AS 10 - PROPERTY, PLANT AND EQUIPMENT

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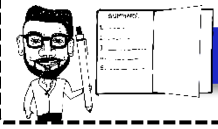

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1. QUESTION (ILLUSTRATION 6 – ICAI)

Entity A, which operates a major chain of Supermarkets, has acquired a new store location. The new location requires significant Renovation Expenditure. Management expects that the renovations will last for 3 Months during which the Supermarket will be closed.

Management has prepared the budget for this period including expenditure related to Construction and Re-Modelling Costs, salaries of staff who will be preparing the Store before its opening and related Utilities Costs. What will be the treatment of such expenditures?

SOLUTION

FACTS:

New location acquired by Entity A requires significant renovation expenditure. Management has prepared the budget for the construction and remodeling cost and other related cost.

REFERENCE:

As per the provisions of AS 10 P.P.E, the cost of an item of property, plant and equipment comprises 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.**

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

- It is **probable that future economic benefits** associated with the item will flow to the enterprise; **and**
- The cost of the item can be **measured reliably.**

ANALYSIS:

The costs of construction and re-modelling the supermarket are **necessary** to bring the store to the condition necessary for it to be capable of operating in the manner intended by management.

However, if the cost of salaries, utilities and storage of goods are in the **nature of operating expenditure** that would be incurred if the supermarket was open, then these costs are **not necessary** to bring the store to the condition necessary for it to be capable of operating in the manner intended by management and **should be expensed.**

CONCLUSION:

Construction and re-modelling cost **should be capitalized by Entity A.**

2. QUESTION (ILLUSTRATION 7 - ICAI)

An amusement park has a 'soft opening to the public, to trial run its attractions. Tickets are sold at a 50% discount during this period and the operating capacity is 80%. The official opening day of the amusement park is three months later.

Management claim that the soft opening is a trial run necessary for the amusement park to be in the condition capable of operating in the intended manner. Accordingly, the net operating costs incurred should be capitalised. Comment.

SOLUTION

FACTS:

Amusement Park management wants to capitalise the net operating costs incurred during soft opening as it is a trial run.

REFERENCE:

As per the provisions of AS 10 P.P.E, the cost of an item of property, plant and equipment comprises 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.

AS 10 specifically mentions inauguration costs are not part of P.P.E.

ANALYSIS:

As per the reference above, inauguration costs cannot be capitalised. Also, even though park is running at less than full operating capacity (80% of operating capacity), there is sufficient evidence that park is capable of operating in the manner intended by management.

CONCLUSION:

Contention of management to capitalise the cost is **incorrect.** Net operating cost should not be capitalised, but **should be recognised as expense** in the statement of profit and loss.

3. QUESTION (INTER QP - NOV 2018)

Neon Enterprise operates a major chain of restaurants located in different cities. The company has acquired a **new** restaurant located at Chandigarh. The new-restaurant requires significant renovation expenditure. Management expects that the renovations will last for 3 months during which the restaurant will be closed.

Management has prepared the following budget for this period -

Salaries of the staff engaged in preparation of restaurant before its opening ₹7,50,000

Construction and remodelling cost of restaurant ₹30,00,000

Explain the treatment of these expenditures as per the provisions of AS 10 "Property, Plant and Equipment".

SOLUTION

REFERENCE:

As per the provisions of AS 10 P.P.E, the cost of an item of property, plant and equipment comprises 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.**

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

- It is **probable that future economic benefits** associated with the item will flow to the enterprise; **and**
- The cost of the item can be **measured reliably.**

ANALYSIS:

Management of Neon enterprise should capitalise the cost of construction and remodeling because they are **necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management.**

However, the cost of salaries of staff engaged in the preparation of restaurant ₹7,50,000 before its opening are of **operating nature** as they would be incurred even when the restaurant would be open.

CONCLUSION:

Construction and re-modelling cost of restaurant - **₹ 30,00,000 should be considered as a part of asset.**

Cost of Salary - **₹ 7,50,000 should be charged to Profit and Loss Account** as expense.

4. QUESTION (MTP - OCT 20)

Omega Ltd, a supermarket chain, is renovating one of its major stores. The store will have more available space for 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.
Decide whether Omega Ltd. can capitalize the remodelling cost or not as per provisions of AS 10 "Property plant & Equipment".

SOLUTION

FACTS:

Omega Ltd.'s Management is preparing the budget for the year after the store reopens, which include the cost of re-modelling and the expectation of a 15% increase in sales from renovation.

REFERENCE:

As per the provisions of AS 10 P.P.E, the cost of an item of property, plant and equipment comprises 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.**

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

1. It is **probable that future economic benefits** associated with the item will flow to the enterprise; and
2. The cost of the item can be **measured reliably.**

ANALYSIS:

The expenditure in remodeling the store **will create future economic benefit** (in the form of 15% increase in sales). Moreover, the cost of remodeling **can be measured reliably.**

CONCLUSION:

Construction and re-modelling cost **should be capitalized** by Omega Ltd.

5. QUESTION (QP - JULY 21)

B Limited, which operates a major chain of retail stores, has acquired a new store location. The new location requires substantial renovation expenditure. Management expects that the renovation will last for 4 months during which the store will be closed. Management has prepared the budget for this period including expenditure related to construction and re-modelling costs, salary of staff who shall be preparing the store before its opening and related utilities cost. How would such expenditure be treated in the books of B Limited?

SOLUTION

FACTS:

New location acquired by B Ltd. requires significant renovation expenditure. Management has prepared the budget for the construction and remodeling cost and other related cost.

