities (i) Borrowings (ii) Trade payables (iii) Other financial liabilities (other than those specified in item (b), to be specified) (b) Provisions (c) Deferred tax liabilities (Net) (d) Other non-current liabilities			
(2)	**Current liabilities** (a) Financial Liabilities (i) Borrowings (ii) Trade payables (iii) Other financial liabilities (other than those specified in item (c) (b) Other current liabilities (c) Provisions (d) Current Tax Liabilities (Net)			
	Total Equity and Liabilities			

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN EQUITY

Name of the Company…….
Statement of Changes in Equity for the period ended ……

(Rupees in……)

A. Equity Share Capital

Balance at the beginning of the reporting period	Changes in equity share capital during the year	Balance at the end of the reporting period

B. Other Equity

	Share application money pending allotment	Equity component of compound financial instruments	Reserves and Surplus				Debt instruments through Other Comprehensive Income	Equity Instruments through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Revaluation Surplus	Exchange differences on translating the financial statements of a foreign operation	Other items of Other Compre-hensive Income (specify nature)	Money received against share warrants	Total
			Capital Reserve	Securities Premium Reserve	Other Reserves (specify nature)	Retained Earnings								
Balance at the beginning of the reporting period														
Changes in accounting policy or prior period errors														
Restated balance at the beginning of the reporting period														
Total Comprehensive Income for the year														
Dividends														
Transfer to retained earnings														
Any other change (to be specified)														
Balance at the end of the reporting period														

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company…….
Statement of Profit and Loss for the period ended …… (Rupees in……)

	Particulars	Note No.		Figures for the current reporting period		Figures for the previous reporting period
I	Revenue From Operations					
II	Other Income					
III	Total Income (I+II)					
IV	**EXPENSES** Cost of materials consumed					
	Purchases of Stock-in-Trade					
	Changes in inventories of finished goods, Stock-in -Trade and work-in-progress					
	Employee benefits expense					
	Finance costs					
	Depreciation and amortization expense					
	Other expenses					
	Total expenses (IV)					
V	Profit/(loss) before exceptional items and tax (I- IV)					
VI	Exceptional Items					
VII	Profit/(loss) before tax (V-VI)					
VIII	Tax expense: (1) Current tax (2) Deferred tax					
IX	Profit (Loss) for the period from continuing operations (VII-VIII)					
X	Profit/(loss) from discontinued operations					
XI	Tax expense of discontinued operations					
XII	Profit/(loss) from Discontinued operations (after tax) (X-XI)					
XIII	Profit/(loss) for the period (IX+XII)					
XIV	Other Comprehensive Income A (i) Items that will not be reclassified to profit or loss (ii) Income tax relating to items that will not be reclassified to profit or loss B (i) Items that will be reclassified to profit or loss (ii) Income tax relating to items that will be reclassified to profit or loss					
XV	Total Comprehensive Income for the period (XIII+XIV)(Comprising Profit (Loss) and Other Comprehensive Income for the period)					
XVI	Earnings per equity share (for continuing operation): (1) Basic (2) Diluted					
XVII	Earnings per equity share (for discontinued operation): (1) Basic (2) Diluted					
XVIII	Earnings per equity share(for discontinued & continuing operations) (1) Basic (2) Diluted					

3. A. IND AS 11: CONSTRUCTION CONTRACTS

Major Changes in Ind AS 11 vis-à-vis Notified AS 7

(i) **Inclusion of Borrowing costs:** Existing AS 7 includes borrowing costs as per AS 16, Borrowing Costs, in the costs that may be attributable to contract activity in general and can be allocated to specific contracts, whereas Ind AS 11 does not specifically make reference to Ind AS 23.

(ii) **Fair Value:** Existing AS 7 does not recognise fair value concept as contract revenue is measured at consideration received/receivable, whereas Ind AS 11 requires that contract revenue shall be measured at fair value of consideration received/receivable.

(iii) **Accounting for Service Concession Arrangements:** Existing AS 7 does not deal with accounting for Service Concession Arrangements, i.e., the arrangement where private sector entity (an operator) constructs or upgrades the infrastructure to be used to provide the public service and operates and maintains that infrastructure for a specified period of time, whereas Appendix A of Ind AS 11 deals with accounting aspects involved in such arrangements and Appendix B of Ind AS 11 deals with disclosures of such arrangements.

