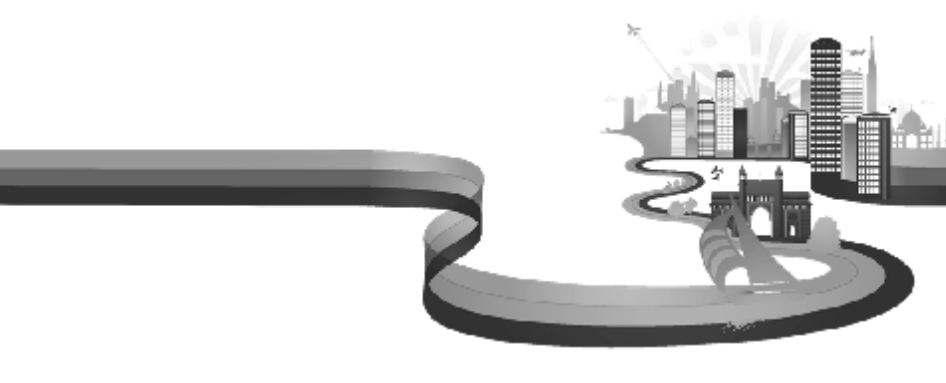


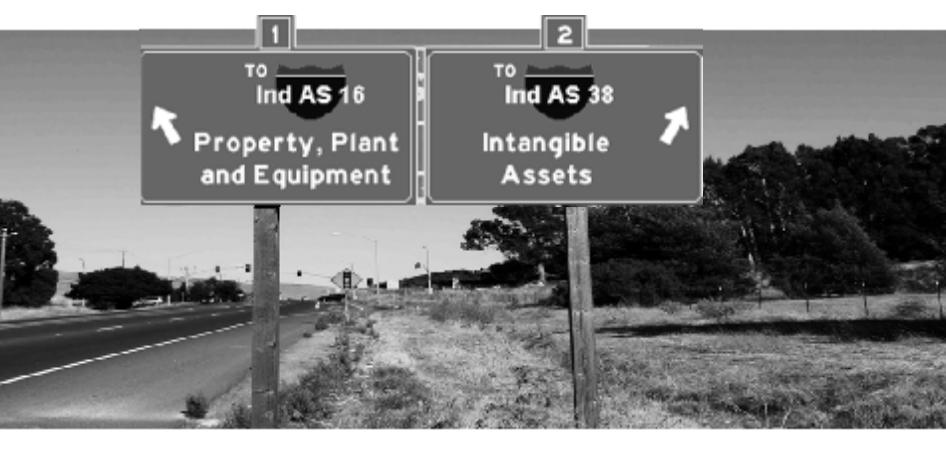
Ind AS 16: Property, Plant and Equipment  
Ind AS 38: Intangible Assets

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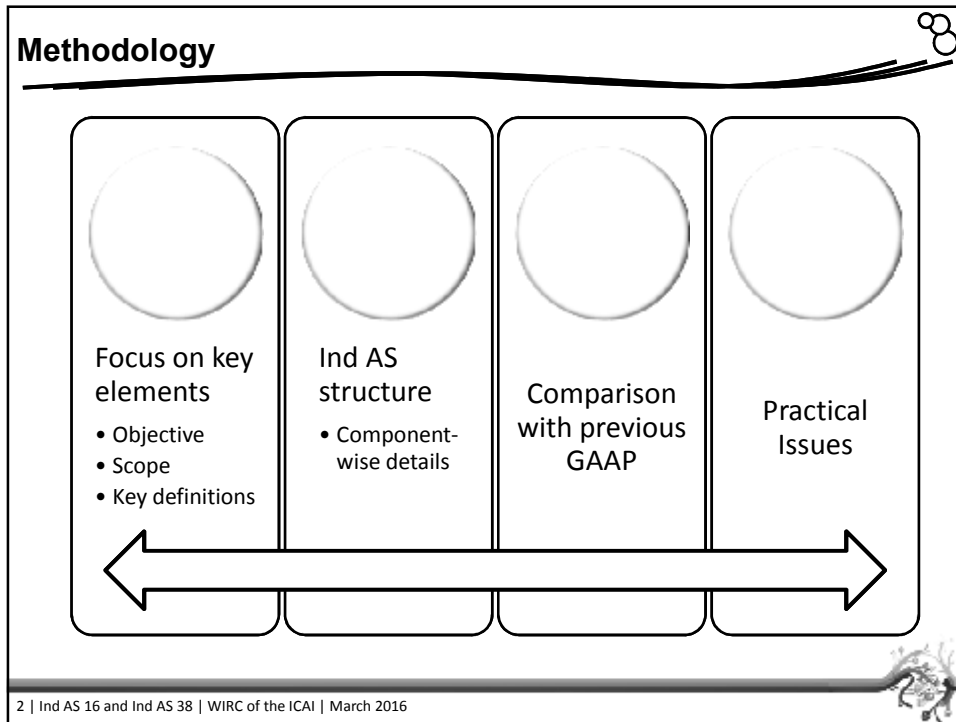


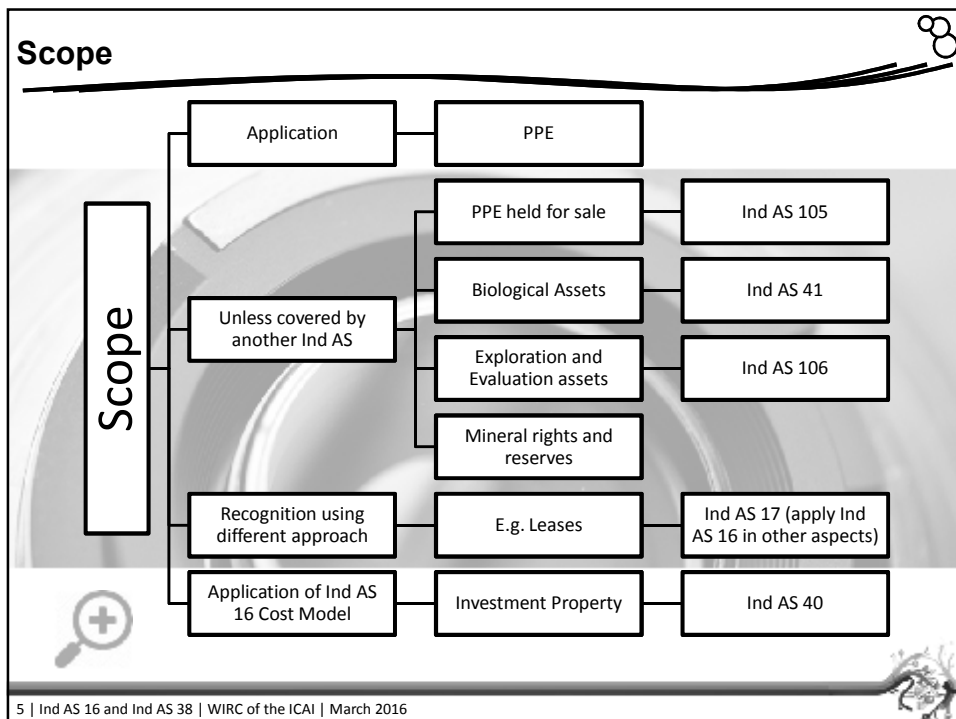
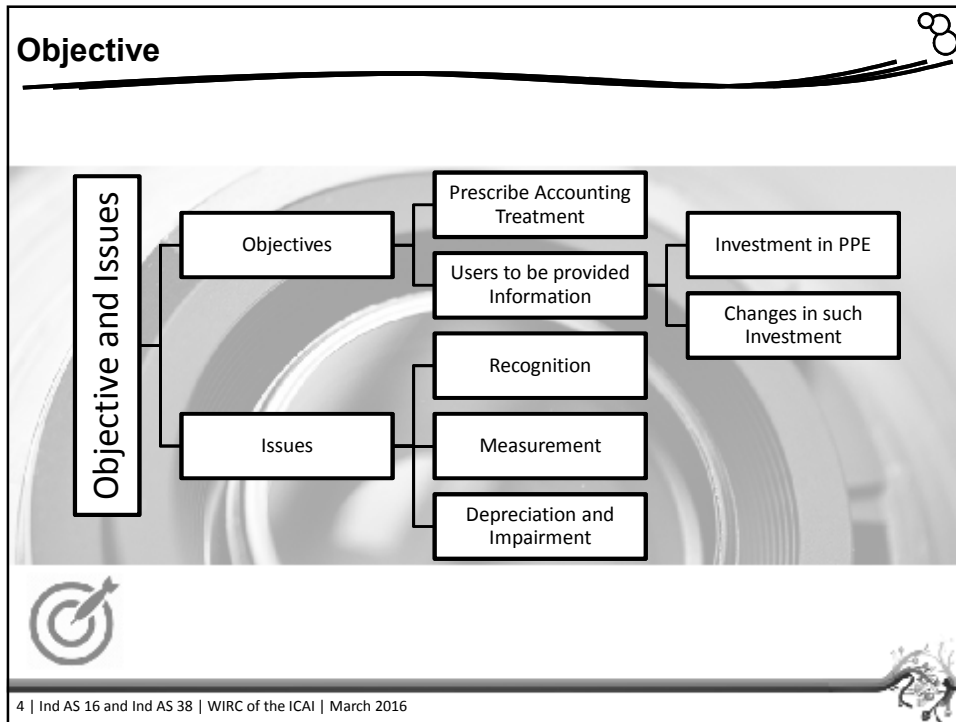
Piروز P Movdawalla | [piروزpm@alumni.carnegiemellon.edu](mailto:piروزpm@alumni.carnegiemellon.edu) *Goody*