REFERENCE:

As per the provisions of AS 10 P.P.E, the cost of an item of property, plant and equipment comprises 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.**

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

- It is **probable that future economic benefits** associated with the item will flow to the enterprise; and
- The cost of the item can be **measured reliably.**

ANALYSIS:

The costs of construction and re-modelling the supermarket are **necessary** to bring the store to the condition necessary for it to be capable of operating in the manner intended by management.

However, if the cost of salaries, utilities and storage of goods are in the **nature of operating expenditure** that would be incurred if the supermarket was open, then these costs are not necessary to bring the store to the condition necessary for it to be capable of operating in the manner intended by management and **should be expensed.**

CONCLUSION:

Only Construction and re-modelling cost **should be capitalized** by B Ltd.

6. QUESTION

An Entity decides to revalue its Building on 1st April. On the date of revaluation, the Building stand at a cost of ₹ 100 Lakhs and Accumulated Depreciation is ₹ 40 Lakhs. The Building are now revalued at ₹ 150 Lakhs. How should the Entity account for the Revalued Building in its books of account?

SOLUTION

REFERENCE:

When an item of P.P.E is revalued, the **carrying amount of that asset is adjusted to the revalued amount.** At the date of revaluation, gross carrying amount and accumulated depreciation amount changes.

Gross carrying amount is adjusted in a manner that is **consistent with the revaluation** of the carrying amount of the asset.

Gross Carrying Amount —>

- May be restated by reference to observable market data. Or
- May be restated proportionately to the change in the carrying amount.

Accumulated Depreciation at the date of revaluation

- adjusted to equal the difference between the gross carrying amount of the asset after taking into account accumulated impairment losses.

ANALYSIS / CONCLUSION:

Building is revalued to ₹150 lakhs i.e., 150% increase from original cost of ₹100 Lakhs.

So, applying that ratio of 150%, the gross carrying amount will be ₹100 + ₹150 = ₹250 lakhs

and, Accumulated depreciation will be ₹40 Lakhs + 150% = ₹60 Lakhs.

As given above, if item of P.P.E is revalued, the carrying amount of such item is adjusted to the revaluation account.

7. QUESTION (ILLUSTRATION 11 – ICAI)

Entity A has a policy of not providing for depreciation on PPE capitalized in the year until the following year, but provides for a full year's depreciation in the year of disposal of an asset. Is this acceptable?

SOLUTION

FACTS:

Entity A has a policy of not providing for depreciation on PPE capitalized in the year but in the year of disposal of an asset, it provides for a full year's depreciation.

REFERENCE:

As per AS 10, "Property, plant and equipment,"

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

Useful life means the period over which the asset is expected to be available for use by the entity.

ANALYSIS:

Depreciation **should commence as soon as the asset is acquired** and is available for use and not only in the year of disposal.

CONCLUSION:

The policy of Entity A is **not acceptable.**

8. QUESTION (ILLUSTRATION 13 – ICAI)

Entity B constructs a machine for its own use. Construction is completed on 1st November 20X1 but the company does not begin using the machine until 1st March 20X2. Comment.

SOLUTION

FACTS:

Machine constructed for its own use was completed on 1stNovember 2021 but was not used until 1stMarch 2022.

REFERENCE:

As per AS 10, "Property, plant and equipment,"

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 the management.

ANALYSIS:

Depreciation should commence as soon as the asset is acquired and is available for use.

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.

CONCLUSION:

The entity **should begin charging depreciation from the date the machine is ready for use, i.e., 1st November 2021.**

9. QUESTION (ILLUSTRATION 14 – ICAI)

A property costing 10,00,000 was bought in 20X1. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 20 years. The estimated residual value in 20 years' time, based on 20X1 prices, is:

Case (a)	Case (b)
₹ 10,00,000	₹ 9,00,000.

Calculate the amount of depreciation.

SOLUTION

In case (a)

FACTS:

The company considers it likely that it will sell the property after 20 years where the estimated residual value will be based on 20X1 price i.e., 10,00,000.

REFERENCE:

As per AS 10, "Property, plant and equipment,"

The residual value of an asset **may increase to an amount equal to or greater than its carrying amount**. If it does, the **depreciation charge of the asset is zero** unless and until its residual value subsequently decreases to an amount below its carrying amount.

ANALYSIS:

The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.

CONCLUSION:

Therefore, there will be **no depreciation amount.**

In case (b)

FACTS:

The company considers it likely that it will sell the property after 20 years where the estimated residual value will be based on 20X1 price i.e., 9,00,000.

REFERENCE:

As per AS 10, "Property, plant and equipment,"

The residual value of an asset may increase to an amount equal to or greater than its carrying amount. If it does, the depreciation charge of the asset is zero unless and until its residual value subsequently decreases to an amount below its carrying amount.

ANALYSIS:

The company considers that the residual value, based on prices prevailing at the balance sheet date, will be ₹ 9,00,000 **i.e., less than carrying amount.**

CONCLUSION:

The depreciable amount is, therefore, **1,00,000.**

Annual depreciation (on a straight-line basis) will be **5,000** [{10,00,000 –9,00,000} ÷ 20].

10. QUESTION (ILLUSTRATION 15 – ICAI)

Entity B manufactures industrial chemicals and uses blending machines in the production process. The output of the blending machines is consistent from year to year and they can be used for different products. However, maintenance costs increase from year to year and a new generation of machines with significant improvements over existing machines is available every 5 years. Suggest the depreciation method to the management.

SOLUTION

FACTS:

Maintenance costs of Blending Machines increases from year to year and a new generation of machines with significant improvements are available every 5 years.