B. Ind AS 18 : Revenue

The primary issue in accounting for revenue is determining when to recognize revenue. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

The Standard shall be applied in accounting for revenue arising from the following transactions and events: (a) the sale of goods; (b) the rendering of services; and (c) the use by others of entity assets yielding interest and royalties The Standard deals with recognition of interest. However, measurement of interest and recognition and measurement of dividend are dealt in accordance with Ind AS 109, Financial Instruments.

The impairment of any contractual right to receive cash or another financial asset arising from this Standard shall be dealt in accordance with Ind AS 109, Financial Instruments.

1. Identification of the transaction

The recognition criteria in this Standard are usually applied separately to each transaction.
However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the selling price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed.
Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

2. Measurement of revenue

Revenue shall be measured at the fair value of the consideration received or receivable.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset.

3.Sale of goods

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

(a) theentityhastransferredtothebuyerthesignificantrisksandrewardsof ownership of the goods;
(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) the amount of revenue can be measured reliably;
(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4.Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period.

The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;
(b) it is probable that the economic benefits associated with the transaction will flow to the entity;
(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

5.Interest and Royalties

Revenue arising from the use by others of entity assets yielding interest and royalties shall be recognised when:

(a) it is probable that the economic benefits associated with the transaction will flow to the entity; and
(b) the amount of the revenue can be measured reliably.

Revenue shall be recognised on the following bases: (a) interest shall be recognised using the effective interest method as set out in Ind AS 109; (b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement.

6. Major Changes in Ind AS 18 vis-à-vis IAS 18

Resulting in Carve Out

As per IFRS: On the basis of principles of the IAS 18, IFRIC 15, Agreement for Construction of Real Estate, prescribes that construction of real estate should be treated as sale of goods and revenue should be recognised when the entity has transferred significant risks and rewards of ownership and retained neither continuing managerial involvement nor effective control.

Not Resulting in Carve Out

1. **Recognition and Measurement of Interest:** Paragraph 1A is inserted in Ind AS 18 which states that recognition of interest is dealt in this standard whereas measurement of interest is dealt in accordance with Ind AS 109, Financial Instruments.

2. **Impairment of Contractual Right:** Paragraph 1B is inserted in Ind AS18,which prescribes the impairment of any contractual right to receive cash or another financial asset arising from this standard, shall be dealt in accordance with Ind AS 109, Financial Instruments.

Major Changes in Ind AS 18 vis-à-vis Notified AS 9

(i) **Definition of 'Revenue':** Definition of 'revenue' given in Ind AS 18 is broad compared to the definition of 'revenue' given in existing AS 9 because it covers all economic benefits that arise in the ordinary course of activities of an entity which result in increases in equity, other than increases relating to contributions from equity participants. On the other hand, as per the existing AS 9, revenue is gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

(ii) **Measurement of Revenue:** Measurement of revenue is briefly covered in the definition of revenue in the existing AS 9, while Ind AS 18 deals separately in detail with measurement of revenue. As per existing AS9, revenue is recognized at the nominal amount of consideration receivable. Ind AS 18 requires the revenue to be measured at fair value of the consideration received or receivable.

(iii) **Barter Transactions:** Ind AS18 specifically deals with the exchange of goods and services with goods and services of similar and dissimilar nature. In this regard specific guidance is given regarding barter transactions involving advertising services. This aspect is not dealt with in the existing AS 9.

(iv) **Recognition of Separately Identifiable Components:** Ind AS 18 provides guidance on application of recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Existing AS 9 does not specifically deal with the same.

(v) **Recognition of Interest:** Existing AS 9 requires the recognition of revenue from interest on time proportion basis. Ind AS 18 requires interest to be recognised using effective interest rate method as set out in Ind AS 109, Financial Instruments.

(vi) **Guidance Regarding Revenue Recognition in Specific Cases:** Ind AS 18 specifically provides guidance regarding revenue recognition in case the entity is under any obligation to provide free or discounted goods or services or award credits to its customers due to any customer loyalty programme. Existing AS 9 does not deal with this aspect.

(vii) **Disclosure of Excise Duty:** Existing AS 9 specifically deals with disclosure of excise duty as a deduction from revenue from sales transactions. Ind AS 18 does not specifically deal with the same.

(viii) **Disclosure Requirements:** Disclosure requirements given in the Ind AS 18 are more detailed as compared to existing AS 9.

4. AS RELATED AMENDMENTS

AS 2:

(a) **As per the Companies (Accounting Standards) Rules, 2006**

Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.