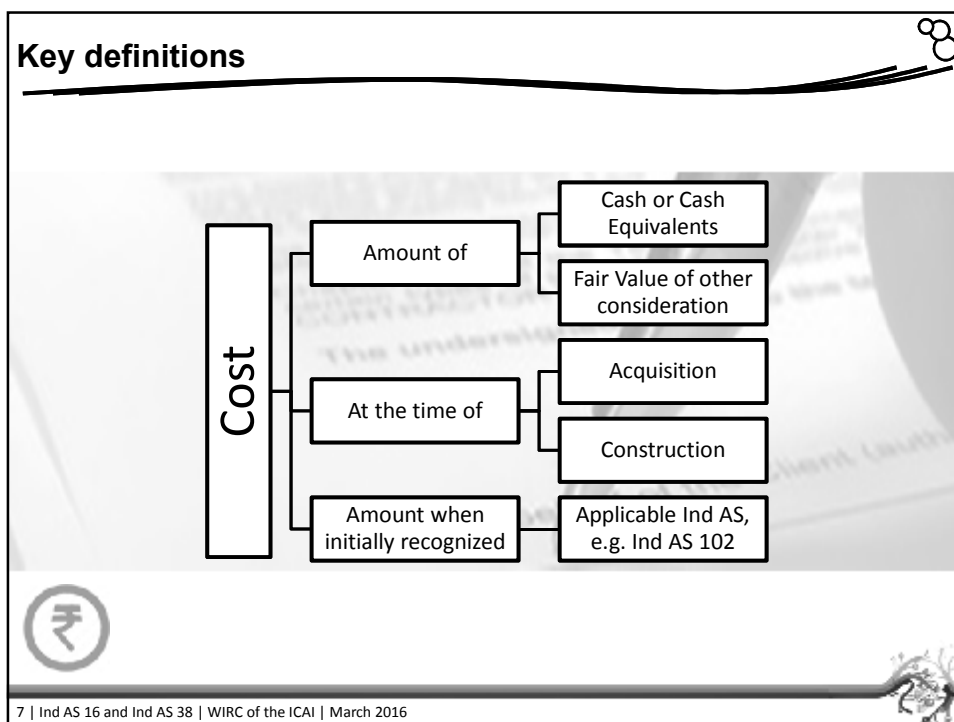
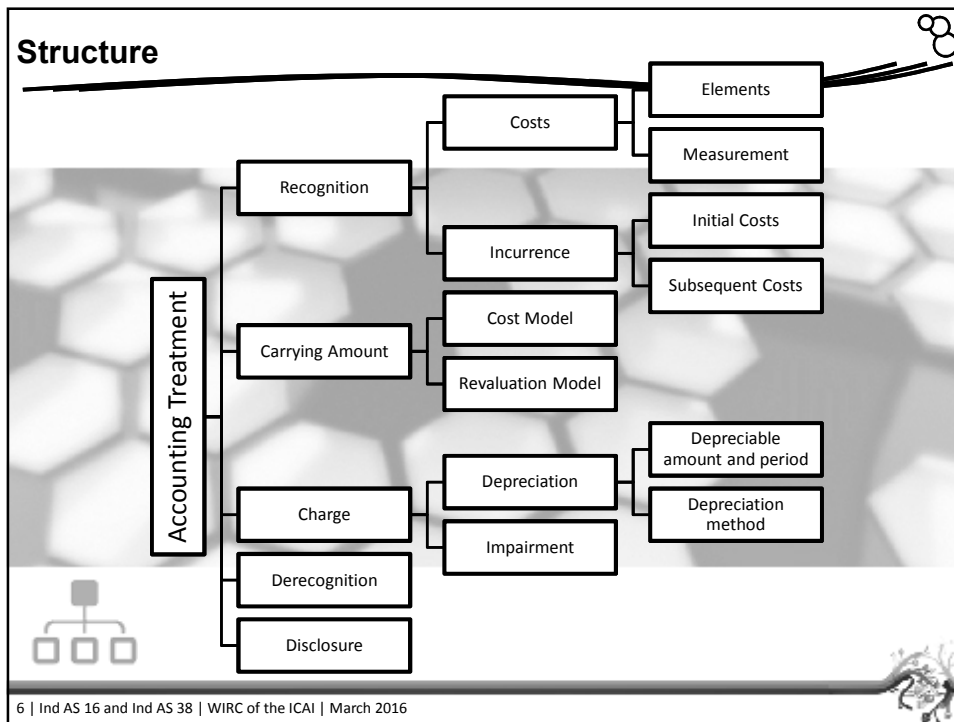
**Agenda**

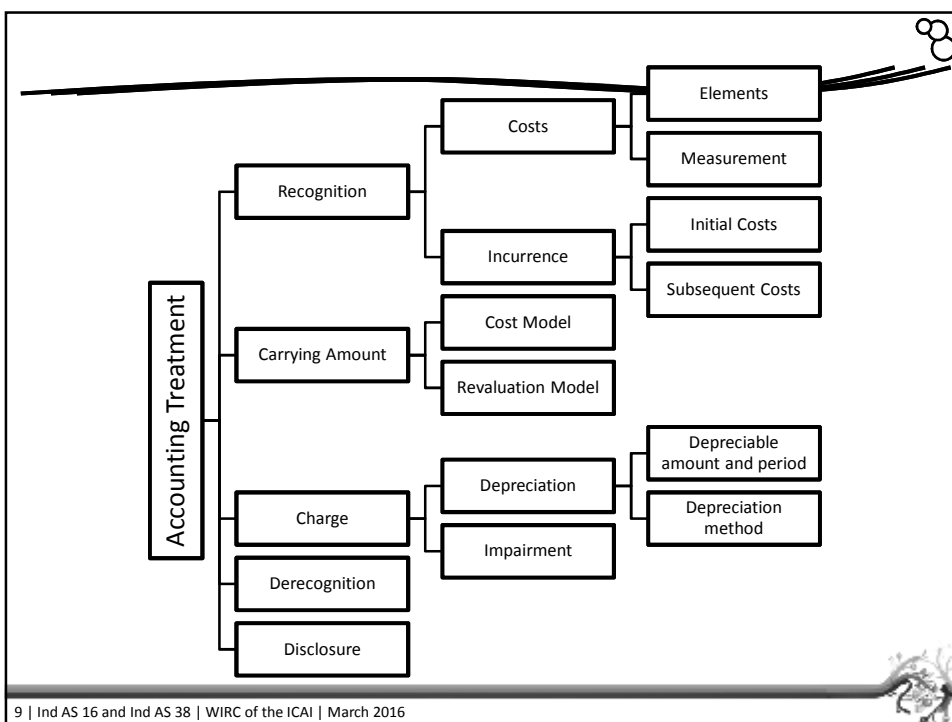
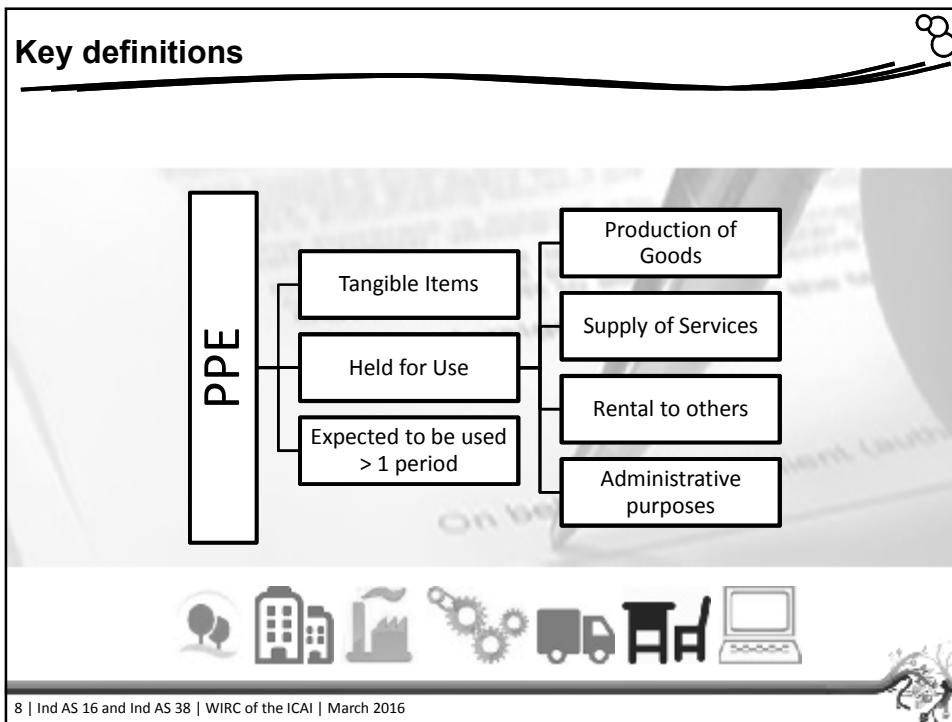


1 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016









## Recognition

```

    graph TD
      Recognition --> Costs
      Recognition --> Incurrence
      Costs --> Elements
      Costs --> Measurement
      Costs --> InitialCosts[Initial Costs]
      Costs --> SubsequentCosts[Subsequent Costs]
      Incurrence --> InitialCosts
      Incurrence --> SubsequentCosts
  
```

**If and only if**

- Future economic **benefits** are probable, AND
- Cost can be reliably **measured**
  - ↳ E.g. **major spare parts, stand-by equipment and servicing equipment**
  - ↳ **General spare parts** carried as inventory
- Unit of measure not prescribed

**!**

- AS 10 does not prescribe specific recognition criteria
- Component Accounting mandatory under Ind AS 16; recommended under AS 10; effectively mandated by Companies Act, 2013

10 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

## Elements of Cost

**!**

- No specific guidance under AS 10 for inclusion of dismantling costs
- None under ICDS on Tangible Fixed Assets either
- AS 29 prohibits discounting of such end-of-life costs

and non-refundable taxes, excluding trade discounts and rebates)

↳ Costs attributable to **locating** and **preparing** asset for use:

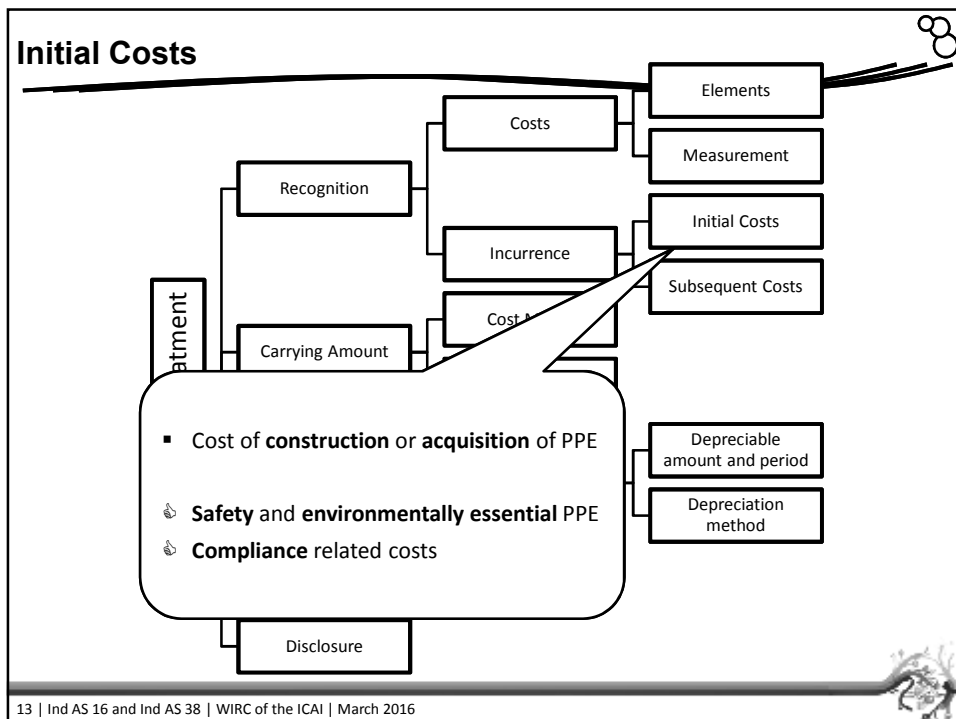
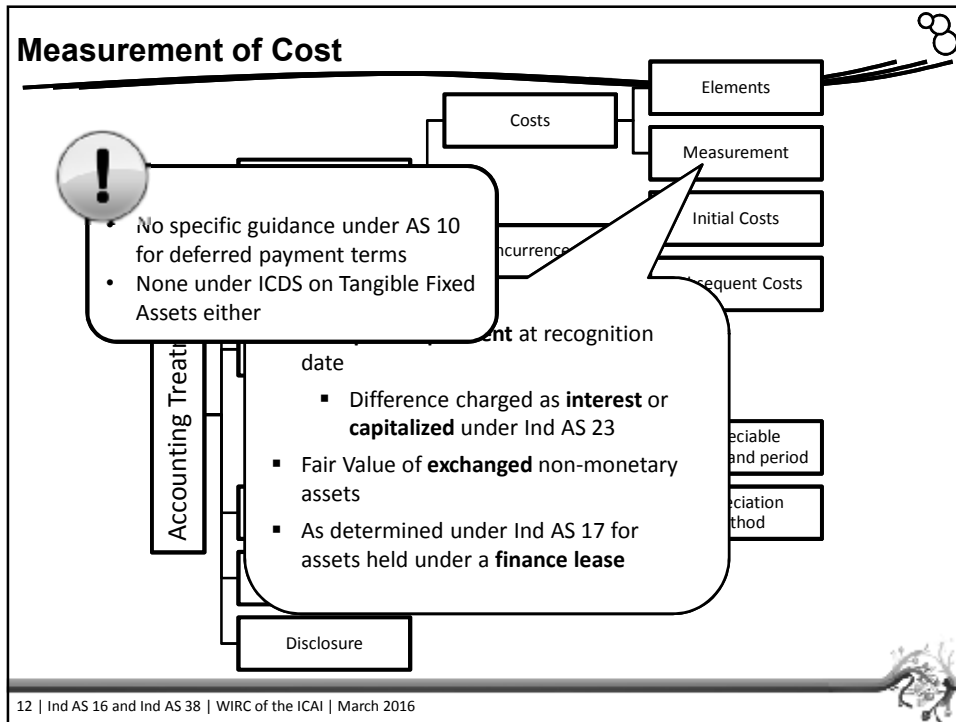
- ↳ Direct employee costs
- ↳ Site preparation
- ↳ Initial delivery and handling
- ↳ Installation and assembly
- ↳ Testing costs (net)
- ↳ Professional fees