REFERENCE:

As per AS 10, "Property, plant and equipment,"

1. The **straight-line** depreciation method should be adopted if the **production output is consistent** from year to year.
2. Depreciation method should be **reviewed at least at each financial year-end.** If there has been a significant change in the expected pattern of consumption of the future economic benefits embodied, the **method should be changed to reflect the changed pattern.**

ANALYSIS & CONCLUSION:

The straight-line depreciation method **should be adopted,** because the production output is consistent from year to year. Factors such as maintenance costs or technical obsolescence should be **considered in determining the blending machines useful life.**

11. QUESTION (ILLUSTRATION 10 – ICAI)

Entity A is a large manufacturing group. It owns a number of industrial buildings, such as factories and warehouses and office buildings in several capital cities. The industrial

buildings are located in industrial zones, whereas the office buildings are in central business districts of the cities. Entity A's management wants to apply the revaluation model as per AS 10 (Revised) to the subsequent measurement of the office buildings but continue to apply the historical cost model to the industrial buildings.
State whether this is acceptable under AS 10 (Revised) or not with reasons?

SOLUTION

FACTS:

Entity A's management wants to apply the revaluation model as per AS 10 to the subsequent measurement of the office buildings but continue to apply the historical cost model to the industrial buildings.

REFERENCE :

As per AS 10, "Property, plant and equipment,"

1. An enterprise should choose
   - Either Cost model or
   - Revaluation model

as its accounting policy and **should apply that policy to an entire class of PPE.**

2. A **class of PPE** is a grouping of assets of a **similar nature** and use in operations of an enterprise. If an item of PPE is revalued, the entire class of PPE to which that asset belongs should be revalued.

ANALYSIS:

The **office buildings can be clearly distinguished from the industrial buildings** in terms of their function, their nature and their general location. The **different characteristics of the buildings enable them to be classified as different PPE classes.** The different measurement models can, therefore, be applied to these classes for subsequent measurement.

CONCLUSION:

All properties within the **class of office buildings must be carried at revalued amount.**

12. QUESTION

On 1st April, an Enterprise acquired a machine under the following terms:

Particulars	Rs.
List Price of Machine	80,00,000
Import Duty	5,00,000

Delivery Fees	1,00,000
Electrical Installation Costs	10,00,000
Pre-Production Testing	4,00,000
Purchase of a 5-year Maintenance Contract with the Vendor	7,00,000

The Enterprise was granted a Trade Discount of 10% on the initial List Price of the Asset and a settlement discount of 5%, if payment for the Machine was received within 1 month of purchase. The Enterprise paid for the Plant on 20th April. At what Cost the Asset will be recognised?

SOLUTION

Particulars	**Rs.**
List Price 80,00,000 Less : Trade Discount [10%]	72,00,000
Import Duty [non-refundable]	5,00,000
Delivery Fees	1,00,000
Electrical Installation Costs	10,00,000
Pre-Production Testing	4,00,000
Total Capitalized Cost of Asset	92,00,000

Notes:

1) Maintenance Contract is a **separate contract** to get service, so, the Maintenance Contract Cost of Rs.7,00,000 should be taken as a **Prepaid Expenses** and charged to the Profit or Loss over a period of 5 years.
2) Settlement Discount Received of [Rs. 72,00,000 x 5%] = Rs.3,60,000 is to be shown as **Other Income** in the Profit or Loss Statement Account.

13. QUESTION

ABC Ltd. is installing a New Plant at its production facility, it provides you the following information: [P (A/c) – N 17]

Particulars	**Rs.**
Cost of the Plant [Cost as per Supplier's Invoice]	31,25,000
Estimated Dismantling Costs to be incurred after 5 years	2,50,000
Initial Operating Losses before commercial production	3,75,000
Interest paid to Supplier of Plant for deferred credit	2,00,000

Initial Delivery and Handling Costs	1,85,000
Cost of Site Preparation	4,50,000
Consultants used for advice on the acquisition of the Plant	6,50,000

Please advise ABC Ltd. on the costs that can be capitalized for Plant in accordance with AS-10 PPE.

SOLUTION

Particulars	Rs.
Purchase Price	31,25,000
Add: Estimated Dismantling Costs	2,50,000
Initial Delivery & Handling Costs	1,85,000
Site Preparation Cost	4,50,000
Consultancy Charges	6,50,000
Total Capitalized Cost of Asset	**46,60,000**

3) Note: As per AS-10 PPE, **Initial Operating Losses cannot be capitalized.**

14. QUESTION

Deenabandu Ltd. contracted with a Supplier to purchase a specific Machinery to be installed in Department A in two months' time. Special Foundations were required for the Plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were Rs.47,290. These activities were supervised by a Technician during the entire period, who is employed for this purpose of Rs. 15,000 per month. The Technician's Services were given to Department A by Department B, which billed the services at Rs. 16,500 per month after adding 10% profit margin.

The Machine was purchased at Rs. 52,78,000 including GST. Rs. 18,590 Transportation Charges were incurred to bring the Machine to the Factory. An Architect was engaged at a fee of Rs. 10,000 to supervise machinery installation at the Factory Premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in the 2nd month. The Company operates on Bank Overdraft @ 11%.

Ascertain the amount at which the Asset should be recognized as PPE under AS 10.