As per the Companies (Accounting Standards) Amendment Rules, 2016

Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property,

Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.

(b) As per the Companies (Accounting Standards) Rules, 2006

Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.

As per the Companies (Accounting Standards) Amendment Rules, 2016

Common classifications of inventories are:
(a) Raw materials and components
(b) Work-in-progress
(c) Finished goods
(d) Stock-in-trade (in respect of goods acquired for trading)
(e) Stores and spares
(f) Loose tools
(g) Others (specify nature)

AS4:

As per the Companies (Accounting Standards) Rules, 2006

Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.

As per the Companies (Accounting Standards) Amendment Rules, 2016

If an enterprise declares dividends to share holders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes.

AS 13:

As per the Companies (Accounting Standards) Rules, 2006

An enterprise holding investment properties should account for them as longterm investments.

As per the Companies (Accounting Standards) Amendment Rules, 2016

An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.

AS 14:

As per the Companies (Accounting Standards) Rules, 2006

In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g.,' Amalgamation Adjustment Account') which is disclosed as a part of' miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.

As per the Companies (Accounting Standards) Amendment Rules, 2016

In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g.,' Amalgamation Adjustment Reserve') which is presented as a separate lineitem. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account a rereversed.

AS 21:

As per the Companies (Accounting Standards) Rules, 2006

A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than those referred to in paragraph 11.

As per the Companies (Accounting Standards) Amendment Rules, 2016

A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than those referred to in paragraph11.

Where an enterprise does not have a subsidiary but has an associate and/or a joint venture such an enterprise should also prepare consolidated financial statements in accordance with Accounting Standard (AS) 23, Accounting for Associates in Consolidated Financial Statements, and Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures respectively

AS 29:

(a) As per the Companies (Accounting Standards) Rules, 2006

The amount of a provision should not be discounted to its present value.

As per the Companies (Accounting Standards) Amendment Rules, 2016

The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discount should be recognised in the statement of profit and loss.

5. INDIAN ACCOUNTING STANDARDS RELATED AMENDMENTS

Companies (Indian Accounting Standards) (Amendment) Rules, 2016

MCA has issued Companies (Indian Accounting Standards) (Amendment) Rules, 2016 to amend Companies (Indian Accounting Standards) Rules, 2015. The amended Rules, inter alia, provide the following:

- Roadmap for implementation of Ind AS by Non-Banking Financial Companies; As per the notification,
  - (a) The following NBFCs shall comply with the Indian Accounting Standards (Ind AS) for accounting periods beginning on or after the 1st April, 2018, with comparatives for the periods ending on 31st March, 2018, or thereafter—
    - (A) NBFCs having net worth of rupees five hundred crore or more;
    - (B) holding, subsidiary, joint venture or associate companies of companies covered under item (A),
  - (b) The following NBFCs shall comply with the Indian Accounting Standards (Ind AS) for accounting periods beginning on or after the 1st April, 2019, with comparatives for the periods ending on 31st March, 2019, or thereafter —
    - (A) NBFCs whose equity or debt securities are listed or in the process of listing on any stock exchange in India or outside India and having net worth less than rupees five hundred crore;
    - (B) NBFCs, that are unlisted companies, having net worth of rupees two-hundred and fifty crore or more but less than rupees five hundred crore; and
    - (C) holding, subsidiary, joint venture or associate companies of companies covered under item (A) or item (B) of sub-clause (b),

Ind AS – 1 'Presentation of Financial Statements'

- **On Materiality**

  The amendments clarify that while aggregating information in the financial statements, an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

  The amendments further accentuated that even when a standard requires a specific disclosure, the information must be assessed as to that its insufficiency may not prevent

users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

- **On presentation of Subtotals**
  An entity shall present additional line items (including by disaggregating the line items listed in paragraph 54), headings and subtotals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position.
  An entity has to present additional subtotals in the balance sheet or the statement of profit and loss labelled it in a manner that makes the line items understand able. Also as per the amendment, such sub totals shall be consistent from period to period and not be displayed with more prominence than the subtotals and totals required in Ind AS.
  The amendments require that additional subtotals in the statement of profit and loss should be reconciled to the subtotals and totals required by Ind AS 1.