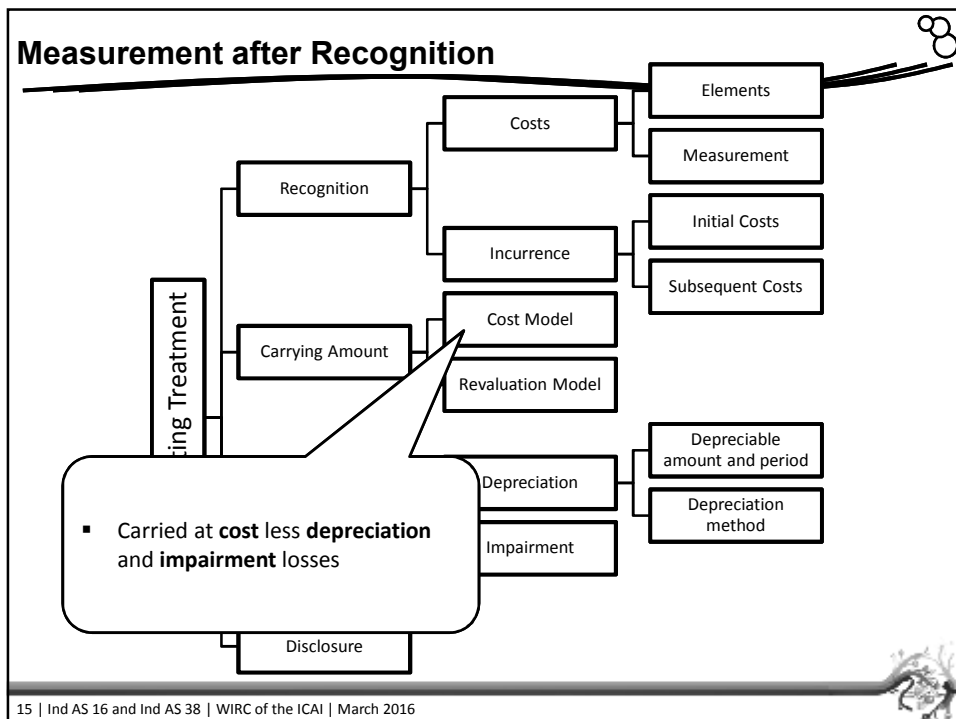
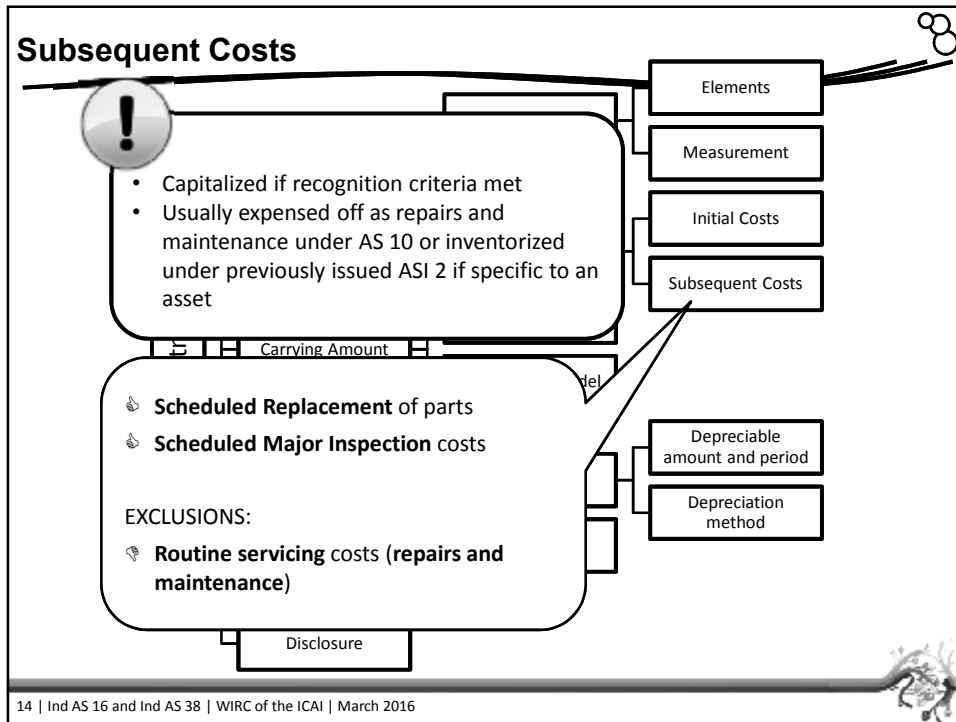
**and restoration costs**

EXCLUSIONS:

- ↳ Opening a **new facility**
- ↳ Introducing new products, e.g. **advertisement** and promotion
- ↳ New location or customer class, e.g. **training**
- ↳ **Administration** and general overheads
- ↳ Regular use or **redeployment**
- ↳ **Internal profits** on self constructed PPE

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### Measurement after Recognition

- Can be measured at **Fair Value** if reliably measurable
- To be carried at **revalued amount** less subsequent **accumulated depreciation**
- Sufficiently **regular** revaluations required, depending on asset type
- Carrying amount** ≈ current **FV**
- Entire class** to be revalued **simultaneously** or on a **rolling basis**
- Fair Value to be derived from **Market Value** or **Income / Depreciated Replacement Cost** approach

Costs

Incurrence

Cost Model

Revaluation Model

Depreciation

Impairment

Elements

Measurement

Initial Costs

Subsequent Costs

Depreciable amount and period

AS 10 permits 'systematic', not comprehensive, selection of PPE for revaluation

16 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

### Treatment of Accumulated Depreciation on Revaluation

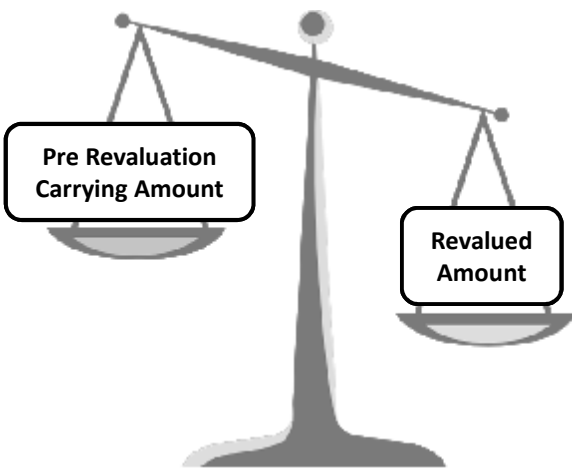
- Option 1: Proportionate Change
  - Step 1: Proportionately restate both Gross Block and Accumulated Depreciation by the revaluation factor

	Cost	Reval	Step 1	Result
Gross Block	1,000 Dr		200 Dr	1,200 Dr
Accumulated Depreciation		400 Cr	80 Cr	480 Cr
Net Block	600 Dr	720 Dr		720 Dr
Revaluation Surplus			120 Cr	120 Cr
- Option 2: Eliminate Accumulated Depreciation and restate Net Block
  - Step 1: Eliminate Accumulated Depreciation against Gross Block
  - Step 2: Restate to Revalued amount

	Cost	Reval	Step 1	Step 2	Result
Gross Block	1,000 Dr		400 Cr	120 Dr	720 Dr
Accumulated Depreciation		400 Cr	400 Dr		0 Dr
Net Block	600 Dr	720 Dr			720 Dr
Revaluation Surplus				120 Cr	120 Cr

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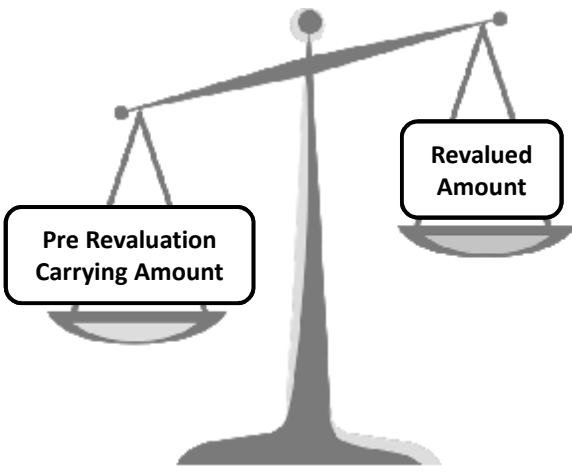
### Treatment of Increase in Carrying Amount on Revaluation



- Recognized in **Other Comprehensive Income**
- Accumulated in **Equity as Revaluation Surplus**
- ...but recognized in P&L to the extent of **reversal** of previous revaluation decrease of same asset