SOLUTION

Cost of PPE [i.e., Machine] is calculated as under: -

Particulars		**Rs.**
Purchase Price	Given	52,78,000
Less: GST	Not adjusted since Rate & input Tax Credit availability not given.	Nil
Add: Site Preparation Cost	Given	47,290
Add: Technician's Salary	Specific/Attributable Cost for 2 months, w/o Profits [Note 2]	30,000
Add: Initial Delivery Cost	Transportation	18,590
Add: Professional Fees for installation	Architect's Fees	10,000
Total Cost of Asset		**53,83,880**

Notes:

1) If GST Rate is given and Input Tax Credit is available, it should not be included in Cost of PPE.
2) Internally Booked Profits should be eliminated in arriving at the Cost of PPE.
3) Interest on Bank Overdraft for earlier payment of Invoice is not relevant under AS-10 or AS-16.

15. QUESTION

Versatile Limited purchased Machinery for Rs. 4,80,000 [inclusive of GST of Rs. 40,000]. Input Tax Credit is available for the GST paid. The Company Incurred the following other expenses for installation.

Particulars	**Rs.**
Cost of Preparation of Site for Installation	21,000
Total Labour Charges [200 out of the total 600 man hours worked, were spent for installation of the Machinery]	66,000
Spare Parts and Tools consumed in Installation.	6,000
Total Salary of Supervisor [time spent for installation was 25% of the total time worked]	24,000
Total Administrative Expenses [1/10 relates to the Plant installation]	32,000

Test Run and Experimental Production Expenses	23,000
Consultancy Charges to Architect for Plant Setup	9,000
Depreciation on Assets used for the installation	12,000

The Machine was ready for use on 15th January but was used from 1st February. Due to this delay further costs Rs. 19,000 was incurred. Calculate the value at which the Plant should be capitalized.

SOLUTION

Cost of PPE [i.e., Machine] is calculated as under:

Particulars	**Rs.**
Purchase Price [Rs. 4,80,000 less GST for which Credit is available 40,000]	4,40,000
Add: Site Preparation Cost	21,000
Labour Charges Rs. 66,000 x $\frac{200}{600}$	22,000
Spares and Tools in Installation	6,000
Salary of Supervisor [24,000 x 25%]	6,000
Admin Expense attributable to Installation [Attributable Costs are included] 1/10th of 32,000	3,200
Test Run & Experimental Production [Indirect Element]	23,000
Consultancy Charges to Architect for Plant setup	9,000
Depreciation on Asset used for Installation	12,000
Expenses due to delay in use [Excluded as it is abnormal]	Nil
Total Capitalized Cost of Asset	**5,42,200**

16. QUESTION

Chandra Towers Ltd. [CTL] purchased a Plant from M/s. Tatamaco, on 30.09.2017 with a Quoted Price of Rs. 180 Lakhs. Tatamaco offer 3 months credit with a condition that discount of 1.25% will be allowed if the payment were made within one month. GST is 18% on the Quoted Price. Full Input Tax Credit is available. CTL incurred 2% on Transportation Costs and 3% on Erection Costs of the quoted price Pre-Operative Cost amounted to Rs. 1.50 Lakhs. The Machine was ready for use on 30th December 2017; however, it was put to use only on 1st April 2018. Find out the Original Cost

SOLUTION

Particulars	Rs. Lacs
Quoted Price of Plant	180.00
GST [no adjustment is required, since full Input Tax Credit is available.]	Nil
Transportation Cost [Cost of bringing the Asset to present location [180.00 x 2%]	3.60
Erection Cost [Cost of bring the Asset to present condition [180.00 x 3%]	5.40
Pre-Operative Cost [assuming directly relatable to the Machinery]	1.50
Total Original Cost	190.50

17. QUESTION

Janardhan Ltd. purchased Machinery from Kusuma Ltd. on 30.9.2017. The price was Rs. 370.44 Lakhs after charging 8% GST and giving a Trade Discount of 2% on the quoted price. Transport Charges were 0.25% on the Quoted Price and installation charges 1% on the Quoted Price. Expenditure incurred on the Trial Run was Materials Rs. 35,000, Wages Rs. 25,000 and Overheads Rs.15,000. The machinery was ready for use on 01.12.2017, but it was actually put to use only on 01.05.2018. Find out the cost of the machine.

SOLUTION

Particulars	Computation	Rs. Lakhs
Quote Price	$370.44 \times \frac{100}{108} \times \frac{100}{98}$	350.000
Less: Trade Discount at 2%	2% of 350.00	7.000
Net Price		343.000
Add: Transportation charges	0.25% on Quoted price 0.25% x 350.00	0.875
Add: Installation Charges	1.00% On Quoted Price 1.00% x 350.00	3.500
Add: Expenses on Trial run	Materials + Wages + OH – 0.350 + 0.250 + 0.150	0.750

Total Cost of Asset		**348.125**

18. QUESTION

Jivan Ltd. purchased a Machinery from Kripa Ltd. on 31.08.2017. Quoted Price was Rs.275 Lakhs. The Vendor offers 2% Trade Discount. GST on Quoted Price is 6%. Jivan Ltd. spent Rs. 60,000 for transportation and Rs. 45,000 for Architect's Fees. They also spent Rs. 15,000 for Material, Rs. 10,000 for Labour and Rs. 4,000 as overheads during the trial run of the Machine. The Machine was ready for use on 15.01.2018 but it was put to use on 15.03.2018. Find out the original cost of the machine.