- **On Systematic Grouping and Presentation of Notes**
  The management of an entity shall consider the understand ability and comparability of the financial statements when it determines the group or order of the notes. An entity might, for example, present more significant notes first, or present linked areas sequentially. Such flexibility allows management to alter their presentation to their circumstances.
  The notification also states that the share of other comprehensive income arising from investments accounted for under the equity method is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

- **On Disclosure of Accounting Policies**
  Ind AS 1 has been deleted which included the examples of significant accounting policies i.e., the income taxes accounting policy and the foreign currency accounting policy since they were not found significant.

IndAS 19, 'Employee benefits'

'Actuarial Assumptions: Discount Rate

The amendment clarifies that for determining the discount rate for post-employment benefit obligations, with respect to currencies other than Indian rupee for which there is deep market in high quality corporate bonds, the market yields (at the end of the reporting period) on such high quality corporate bonds denominated in that currency shall be used.

Ind AS 28, 'Investments in associates and joint ventures'

As per the amendment, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in subsidiaries.

Ind AS 34, 'Interim financial reporting'

Ind AS 34 requires entities to disclose information in the notes to the interim financial statements, 'if not disclosed elsewhere in the interim financial report'.
Amendment in Ind AS 34 clarified that such disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

Ind AS 101, 'First-time adoption of Indian Accounting Standards'

Ind AS 40 only permits the cost model for measurement of investment properties after initial recognition. Hence, the amendment has been made to remove the option to use fair value for investment property as the deemed cost under Ind AS 101 on the date of transition.

Ind AS 105, 'Non-current Assets held for Sale and Discontinued Operations'

The amendment clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, then the change in classification is considered a continuation of the original plan of disposal.
The entity shall apply the classification, presentation and measurement requirements as are applicable to the new method of disposal and shall measure such asset at lower of its carrying amount and fair value less costs to sell/distribute, as the case may be, and recognise any reduction or increase on it.
The amendment also clarifies that changing the disposal method does not change the date of classification.

Ind AS 107, 'Financial Instruments: Disclosures'

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, Ind AS 107 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. The amendment in Ind AS 107 illustrates the term'continuing involvement' in context of service contracts.

Ind AS 110, 'Consolidated Financial Statements'

Exemptions for application of Ind AS 110

- Ind AS 110 requires an investment entity to measure an investment in a subsidiary at fair value through profit or lossin accordance with IndAS 109, 'Financial instruments'.It has been clarified that, as an exception to this, an investment entity would consolidate a subsidiary only if it is not an investment entity itself, and if it acts as an extension of the investment entity by providing services that support the investment entity's activities. All subsidiaries that are themselves investment entities are measured at fair value through profit and loss.
- Another exemption for non-application of this Ind AS 110 is on post-employment benefit plans or other long-term employee benefit plans to which Ind AS 19, Employee Benefits, applies.
- Ind AS 110 was amended to clarify that the exemption from preparing consolidated financial statements contained in paragraph 4(a) of Ind AS 110 is available to a parent entity that is a subsidiary of an investment entity (provided all other conditions in paragraph 4(a) are met) even when the investment entity measures all of its subsidiaries at fair value.

Ind AS 112, 'Disclosure of Interests in Other Entities'

The amendment clarifies the application of the standard to investment entities. An investment entity, that prepares separate financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with Ind AS 109, requires to present the disclosures in respect of such investment entities as per Ind AS 112. This amendment to Ind AS112 is consequential to the amendments to Ind AS 28 and Ind AS 110.

6. GUIDANCE NOTE ON CSR

Guidance Note on Accounting for Expenditure on CorporateSocial Responsibility Activities.

1. **Whether a liability for shortfall of CSR expenditure is to be created in the books?**
   The Act clearly lay down that the expenditure on CSR activities is to be disclosed only in the Board's Report in accordance with the Rules made thereunder. In view of this, no provision for the amount which is not spent, i.e., any shortfall in the amount that was expected to be spent as per the provisions of the Act on CSR activities and the amount actually spent at the

end of a reporting period, may be made in the financial statements. The proviso to section 135 (5) of the Act, makes it clear that if the specified amount is not spent by the company during the year, the Directors' Report should disclose the reasons for not spending the amount.

2. **Whether carry forward of excess CSR spends during a year is permitted?**
Where a company spends more than that required under law, a question arises as to whether the excess amount 'spent' can be carried forward to be adjusted against amounts to be spent on CSR activities in future period. Since '2% of average net profits of immediately preceding three years' is the minimum amount which is required to be spent under section 135 (5) of the Act, the excess amount cannot be carried forward for set off against the CSR expenditure required to be spent in future.