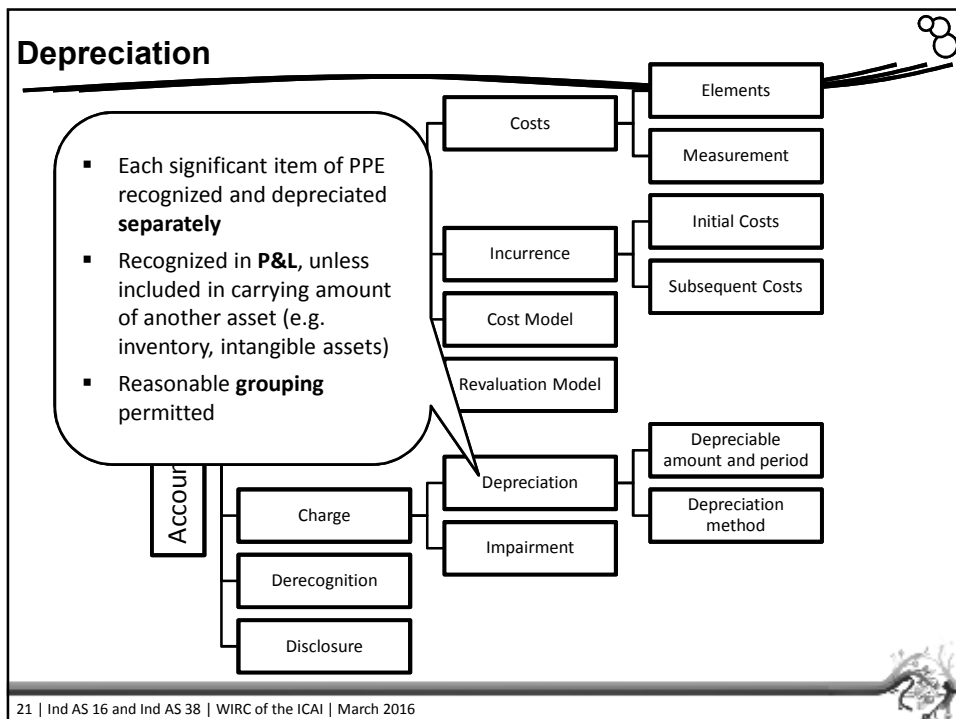
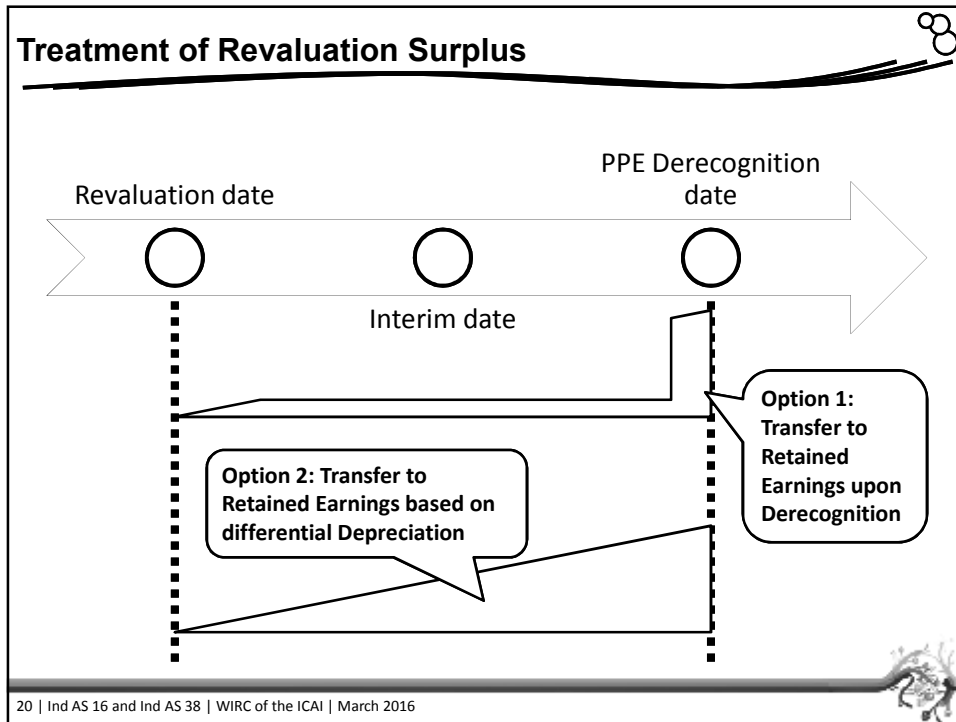
18 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

### Treatment of Decrease in Carrying Amount on Revaluation



- Recognized in **P&L**
- ...but recognized in **Other Comprehensive Income** to the extent of **credit balance** in revaluation surplus of same asset, thus **reducing revaluation surplus** in Equity

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### Depreciable Amount and Period

- Allocated on a **systematic** basis over **estimated useful life**
- Depreciation =  $(\text{Cost or Revalued Amount} - \text{Residual Value}) \div \text{Useful Life}$
- Residual value and useful life to be **reviewed** annually, changes recognized as **change in accounting estimates** as per Ind AS 8
- Begins** when available for use
- Ceases** when held for sale under Ind AS 105 or derecognized, not when idle
- Land and buildings** are accounted for separately

- AS 10 requires 'periodical', not annual, review of RV or useful life
- Sch II, Companies Act 2013, fixes RV @ 5% and fixes indicative (not minimum) useful lives

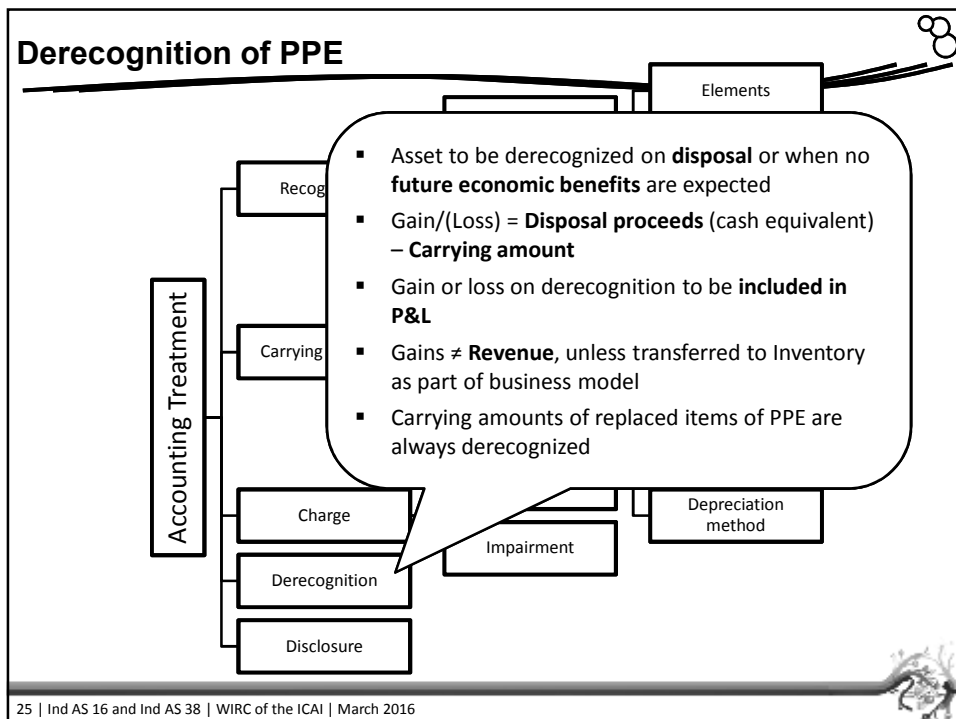
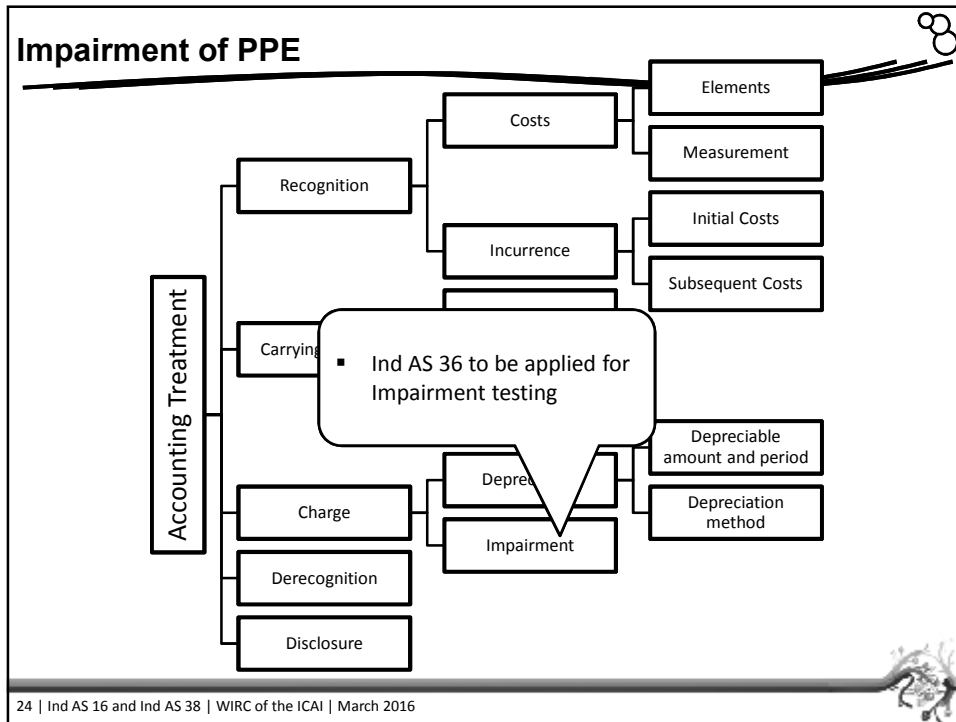
22 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