SOLUTION

Particulars	**Rs. Lacs**
Quoted Price of Machinery	275.00
Less: Trade Discount	5.50
Net Price	269.50
Transportation Cost [Cost of bringing the asset to present location]	0.60
Architect Fees [directly attributable Cost]	0.45
Pre-Operative Cost [assuming directly relatable to the Machinery] [0.15 + 0.10 + 0.04]	0.29
Net Cost	**270.84**

19. QUESTION

An Entity owns a considerable number of Properties, such as Factories, Warehouses and Office Buildings in several cities. The Factories and Warehouses are located in industrial zones, whereas the Office Buildings are in the central business districts of the cities. The Entity wants to apply the Revaluation Model to the subsequent measurement of the Office Building but continue to apply the Cost Model to the Factories and Warehouses. Is this permissible?

SOLUTION

REFERENCE:

As per AS 10, If an item of PPE is revalued, the **entire class of PPE** to which that asset belongs **should be revalued.**

1) The **different characteristics of the Building** enable them to be classified as **different PPE classes.** Office Buildings can be clearly distinguished from the Factories & Warehouses in terms of their function, their nature and their general location.
2) **Different Measurement Models can be applied** to these classes for subsequent measurement. Hence, Office Buildings can be measured using Revaluation Model. However, all properties within the class of Office Buildings must, be carried at Revalued Amount. Separate disclosure of the two classes must be given.

20.QUESTION

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

SOLUTION

Particulars	Rs.
Revaluation Amount	60,000
Less: Carrying Amount = Cost Rs. 50,000 – 3 years Depreciation Rs. 7,500 i.e. [Rs. 50,000 / 20] x 3 years.	[42,500]
Revaluation Surplus after 3rd Year	17,500

21. QUESTION

An Entity decides to revalue its Building on 1st April. On the date of revaluation, the Budling stand at a cost of Rs. 100 Lakhs and Accumulated Depreciation is Rs. 40 Lakhs. The Building is now revalued at Rs. 150 Lakhs. How should the Entity account for the Revalued Building in its books of account?

SOLUTION

REFERENCE:

When an item of P.P.E is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of revaluation, gross carrying amount and accumulated depreciation amount changes.

Gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

Gross Carrying Amount —>

- May be restated by reference to observable market data. Or
- May be restated proportionately to the change in the carrying amount.

Accumulated Depreciation at the date of revaluation

- adjusted to equal the difference between the gross carrying amount of the asset after taking into account accumulated impairment losses.

ANALYSIS / CONCLUSION:

Building is revalued to ₹150 lakhs i.e., 150% increase from original cost of ₹100 Lakhs.

So, applying that ratio of 150%, the gross carrying amount will be ₹100 + ₹150 = ₹250 lakhs

and, Accumulated depreciation will be ₹40 Lakhs + 150% = ₹60 Lakhs.

As given above, if item of P.P.E is revalued, the carrying amount of such item is adjusted to the revaluation account.

22. QUESTION

Explain the accounting treatment for Revaluations as per AS-10.

SOLUTION

As per AS 10, When an Item of PPE 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 –

Method 1: Gross Carrying Amount is **adjusted in a manner that is consistent** with the revaluation of the Carrying Amount of the asset.

Gross Carrying Amount	• May be restated by reference to observable market data or • May be restated proportionately to the change in the carrying amount.

Accumulated Depreciation at the date of revaluation	Adjusted to equal the difference between the Gross carrying Amount & Carrying Amount of the asset after taking into account Accumulated Impairment Losses.

23. QUESTION

Digambar Ltd acquired a Machinery for ₹ 25,00,000 five years ago. Depreciation was charged at 10% on SLM basis, for a useful life of ten years. Two years after acquisition, the Company revalued the Machinery to 30,00,000 and created a Revaluation Reserve to that extent. Depreciation was provided on the revalued amount over the balance useful life of eight years. The Machinery was sold in the current year for ₹ 11,25,000. Give the accounting treatment for the above in the Company's accounts. What will be the treatment, if the Machinery fetched only 4,25,000 now?

SOLUTION

Particular	₹
Original cost of the Asset	25,00,000
Less: Depreciation for year 1 and year 2 (₹25,00,000 x 10%X 2 years)	5,00,000
Book value in year 3	20,00,000
Add: Revaluation Surplus, to adjust / increase book value to ₹ 30,00,000	10,00,000
Revalued Amount of Asset	30,00,000
Less: Depreciations in years 3 - 5 = 30,00,000 / 8 years X 3 years	11,25,000
Book value of machinery at the end of year 5 (years of disposal)	18,75,000

The treatment of gain / Loss on disposal / Revaluations is as under -

Particular	Disposal proceeds = ₹ 11,25,000	Disposal proceeds = ₹ 4,25,000
(A) BOOK VALUE less disposal proceeds = Loss recognized in profit or Loss	₹ 18,75,000 - ₹ 11,25,000 = ₹ 7,50,000 (Loss)	₹ 18,75,000 - ₹ 4,25,000 = ₹ 14,50,000 (Loss)
(B) Revaluation Surplus directly transferred to Retained Earning	₹ 10,00,000	₹ 10,00,000

24. QUESTION

Argon Ltd purchased a shop at the beginning of year 1, at a cost of 8,50,000. The useful life of the shop is estimated as 30 years with residual value of 25,000 and depreciation is provided on a straight line basis. The shop was revalued in the middle of year 15, for 19,50,000 and the revaluation was incorporated in the accounts. Calculate:

(A) Surplus on Revaluation

(B) Depreciation to be changed in the Profit and Loss account for the year 15.