3. **Modes of making CSR spends**
A company may decide to undertake its CSR activities approved by the CSR Committee with a view to discharge its CSR obligation as arising undersection 135 of the Act in the following three ways:
(a) making a contribution to the funds as specified in Schedule VII to the Act; or
(b) through a registered trust or a registered society or a company established under section8 of the Act (or section 25 of the Companies Act, 1956) by the company, either singly or along with its holding or subsidiary or associate company or along with any other company or holding or subsidiary or associate company of such other company, or otherwise; or
(c) In any other way in accordance with the Companies (Corporate Social Responsibility Policy) Rules, 2014, e.g. on its own.

4. **Accounting of various modes of CSR spends**
(a) In case a contribution is made to a fund specified in Schedule VII to the Act, the same would be treated as an expense for the year and charged to the statement of profit and loss.
(b) In case the amount is spent in the manner as specified in (b) above the same will also be treated as expense for the year by charging off to the statement of profit and loss.
(c) Recognise as CSR expense with a separate line item of expense in Statement of P&L

5. **Whether CSR capital nature spend should be recognized as an asset?**
No, as invariably future economic benefits from a 'CSR asset' would not flow to the company as any surplus from CSR cannot be included by the company in business profits in view of Rule 6(2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014.

6. **How to value CSR spend when company supplies its own goods or services?**
In some cases, a company may supply goods manufactured by it or render services as CSR activities. In such cases, the expenditure incurred should be recognised when the control on the goods manufactured by it is transferred or the allowable services are rendered by the employees. The goods manufactured by the company should be valued in accordance with the principles prescribed in Accounting Standard (AS) 2, Valuation of Inventories. The services rendered should be measured at cost. Indirect taxes (like excise duty, service tax, VAT or other applicable taxes) on the goods and services so contributed will also form part of the CSR expenditure.

Where a company receives a grant from others for carrying out CSR activities, the CSR expenditure should be measured net of the grant.

7. **How to account CSR surplus, if any?**
Rule 6 (2) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, requires that "the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company". any surplus arising out of CSR project or programme or activities shall be recognised in the statement of profit and loss and since this surplus cannot be a part of business profits of the company, the same should immediately be recognised as liability for CSR expenditure in the balance sheet and recognised as a charge

to the statement of profit and loss. Accordingly, such surplus would not form part of the minimum '2% of the average net profits of the company made during the three immediately preceding financial years in pursuance of its Corporate Social Responsibility Policy'.

8. **Disclosure of CSR spends in financial statements**
It is recommended that all expenditure on CSR activities, that qualify to be recognised as expense should be recognised as a separate line item as 'CSR expenditure' in the statement of profit and loss. Further, the relevant note should disclose the break-up of various heads of expenses included in the line item 'CSR expenditure'.

WORKBOOK – AS 10 PRACTICE QUESTIONS WITH SOLUTION

Q.1. **Capitalising the cost of "Remodelling" a Supermarket**
Entity A, a supermarket chain, is renovating one of its major stores.The store will have more available space for in store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodelling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers. State whether the remodeling cost will be capitalized or not.

Sol. The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales) and the cost of remodelling can be measured reliably, therefore, it should be capitalised.

Q.2. What happens if the cost of the previous part/inspection was/ was not identified in the transaction in which the item was acquired or constructed? (Related to Issue 2 and 3)

Sol. De-recognition of the carrying amount occurs regardless of whether the cost of the previous part/inspection was identified in the transaction in which the item was acquired or constructed.

Q.3. What will be your answer in the above question, if it is not practicable for an enterprise to determine the carrying amount of the replaced part/inspection?

Sol. It may use the cost of the replacement or the estimated cost of a future similar inspection as an indication of what the cost of the replaced part/existing inspection component was when the item was acquired or constructed.

Q.4. Entity A has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site. The following incremental costs will be incurred:
1. Setup costs of ₹5,00,000 to install machinery in the new location.
2. Rent of ₹15,00,000
3. Removal costs of ₹3,00,000 to transport the machinery from the old location to the temporary location.

Can these costs be capitalised into the cost of the new building?

Sol. Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired.These costs are not to be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.The costs to be incurred by the company do not meet the requirement of AS 10 and therefore, cannot be capitalised.

Case Study on Technique I
PPE is revalued to ₹1,500 consisting of ₹2,500 Gross cost and ₹1,000Depreciation based on observable market data.