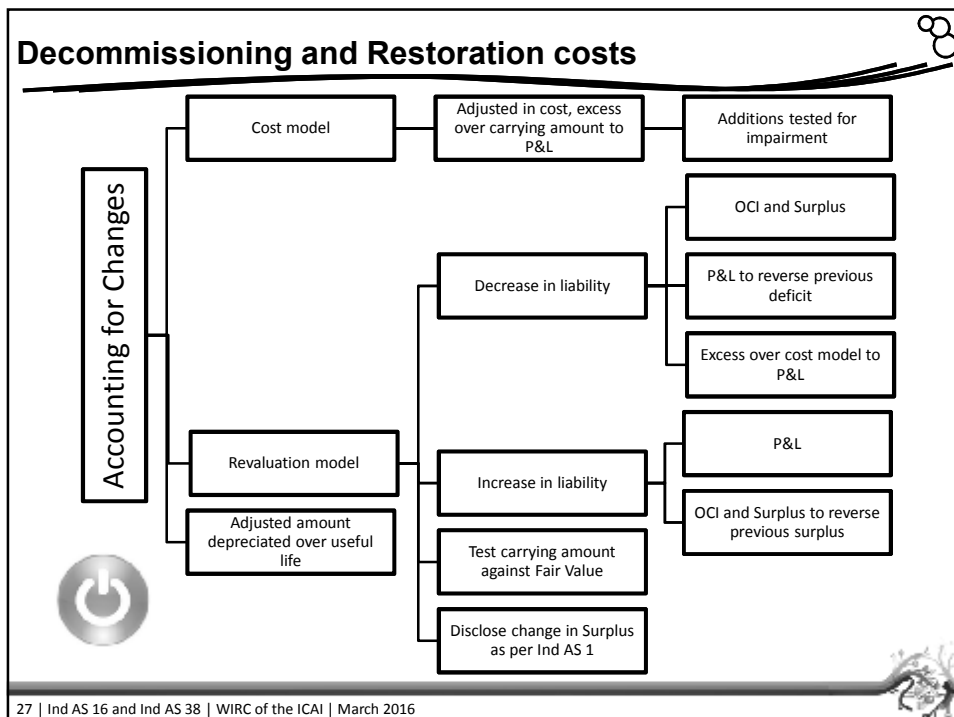
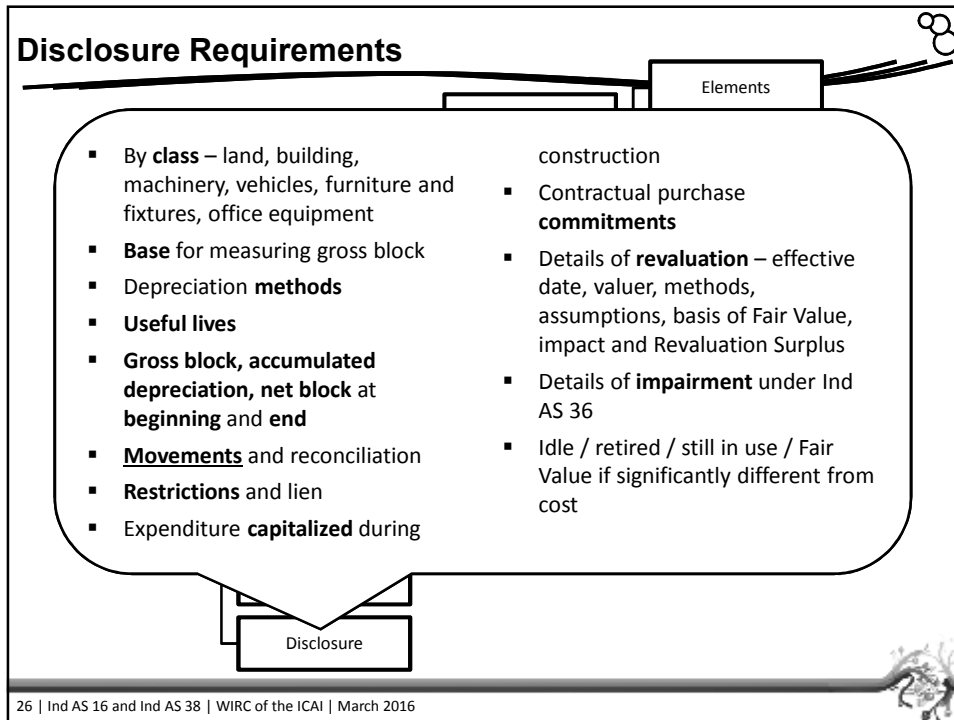
### Depreciation Method

- SLM, WDV, Units of Production methods available as choices
- Depreciation method should **reflect consumption pattern** of future economic benefits
- To be applied **consistently**
- Should be **reviewed** annually, changes recognized as **change in accounting estimates** as per Ind AS 8

- AS 6 recognizes any change in depreciation method as accounting policy change, to be applied retrospectively

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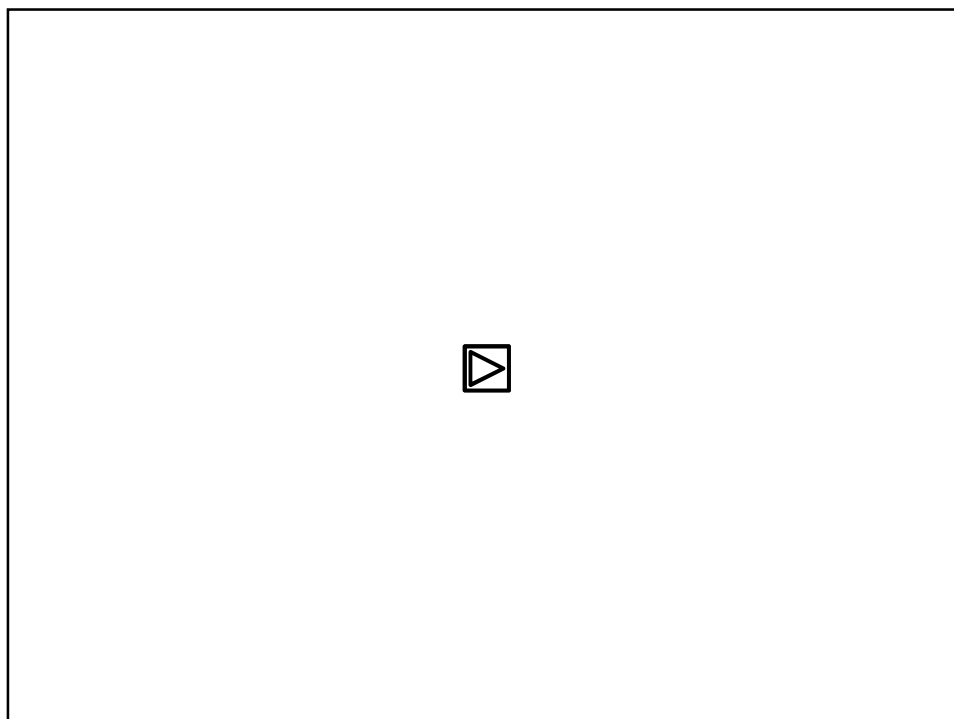


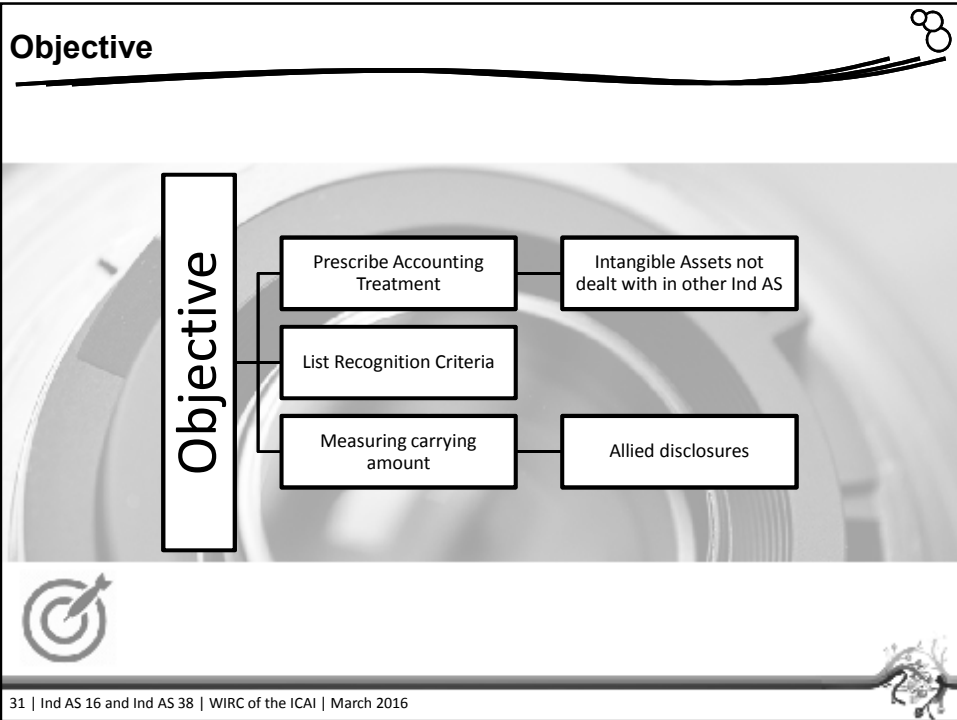


### Practical Issues

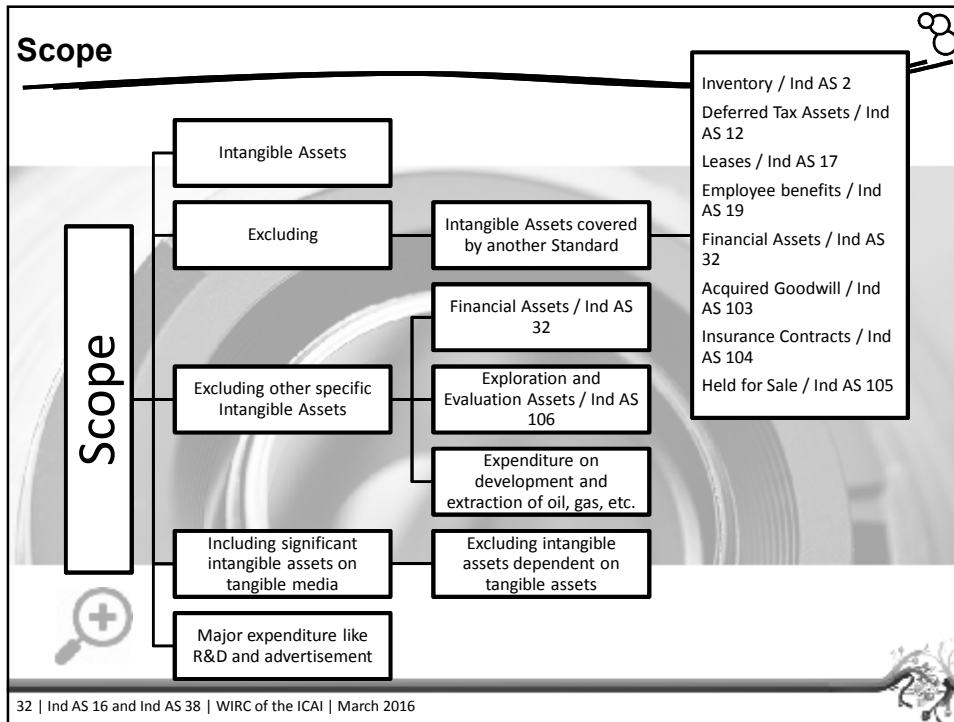
<b>Concept</b>	<ul style="list-style-type: none"><li>• Historical Cost v Fair Value</li><li>• Discretionary Fair valuation</li><li>• Performance measurement and benchmarking</li></ul>
<b>First time adoption</b>	<ul style="list-style-type: none"><li>• Ind AS 101 requires retrospective restatement</li><li>• Deemed cost permitted on basis of fair value or carrying amount as per previous GAAP</li><li>• Internal performance measurement and planning/benchmarking</li></ul>
<b>Operational challenges</b>	<ul style="list-style-type: none"><li>• ERP treatment of restatement of useful lives or RV</li><li>• Revaluation of PPE</li><li>• Useful economic life estimates</li><li>• Shift working</li></ul>