SOLUTION

Particular	₹
Original cost of Asset	8,50,000
Less: Depreciations 14.50 years (8,50,000-25,000) /30 X 14.5 years	(3,98,750)
Book value	4,51,250
Add: Revaluation Reserve to adjust Book value to ₹ 19,50,000	14,98,750
Revalued Amount = Revised Depreciable value, for balance 15,5 years	19,50,000
Less: Depreciations for remaining 6 months in year 15 (19,50,000-25,000/15.5X ½	(62,097)
Carrying Amount at end of year 15	18,87,903
Depreciations for year 15 (8,50,000-25,000/30)X1/2 + (19,50,000-025,000/15.5X1/2)	75,847

25. QUESTION (ILLUSTRATION 1 – ICAI)

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 remodelling cost will be capitalized or not.

SOLUTION

FACTS:

Entity A's Management is preparing the budget for the year after the store reopens, which include the cost of re-modelling and the expectation of a 15% increase in sales from renovation.

REFERENCE:

As per the provisions of AS 10 P.P.E, the cost of an item of property, plant and equipment comprises 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.**

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

1. It is **probable that future economic benefits** associated with the item will flow to the enterprise; and
2. The cost of the item can be **measured reliably.**

ANALYSIS:

The expenditure in remodeling the store **will create future economic benefit** (in the form of 15% increase in sales). Moreover, the cost of remodeling can be measured reliably.

CONCLUSION:

Construction and re-modelling cost **should be capitalized** by Entity A

26. QUESTION (ILLUSTRATION 5 – ICAI)

Omega Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were 1,40,000. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The machine was purchased at ₹ 1,58,00,000 and ₹ 50,000 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site. You are required to ascertain the amount at which the Machinery should be capitalized.

SOLUTION

Particulars		Amount

Purchase Price	Given	1,58,00,000
Add: Site Preparation Cost	Given	1,40,000
Technical salary	Specific/Attributable overheads for 3 months (45,000×3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for installation	Architect's Fees	30,000
Total cost of machinery		1,61,55,000

27. QUESTION (ILLUSTRATION 8 – ICAI)

Entity A exchanges land with a book value of 10,00,000 for cash of 20,00,000 and plant and machinery valued at 25,00,000. What will be the measurement cost of the assets received. (Consider that the transaction has commercial substance)?

SOLUTION

FACTS:

Entity A exchanges land with a book value of 10,00,000 for cash of 20,00,000 and plant and machinery valued at 25,00,000.

REFERENCE:

As per AS 10 "Property, Plant and Equipment, cost of **an item of PPE is measured at fair value** unless:

(a) Exchange transaction lacks commercial substance; Or

(b) Fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.

ANALYSIS & CONCLUSION:

The transaction has commercial substance and therefore, the plant and machinery would be recorded at ₹ 25,00,000, which is equivalent to the fair value of the land of 45,00,000 less the cash received of 20,00,000.

28.QUESTION [(ILLUSTRATION 9 – ICAI) (EXCHANGE OF ASSETS THAT LACK COMMERCIAL SUBSTANCE)]

Entity A exchanges car X with a book value of 13,00,000 and a fair value of 13,25,000 for cash of 15,000 and car Y which has a fair value of 13,10,000. The transaction lacks commercial substance as the company's cash flows are not expected to change as a result of the exchange. It is in the same position as it was before the transaction. What will be the measurement cost of the assets received?

SOLUTION

FACTS:

Entity A exchanges car X with a book value of 13,00,000 and a fair value of 13,25,000 for cash of 15,000 and car Y which has a fair value of 13,10,000.

REFERENCE:

As per AS 10 "Property, Plant and Equipment,

The cost of an item of PPE is measured at fair value unless:

(a) Exchange transaction lacks commercial substance; Or

(b) Fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.

ANALYSIS:

The transaction lacks commercial substance as the company's cash flows are not expected to change as a result of the exchange. It is in the same position as it was before the transaction.

CONCLUSION:

The entity recognizes the assets received at the book value of car X. Therefore, it recognizes cash of 15,000 and car Y as PPE with a carrying value of 12,85,000.

29. QUESTION [(ILLUSTRATION 12 – ICAI) (CHANGE IN ESTIMATE OF USEFUL LIFE)]

Entity A purchased an asset on 1st January 20X1 for 1,00,000 and the asset had an estimated useful life of 10 years and a residual value of nil. On 1st January 20X5, the directors reviewed the estimated life and decided that the asset will probably be useful for a further 4 years. Calculate the amount of depreciation for each year, if the company charges depreciation on a Straight Line basis.

SOLUTION

FACTS:

An asset had estimated useful life of 10 years as on 1st January 20X1. On 1st January 20X5, the directors reviewed the estimated life and decided that the asset will probably be useful for a further 4 years.

REFERENCE:

As per AS 10, depreciable amount of an asset should be allocated on a **systematic basis over its useful life.**

If expected residual value and the useful life of an asset **differ from previous estimates,** the change should be accounted for as a **change in an accounting estimate** in accordance with AS 5.

ANALYSIS & CONCLUSION:

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 20X5, the asset's net book value was [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 unmortised 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)**

30.QUESTION (ILLUSTRATION 4 – ICAI)

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 capitalized into the cost of the new building?

SOLUTION

FACTS:

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.