Details of the PPE before and after revaluation are as follows:

Particulars	Cost/Revalued Cost	Accumulated depreciation	Net book value
PPE before revaluation	1,000	400	600
Fair Value			1,500
Revaluation Gain			900
Gain allocated proportionately to cost and	1,500	600	900

depreciation			
PPE after revaluation	2,500	1,000	1,500

The increase on revaluation is ₹900 (i.e., ₹1,500 – ₹600).

Technique2: Accumulated depreciation Is eliminated against the Gross Carrying amount of the asset
Case Study on Technique II (Taking the information given in the above Example)
Details of the PPE before and after revaluation are as follows:

Particulars	Cost/Revalued Cost	Accumulated depreciation	Net book value
PPE before revaluation	1,000	400	600
PPE after revaluation	**1,500**		**1,500**
Revaluation gain	**500**	**400**	

The increase on revaluation is ₹900 (i.e., ₹500 + ₹400).

Q.5. Change in estimate of useful life
Entity A purchased an asset on 1st January 2013 for ₹1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 2017, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if company charges depreciation on Straight Line basis.

Sol. The entity has charged depreciation using the straight-line method at ₹10,000 per annum i.e(1,00,000/10 years).
On 1st January 2017, the asset's net book value is [1,00,000 – (10,000 x 4)] ₹60,000. The remaining useful life is 4 years.
The company should amend the annual provision for depreciation to charge the unamortised cost over the revised remaining life of four years.
Consequently, it should charge depreciation for the next 4 years at ₹15,000 per annum i.e. (60,000 / 4 years).
Note: Depreciation is recognised 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.

Q.6. Entity B constructs a machine for its own use. Construction is completed on 1st November2016 but the company does not begin using the machine until 1st March 2017. Comment

Sol. The entity should begin charging depreciation from the date the machine is ready for use – that is, 1st November 2016.The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.

Q.7. In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹70,00,000.The entity desires to calculate the depreciation charge per annum using a straight-line method.It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000
Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	₹ 30,00,000
		₹ 70,00,000

Calculate depreciation for the year 2016-17.

Sol. Statement showing amount of depreciation as per Componentisation Method

Component	Depreciation (Per annum) (₹)
Land	Nil
Roof	40,000
Lifts	25,000
Fixtures	50,000
Remainder of building	60,000
	1,75,000

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognised as a new component.

Q.8. An entity acquires an item of PPE for ₹ 50,000, which is depreciated over 20 years. Three years later, the asset is revalued to ₹ 60,000. Compute the amount of Revaluation Surplus?

Sol. **Calculation of Revaluation surplus:**

Revaluation Amount	₹ 60,000
Less: Carrying amount = ₹50,000 –₹7,500 =	(₹ 42,500)
Revalue Surplus at the end of 3rd year	₹17,500

Working note:
Depreciation for first 3 years = (₹50,000 / 20 years) x 3 years = ₹7,500

Q.9. XYZ Ltd. has acquired a heavy road transporter at a cost of ₹ 1,00,000 (with no breakdown of the component parts).The estimated useful life is 10 years. At the end of the sixth year, the power train (one of its component) requires replacement, as further maintenance is uneconomical due to the off-road time required. The remainder of the vehicle is perfectly roadworthy and is expected to last for the next four years. The cost of a new power train is ₹45,000. Can the cost of the new power train be recognized as an asset, and, if so, what treatment should be used? **[PM]**

Sol. The new power train will produce economic benefits to XYZ Ltd., and the cost is measurable. Hence the item should be recognized as an asset as per AS 10 (Revised) as the recognition criteria is satisfied.
The original invoice for the transporter did not specify the cost of the power train. However, its cost of the replacement is ₹ 45,000 which can be used as an indication (usually by discounting factor) of the likely cost, six years previously.
If an appropriate discount rate is 5% per annum, ₹ 45,000 discounted back six years amounts to ₹ 33,570 (45,000 x 0.746), which would be written out of the asset records.
The cost of the new power train, ₹ 45,000, would be added to the asset record, resulting in a new asset cost of ₹ 1,11,430 (₹ 1,00,000 – ₹ 33,570 + ₹ 45,000).