28 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

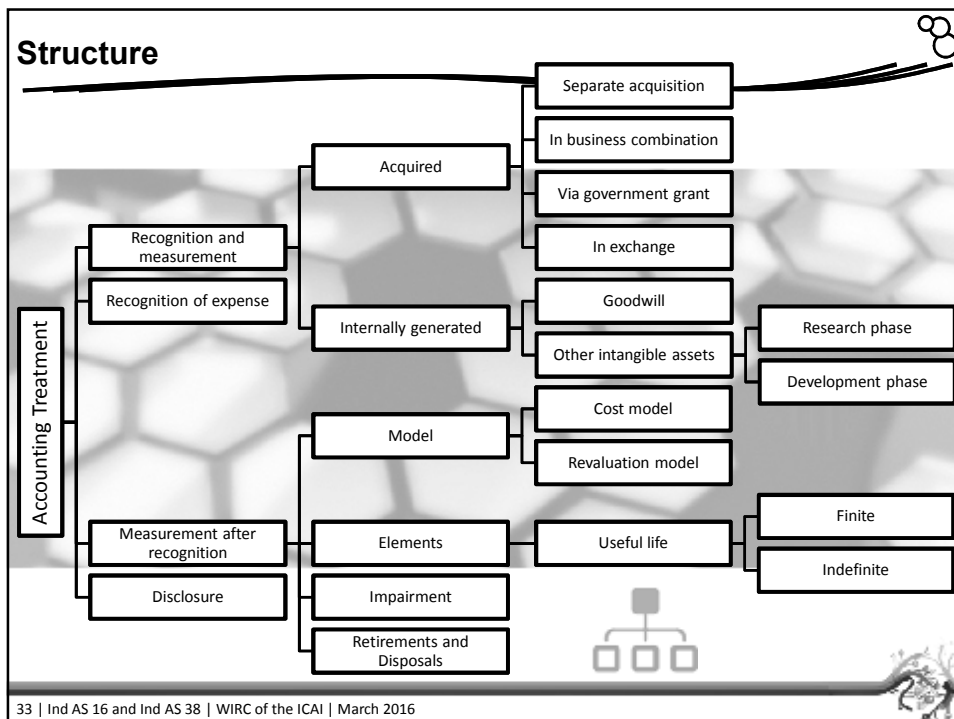




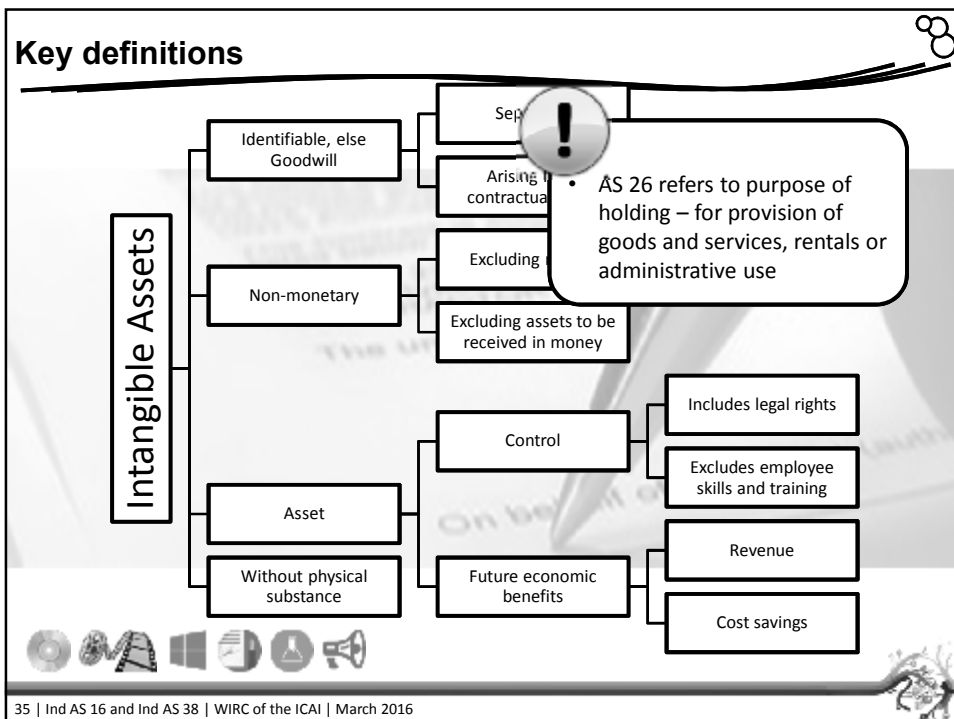
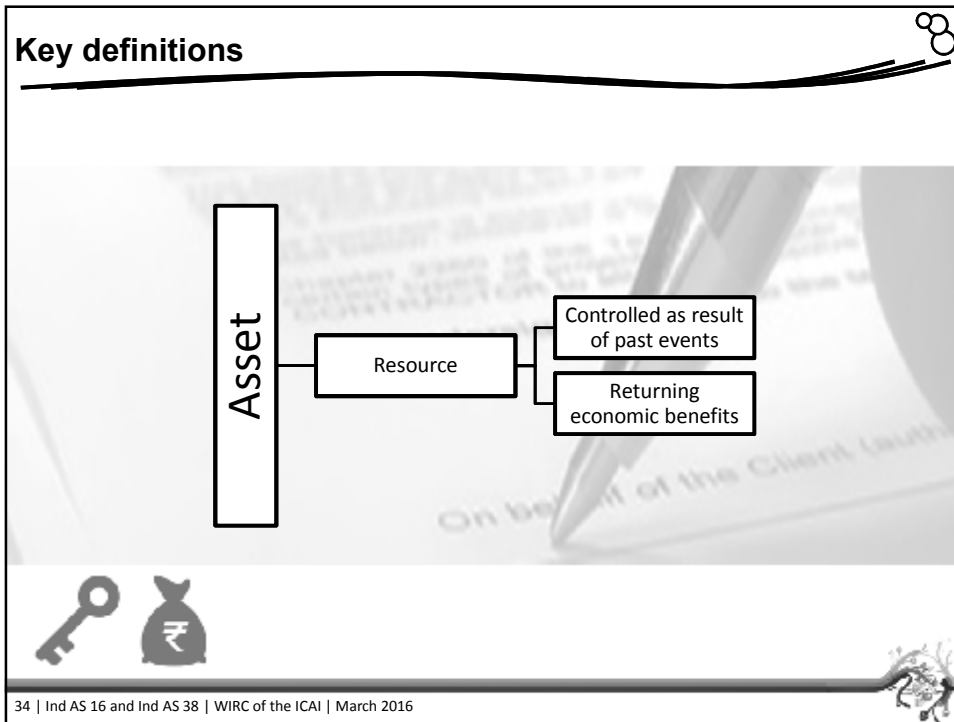


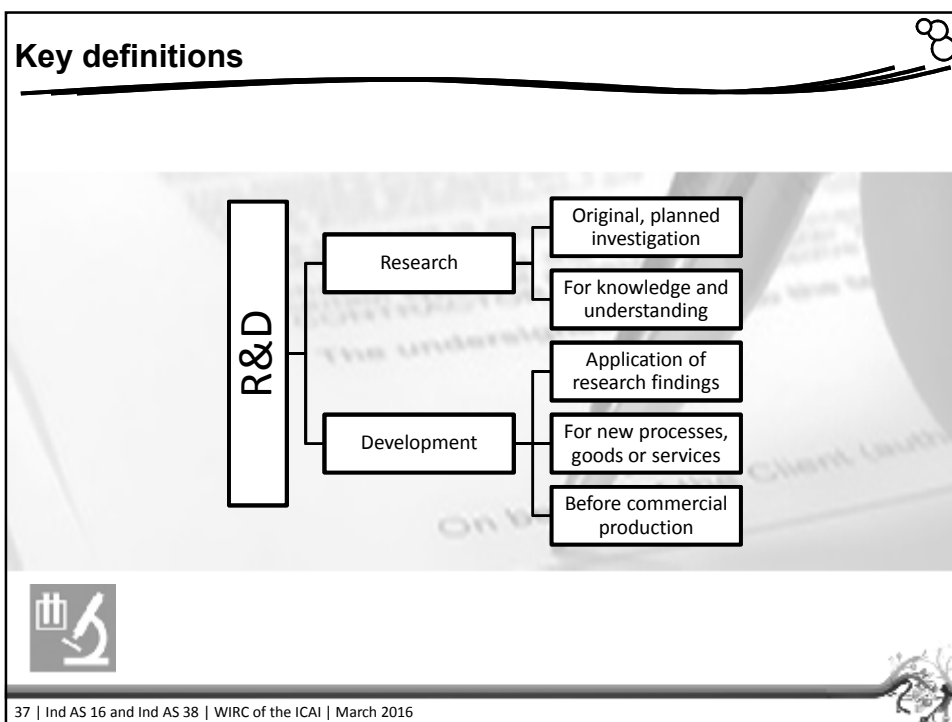
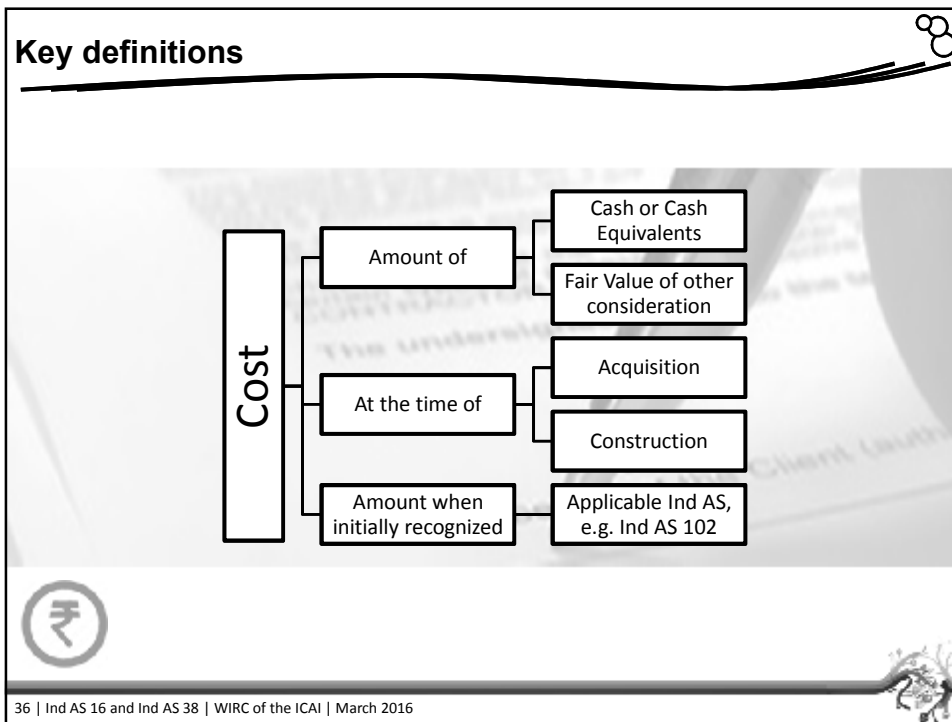