REFERENCE:

As per the provisions of AS 10 P.P.E, the cost of an item of property, plant and equipment comprises 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.**

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

- It is **probable that future economic benefits** associated with the item will flow to the enterprise; and
- The cost of the item can be **measured reliably.**

Cost Of P.P.E

Includes	Excludes
Purchase price	Cost of opening new business (e.g., inauguration cost)
Direct attributable costs	Cost of introducing new product or service.
Decommission, restoration and similar liabilities	Cost of conducting business in new location or with new class of people

ANALYSIS:

The costs to be incurred by the company are in the nature of costs of relocating or reorganizing operations of the company and **do not meet the requirement of AS 10.**

CONCLUSION:

The costs **cannot be capitalized.**

31. QUESTION (INTER RTP MAY 2019 / IPCC RTP MAY 2019)

Preet Ltd. is installing a new plant at its production facility. It has incurred these costs:

1.	Cost of the plant (cost per supplier's invoice plus taxes)	5000000
2.	Initial delivery and handling costs	4,00,000
3.	Cost of site preparation	12,00,000
4.	Consultants used for advice on the acquisition of the plant	14,00,000
5.	Interest charges paid to supplier of plant for deferred credit	4,00,000
6.	Estimated dismantling costs to be incurred after 7 years	6,00,000

7.	Operating losses before commercial production	8,00,000

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

SOLUTION

FACTS:

Preet Ltd. is installing a new plant at its production facility. It has incurred various costs.

REFERENCE:

As per AS 10 "Property, Plant and Equipment,

Directly attributable costs are those costs which are **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.** These costs should be considered part of the asset.

However, some operations occur in connection with the construction or development of an item of PPE, but it is **not necessary** to bring the item to the location and condition. These **incidental operation costs should be recognised in the Profit and loss account.**

ANALYSIS:

1. Cost of the plant	50,00,000
2. Initial delivery and handling costs	4,00,000
3. Cost of site preparation	12,00,000
4. Consultant fees	14,00,000
5. Estimated dismantling costs to be incurred after 7 years	6,00,000
Total Cost	86,00,000

CONCLUSION:

Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 4,00,000 and operating losses before commercial production amounting to ₹ 8,00,000 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.

Plant should be recognized at 86 Lakhs.

32. QUESTION (INTER RTP NOV 2019 / IPCC RTP MAY 2019 / IPCC QP NOV 2019)

Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ₹ 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

Ascertain the amount at which the Machinery should be capitalized under AS 10 considering that IGST credit is availed by the Shristi Limited. Internally booked profits should be eliminated in arriving at the cost of the machine.

SOLUTION

Particulars		Amount
Purchase Price	Given (1,58,34,000×100/112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technical salary	Specific/Attributable overheads for 3 months (45,000 ×3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for installation	Architect's Fees	30,000
Total cost of Asset		**1,45,00,140**

33. QUESTION (INTER QP NOV 2020)

A Ltd following assets. Calculate depreciation for the year ending 31st March,2020 for each assets as per AS 10 (Revised)

i. Machinery purchased for ₹ 10 lakhs on 1st April, 2015 and residual value after useful life of 5 years, based on 2015 prices is ₹ 10 Lakhs

ii. Land for ₹ 50 lakhs

iii. A Machinery is constructed for ₹ 5,00,000 for its own use (Useful life is 10 years). Construction is completed on 1st April, 2019 but the company does not begin using the machine until 31st March, 2020

iv. Machinery purchased on 1st April, 2017 for ₹ 50,000 with useful life of 5 years and residual value is nil on 1st April, 2019, management decides to use these assets for further 2 years only.

SOLUTION (i)

REFERENCE:

As per AS 10, "Property, plant and equipment,"

The residual value of an asset **may increase to an amount equal to or greater** than it's carrying amount. If it does, the depreciation charge of the asset is **zero** unless and until its residual value subsequently decreases to an amount below its carrying amount.

ANALYSIS:

The company considers that the residual value, based on prices prevailing at the balance sheet date, **will equal to the cost.**

CONCLUSION:

Therefore, no depreciation amount and **depreciation are correctly zero.**

SOLUTION (ii)

Land has an **unlimited useful life and therefore is not depreciated**

SOLUTION (iii)

REFERENCE:

As per AS 10, "Property, plant and equipment,"

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 the management.

ANALYSIS & CONCLUSION:

The entity should begin charging depreciation from the date the machine is ready for use. 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.

SOLUTION (iv)

REFERENCE:

As per AS 10, "Property, plant and equipment,"

Depreciation is recognised even if the fair value of the asset exceeds its carrying amount.

ANALYSIS & CONCLUSION:

The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e. (50,000/5 years). On 1st April,2019, the asset's net book value is [50000 – (10,000 x 2)] ₹ 30,000. The remaining useful life is 2 years.

The company should amend the annual provision for depreciation to charge the unamortised cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years)

34. QUESTION (MTP - OCT 21 – SERIES 2)

Aarush Ltd. is installing a new plant in its factory. It provides you the following information:

Cost Of the Plant (cost as per supplier's invoice)	31,25,000
Estimated Dismantling Costs to Be Incurred After 5 Years	2,50,000
Cost Of Site Preparation	4,50,000
Initial Delivery and Handling Costs	1,85,000
Consultants used for advice on the acquisition of the plant	6,50,000

You are required to advise Aarush Ltd. on the costs that can be capitalized for the plant in accordance with AS 10 'Property, Plant and Equipment.

SOLUTION

According to AS 10 'Property, Plant and Equipment', following costs will be capitalized by Aarush Ltd.:

Cost Of the Plant (cost as per supplier's invoice)	31,25,000
Initial Delivery and Handling Costs	1,85,000
Cost Of Site Preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

Estimated Dismantling Costs to Be Incurred After 5 Years	2,50,000
Total cost of plant	46,60,000

35. ICAI ILLUSTRATION 2

What happens if the cost of the previous part/inspection was/ was notidentified in the transaction in which the item was acquired or constructed?

SOLUTION

As per AS 10, Derecognition 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.

36. QUESTION

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?

SOLUTION

As per AS 10, 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.