Q.10. ABC Ltd. is installing a new plant at its production facility. It has incurred these costs: **[PM]**

1	Cost of the plant (cost per supplier's invoice plus taxes)	₹ 25,00,000
2	Initial delivery and handling costs	₹ 2,00,000
3	Cost of site preparation	₹ 6,00,000
4	Consultants used for advice on the acquisition of the plant	₹ 7,00,000
5	Interest charges paid to supplier of plant for deferred credit Estimated	₹ 2,00,000
6	dismantling costs to be incurred after 7 years	₹ 3,00,000
7	Operating losses before commercial production	₹ 4,00,000

Please advise ABC Ltd. on the costs that can be capitalized in accordance with AS 10 (Revised).

Sol. According to AS 10 (Revised), these costs can be capitalized:

1	Cost of the plant	₹ 25,00,000
2	Initial delivery and handling costs	₹ 2,00,000
3	Cost of site preparation	₹ 6,00,000
4	Consultants' fees	₹ 7,00,000
5	Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
		₹ 43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 2,00,000 and operating losses before commercial production amounting to ₹ 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalized. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Q.11. A Ltd. has an item of plant with an initial cost of ₹ 1,00,000.At the date of revaluation, accumulated depreciation amounted to ₹ 55,000.The fair value of the asset, by reference to transactions in similar assets, is assessed to be ₹ 65,000.
Pass Journal Entries with regard to Revaluation? **[PM]**

Sol.

The entries to be passed would be:

		₹	₹
Accumulated depreciation To Asset A/c (Being elimination of accumulated depreciation against the cost of the asset)	Dr.	55,000	 55,000
Asset A/c To Revaluation Surplus (Being increase of net asset value to Fair value)	Dr.	20,000	 20,000

Note: The net result is that the asset has a carrying amount of ₹ 65,000 [1,00,000 – 55,000 + 20,000.]

Q.12. B Ltd. owns an asset with an original cost of ₹ 2,00,000. On acquisition, management determined that the useful life was 10 years and the residual value would be ₹ 20,000.The asset is now 8 years old, and during this time there have been no revisions to the assessed residual value.
At the end of year 8, management has reviewed the useful life and residual value and has determined that the useful life can be extended to 12 years in view of the maintenance program adopted by the company. As a result, the residual value will reduce to ₹ 10,000.
How would the above changes in estimates be made by B Ltd.? **[PM]**

Sol. The above changes in estimates would be effected in the following manner:
The asset has a carrying amount of ₹ 56,000 at the end of year 8 [₹ 2,00,000 – ₹ 1,44,000] i.e. Accumulated Depreciation.

Accumulated depreciation is calculated as
Depreciable amount {Cost less residual value} = ₹ 2,00,000 – ₹ 20,000 = ₹ 1,80,000.
Annual depreciation = Depreciable amount / Useful life = 1,80,000 / 10 = ₹ 18,000.
Accumulated depreciation = 18,000 × No. of years (8) = ₹ 1,44,000.
Revision of the useful life to 12 years results in a remaining useful life of 4 years (12 – 8).
The revised depreciable amount is ₹ 46,000. (56,000 – 10,000)
Thus, depreciation should be charged in future at ₹ 11,500 per annum (₹ 46,000/4 years).

Q.13. Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the asset:
1. Consultants fees for choosing the new asset
2. A trade discount received of 5% of the purchase price of the asset
3. A discount received for paying the invoice within 90 days
4. Interest paid on a short term loan taken to provide the necessary cash for payment of the purchase price
5. Import duties paid
6. Shipping costs and cost of road transport
7. Insurance for the shipping
8. An economic development rebate from the state
9. VAT paid on the purchase
10. Cost of laying a new concrete slab and installing special rubber mounted footings for the new press in order to reduce vibration during use
11. Hire of a crane to transfer the press from the vehicles into the factory
12. Costs associated with removing a section of the factory roof to allow the machine to be dropped into place and subsequently refitting the roof
13. Cost of installing soundproofing in the roof at the same time in order to provide protection for workers in other parts of the factory building
14. Professional fees charged by consulting engineer for overseeing the installation process
15. Electricians fees for connecting the press to the power supply
16. A portion of the operating costs (salaries, office expenses) of the purchasing department
17. Costs of materials (papers and inks) used in calibrating the machine and setting it up for operation
18. Costs of training the operators of the new machine
19. A portion of the inefficiencies in production for the first month of use while the operators became comfortable with using the machine **[PM]**

Sol. Included in Cost:
Point no. 2,5,6,7,8,10,11,12,14,15 and 17
Excluded from Cost:
Point no. 1,3,4,9,13,16,18 and 19

Q.14. A Ltd. has carried out certain works on various machines in their engineering plant, which manufactures high quality metal patterns and templates for use in industry.
Determine in each case whether the costs of the improvements can be added to the existing carrying value of the assets concerned?