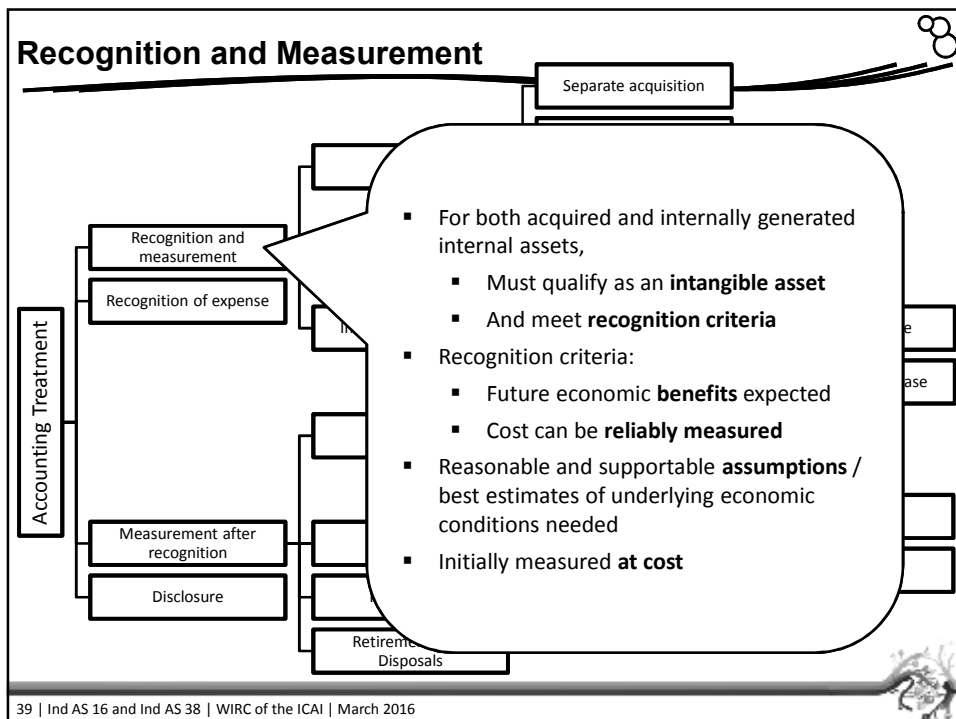
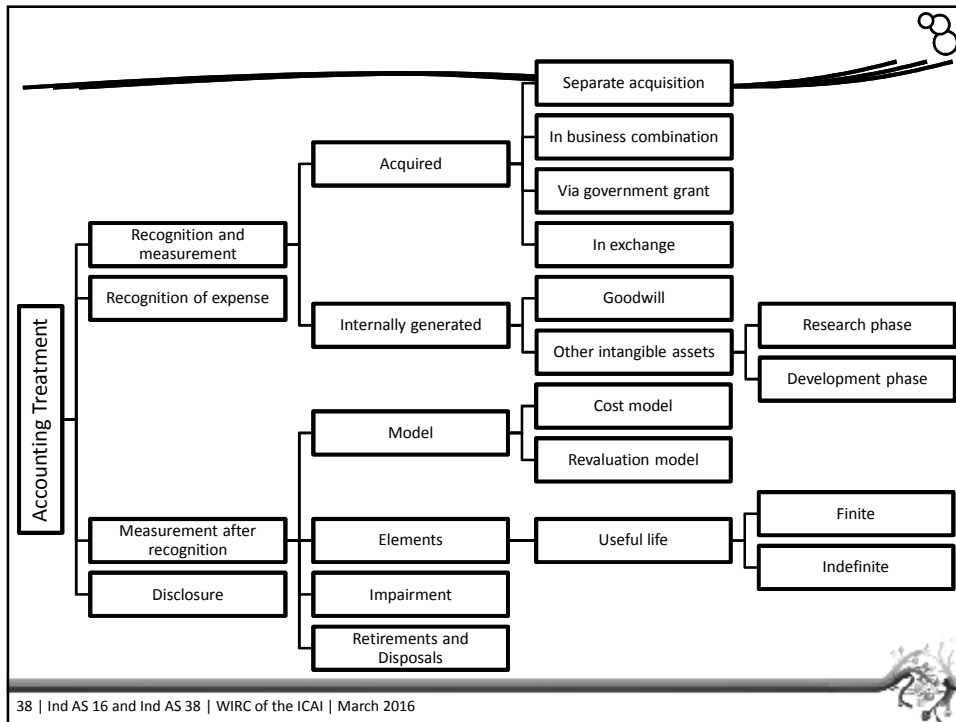
32 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016



33 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016







### Separate Acquisition

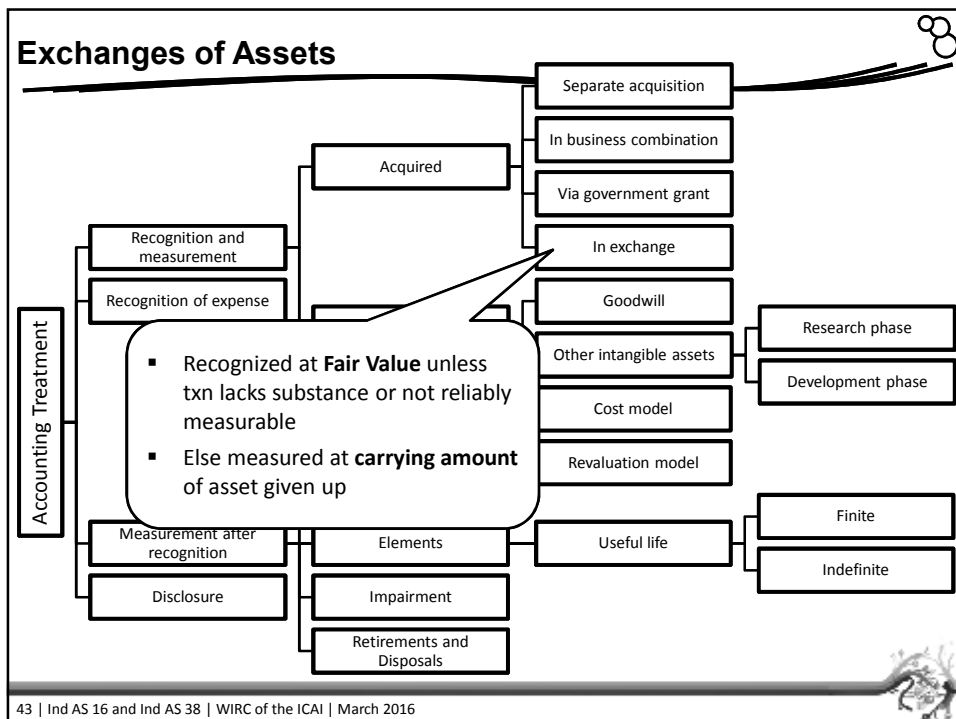
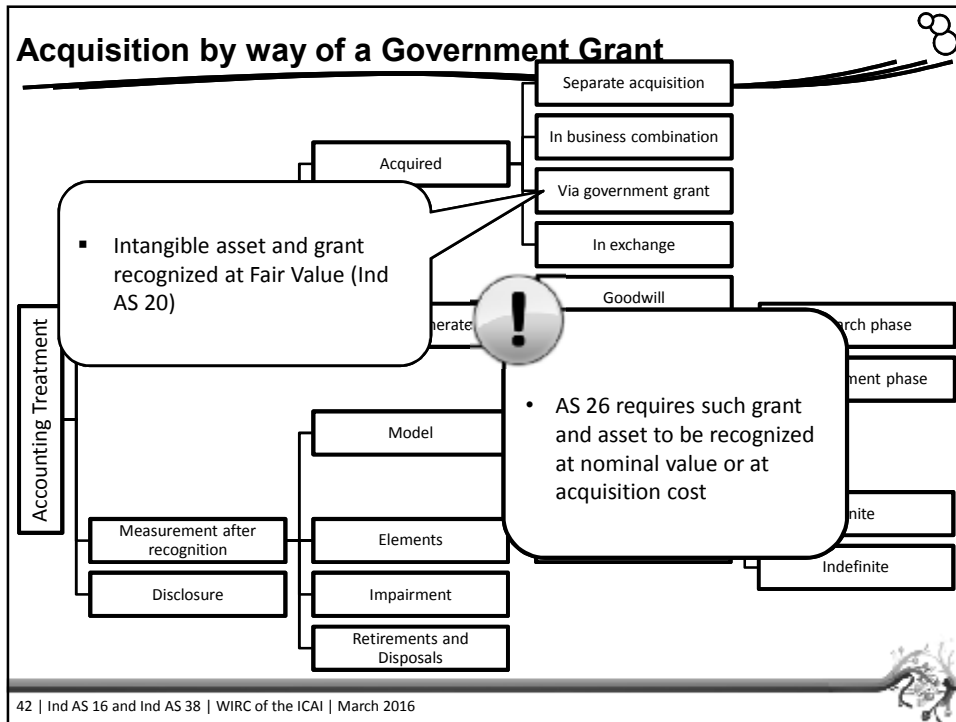
- AS 26 gives no specific guidance on exclusion of specific items of costs
- Purchase price, incl. duties and non-refundable taxes less trade discounts and rebates
- Put-to-use **direct expenditure**
  - Employee benefits, professional fees, testing expenses
  - Advertising and promotion, training, administration OH, redeployment
- Ceases** when asset is capable of operating as intended

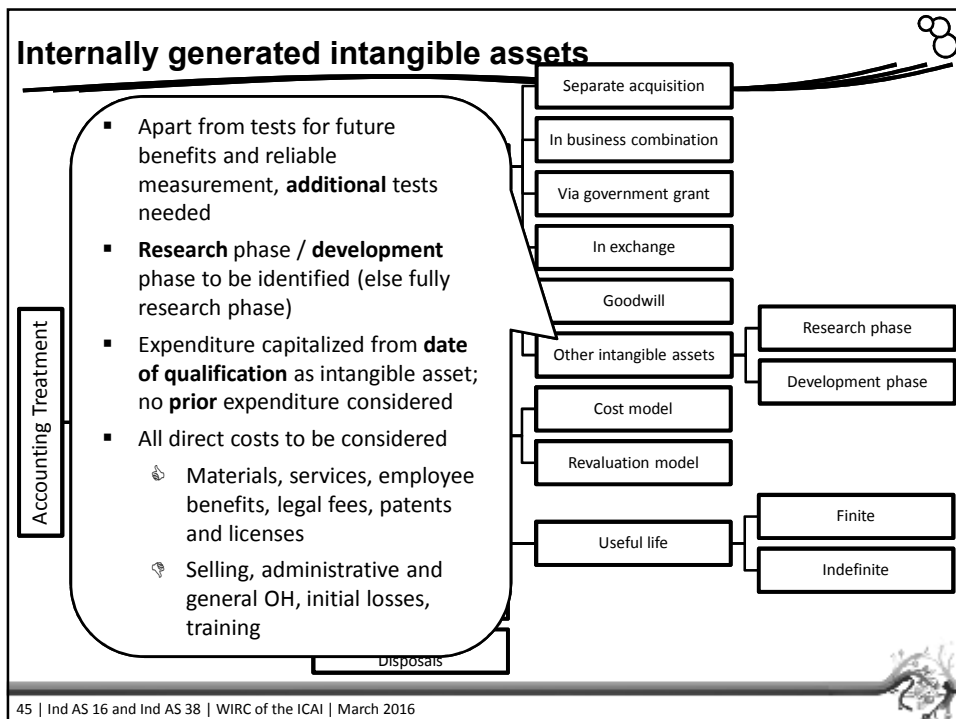
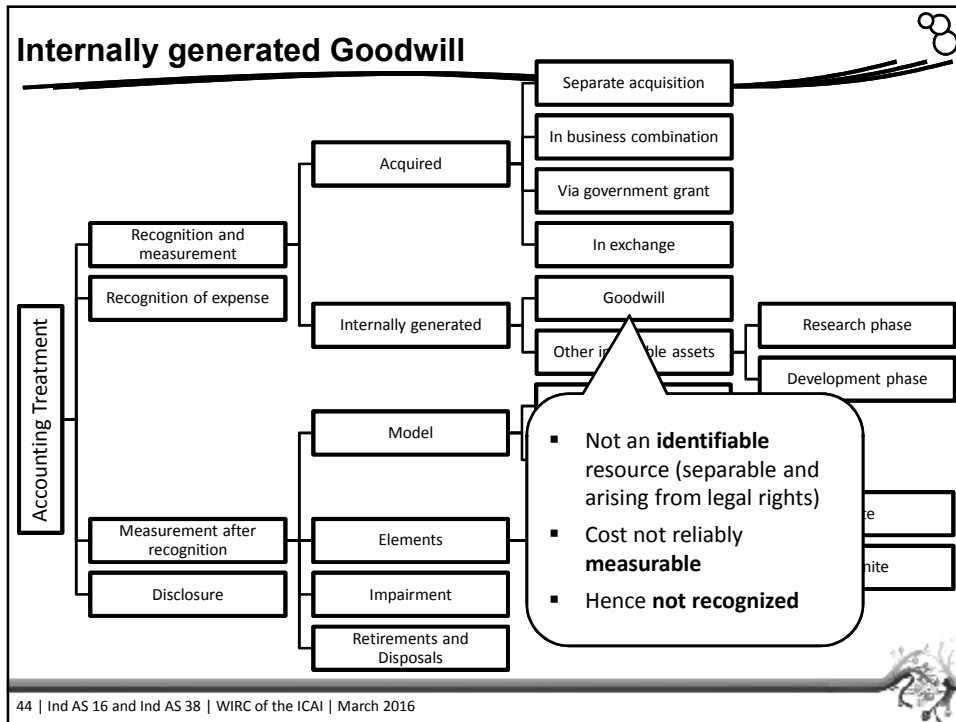
40 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