37.ICAI ILLUSTRATION 3

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

SOLUTION

As per AS 10, "Property, plant and equipment," The cost of replacement or the estimated cost of a future **similar inspection can be used** if it is not practicable for an enterprise to determine the carrying amount of the replaced part/inspection.

38. ILLUSTRATION

Entity A carried plant and machinery in its books at 2,00,000. These were destroyed in a fire. The assets were insured 'New for old' and were replaced by the insurance company with new machines that cost 20,00,000. The machines were acquired by the insurance company and the company did not receive 20,00,000 as cash compensation.
State, how Entity A should account for the same?

SOLUTION

FACTS:

Entity A carried plant and machinery in its book at Rs. 2,00,000 which were destroyed by fire but the assets were insured 'new for old.' The machines were acquired by the insurance company and the company did not receive 20,00,000 as cash compensation.

REFERENCE:

As per AS 10, 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 as below:
The cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with AS 10

ANALYSIS / CONCLUSION:

Entity A should also separately recognise a receivable and a gain in the income statement resulting from the insurance proceeds under AS 29 once receipt is virtually certain. The **receivable should be measured at the fair value of assets** that will be provided by the insurer.
Entity A should account for a **loss in the Statement of Profit and Loss** on derecognition of the carrying value of plant and machinery in accordance with AS 10.

39. QUESTION (IPCC QP JAN 2021)

a) A Ltd purchased an assets on 1st April 2014 for ₹ 5,00,000 and assets had useful life of 8 years With NIL residual value.

On 1st April 2019, directors reviewed the estimated life of the assets and decided that the assets would probably be useful for further 2 years with residual value of 5% of the original cost.

Calculate the amount of depreciation to be charged for each year as per AS-10, if the company charges depreciation on straight line basis

b) A company manufactures a machine for its own use. The manufacturing of machine was completed on November 1st 2019.The machine was finally capable of operating as on December 15th 2019, however company started using the machinery from February 1st 2020. The company charged depreciation from February 1st 2020. Comment in context of AS-10

SOLUTION

a)

FACTS:

Asset purchased by A Ltd. has estimated useful life of 8 years as on 1st April 2014. On 1st April 2019, the directors reviewed the estimated life and decided that the asset will probably be useful for a further 2 years.

REFERENCE:

As per AS 10, depreciable amount of an asset should be allocated on a **systematic basis over its useful life.**

If expected residual value and the useful life of an asset differ from previous estimates, the change should be accounted for as a **change in an accounting estimate** in accordance with AS 5.

ANALYSIS & CONCLUSION:

The entity has charged depreciation using the straight-line method at ₹ 62,500 per annum for first five years, i.e (5, 00,000/8 years).

On 1st April, 2019, the asset's net book value is [5,00,000 – (62,500 x 5)] ₹ 1,87,500.

The revised remaining useful life is 2 years.

The company **should amend the annual provision** for depreciation to charge the unamortized cost over the revised **remaining life of two years** considering the revised residual value. Consequently, it should charge depreciation for the next 2 years at ₹ 81,250 per annum

Particulars	₹
Net Book value of the asset as on 1st April 2019	1,87,500
Less: Revised Residual Value – 5% of ₹5,00,000	(25,000)
Net Book Value of the asset	1,62,500
Depreciation per year = 1,62,500/2	81,250

b)

FACTS:

Machine constructed for its own use was completed on 15th December 2019 but was not used until 1st February 2020.

REFERENCE:

As per AS 10, "Property, plant and equipment,"

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 the management.

ANALYSIS:

Depreciation should commence as soon as the asset is acquired and is available for use. 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.

CONCLUSION:

The entity should begin charging depreciation from the date the machine **is ready for use, i.e., 15th December 2019.**

40.QUESTION (QP MAY 22)

XYZ Limited provided you the following information for the years ended 31st March, 2022:-

i) The carrying amount of a property at the end of the year amounted to ₹ 2,16,000 (cost/value ₹ 2,50,000 and accumulated depreciated ₹ 34,000). On this date the property was revalued and was deemed to have a fair value of ₹ 1,90,000. The balance on the revaluation surplus relating to a previous revaluation gain for this property was ₹ 20,000.

You are required to calculate the revaluation loss as per AS – 10 (Revised) and give its treatment in the books of accounts.

ii) An asset that originally cost ₹ 76,000 and had accumulated depreciation of ₹ 62,000 was disposed of during the year for ₹ 4,000 cash. You are required to explain how the disposal should be accounted for in the financial statements as per AS–10 (Revised).

SOLUTION

(i) **REFERENCE:**

As per AS 10, **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.

ANALYSIS:

Calculation of revaluation loss and its accounting treatment

		₹
Carrying value of the asset as on 31st March, 2022	a	2,16,000
Revalued amount of the asset	b	(1,90,000)
Total revaluation loss on asset	c=a-b	26,000
Adjustment of previous revaluation reserve	d	(20,000)
Net revaluation loss to be charged to the Profit and loss account	e=c-d	6,000

(ii) **REFERENCE:**

As per AS 10, the **carrying amount** of an item of property, plant and equipment is **derecognized on disposal of the asset.** It further states that 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 derecognized. Gains should also **not be classified as revenue.**

ANALYSIS:

Calculation of loss on disposal of the asset and its accounting treatment

		₹
Original cost of the asset	a	76,000
Accumulated depreciation till date	b	62,000
Carrying value of the asset as on 31st March, 2022	c=a-b	14,000
Cash received on disposal of the asset	d	4,000
Loss on disposal of asset charged to the Profit and loss account	e=c-d	10,000