1. Thecostofanannualmachineoverhaulwhichwillmaintaintheoriginallyassessed standard of performance of the machine for the coming 12 months.
2. The cost of repairs to a press machine, which was damaged by the emergency services while trying to extricate the arm of a worker who had become trapped in the press.
3. Modifications to a cutting machine which will increase its rate of output from 500 to 560 patterns per shift.
4. Modifications to a lathe which will replace the current water cooling system with an oil-based system, thereby extending the life of the lathe by a forecast 2 years.
5. The upgrading of a cutting machine with new software which will improve the accuracy of its measurement and cutting tolerances by a number of microns, thereby raising the quality of output.
6. Alterations to a production line which will allow automatic feeding from a machine to the nextoneintheproductionprocess,therebyremovingtheneedforanemployeeto manually load the second machine. **[PM]**

Sol. Point 1: No. This may not be capitalized as subsequent expenditure, since it merely maintains the originally assessed standard of performance of the asset.

Point 2: Yes. An impairment loss should have been recognized when the damage occurred and any insurance payment received as compensation should have been recognized as income in the Statement of Profit and Loss when received.
When expenditure is incurred to restore the asset, such expenditure is added to the carrying amount of the asset to the extent that it is probable that future economic benefits will flow to the enterprise.

Point 3: Yes. The cost of such modifications may be added to the carrying amount of the asset. Point 4: Yes. Such costs may be capitalized.

Point 5: Yes. Such costs may be capitalized.

Point 6: Yes. Such costs may be capitalized.

Q.15. An entity bought a plot of land for development of office buildings.Development of the land was scheduled into six phases.The land scheduled for development in phases five and six was leased to another entity on a short-term basis as a parking lot for heavy vehicles.
What is the treatment of rental income from car parking lot? **[PM]**

Sol. Rental income from the car park lease is recognized in the Statement of Profit and Loss for the period.
The car park activity is incidental to the entity₹s principal activity of property development. Operations that are incidental to the construction or development of property, plant and equipment are not necessary to bring the asset to its working condition for its intended use.
The income and related expenses of incidental operations are recognized in the Statement of Profit and Loss for the period.

Q.16. An entity acquires the right to use an underground cave for gas storage purposes for a period of 50 years.The cave is filled with gas, but a substantial part of that gas will only be used to keep the cave under pressure in order to be able to get gas out of the cave. It is not possible to distinguish the gas that will be used to keep the cave under pressure and the rest of the gas.
Evaluate whether AS 10 would apply or AS 2? **[PM]**

Sol. The total volume of gas must be virtually split into
(i) Gas held for sale, and
(ii) Gas held to keep the cave under pressure.
The former must be accounted for under AS 2 as Inventories.The latter must be accounted for as PPE under AS 10 and depreciated over the period the cave is expected to be used.

Q.17. An entity operates an oil refining plant. For the refining process to take place, the plant must contain a certain minimum quantity of oil. This can only be taken out once the plant is abandoned and would then be polluted to such an extent that the plant's value is significantly reduced.
Evaluate whether AS 10 would apply or AS 2? **[PM]**

Sol. The part of the crude that is necessary to operate the plant and cannot be recouped (or can be recouped but would then be significantly impaired), even when the plant is abandoned, should be considered as an item of PPE under AS 10 and amortized over the life of the plant.

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- He is also well recognized for his efforts for placements of freshly qualified CAs in to corporates of India with placements upto Rs. 22 Lacs p.a.
- He has been a speaker in various ICAI seminars and is being regularly invited by various Institutes and Universities for delivering lectures on topics of professional interest.
- His Lectures are also available at the Institute's portal for reference of all CA students of India.
- He also is the President of CACTUS (CA Community for talented and Uprising Students), a community of CA Students facilitating development, support and direction of CA Students.
- Before completing CA, he had also topped in his 12th Senior Secondary Exams for which he was awarded the All India National Merit Scholarship.
- He was also awarded with the certificate of merit for his exceptional performance of attaining 100/100 marks in CBSE - XII Mathematics.
- At the age of 17 itself, he was interviewed by various dailies including the Times of India for his par excellent scholastic performance.
- He has a VISION to facilitate student, who are the future of India, to excel in all aspects be it education, recreation, self development of employment.

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