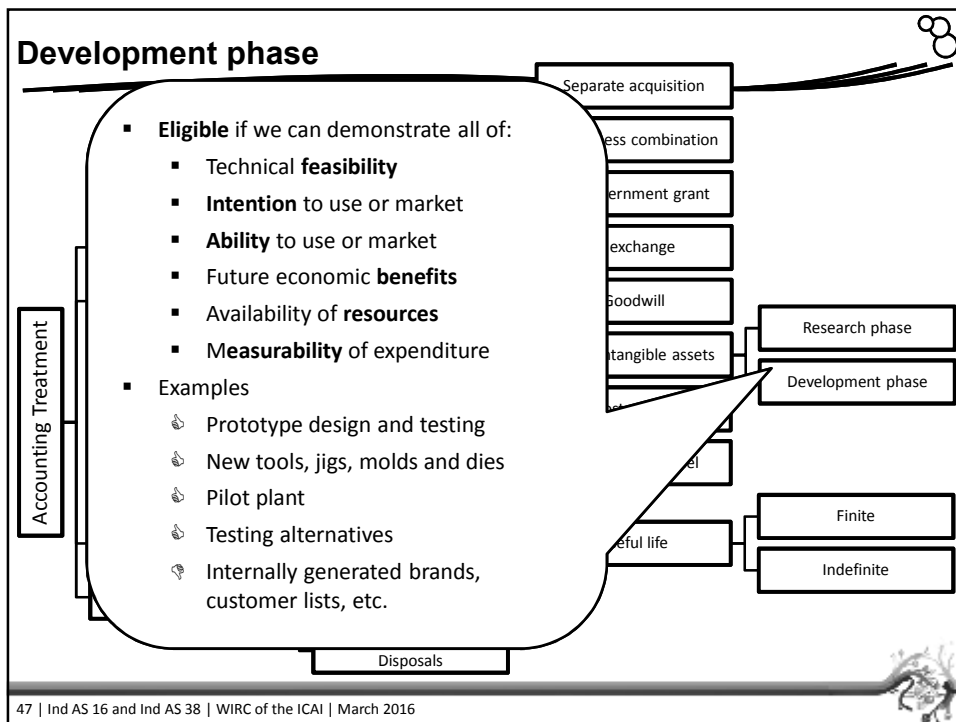
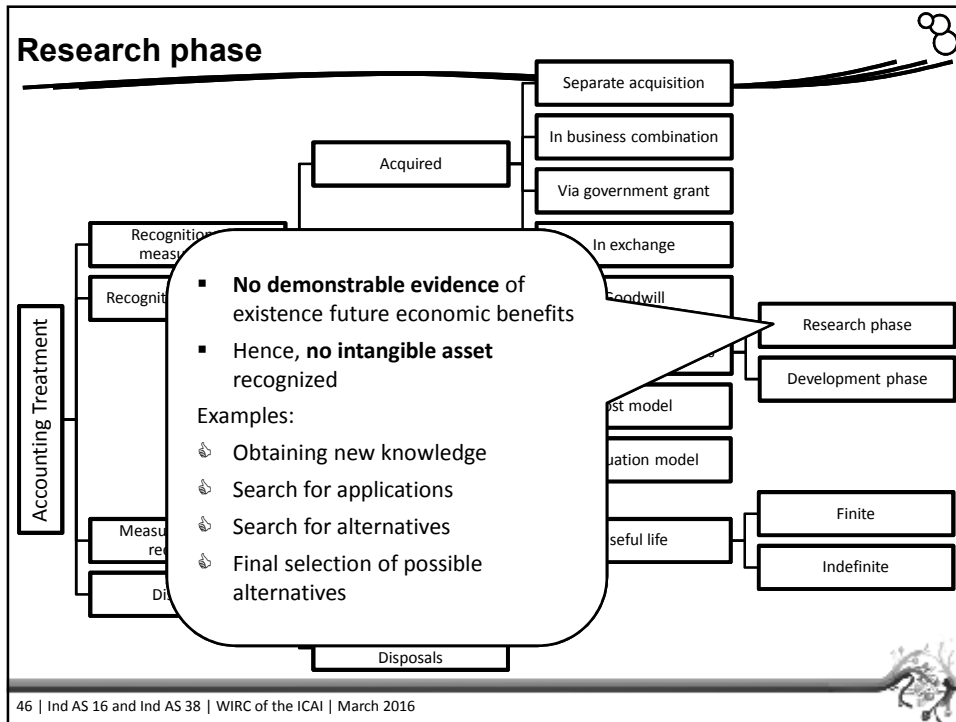
### Acquisition as part of a Business Combination

- AS 26 permits FV recognition only for amalgamations in the nature of purchase
- AS 26 does not permit FV recognition of intangible assets acquired from an acquiree company that did not recognize them
- Cost = **Fair Value** on date of acquisition
- Criteria of **expected benefits** met with; considered embedded
- Recognized separately from identifiable/ separable intangible assets if not **recognized it previously**
- Fair value could be derived from **quoted market prices** in an active market, or **arms length price**, or **specialized techniques** like multiples, DCF or replacement costs.
- Subsequent** expenditure **expensed** if research, **capitalized** if qualifying as development

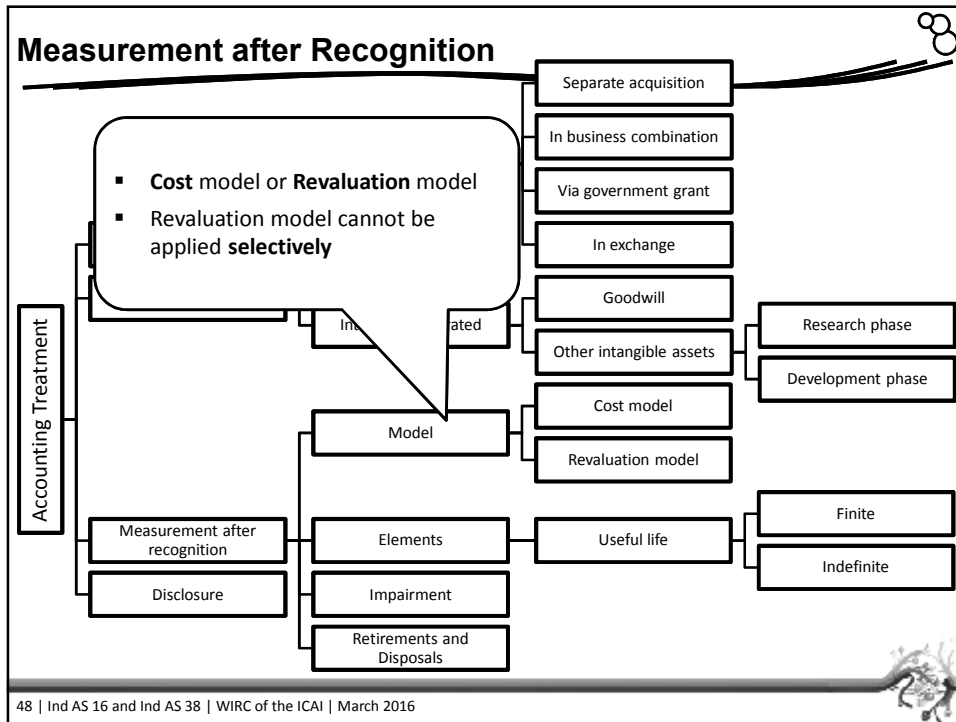
41 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016



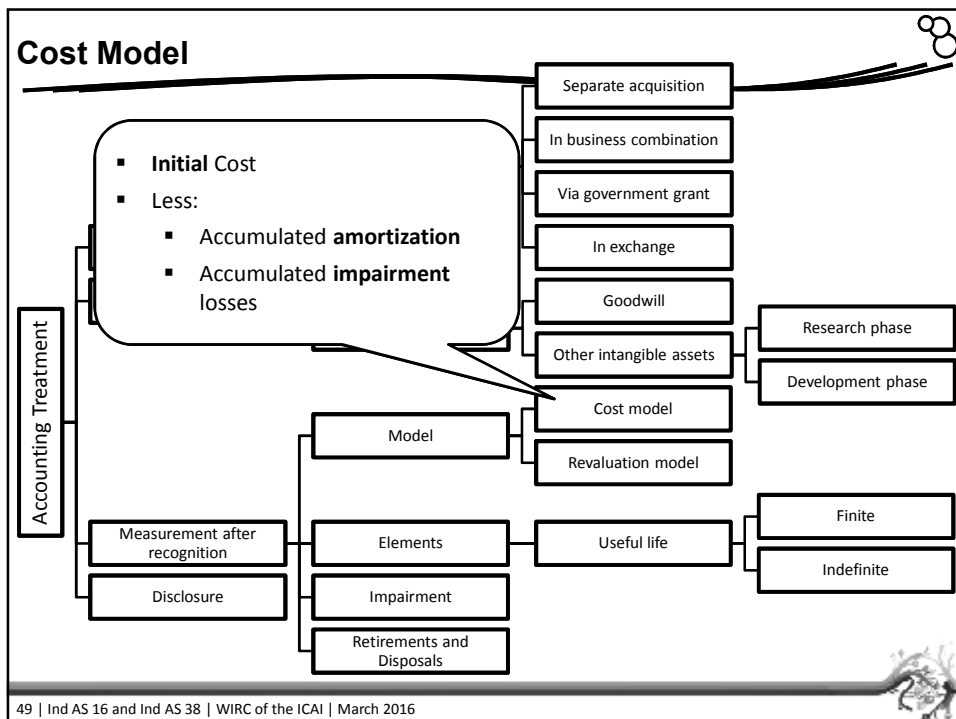








48 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016



49 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

### Revaluation Model

- Carried at **revalued amount**
- Revalued amount = **Fair Value** on revaluation date less subsequent accumulated **amortization** and **impairment**
- Regular revaluations needed
- Initial** recognition has to be at **cost**
- Accounting treatment** similar to that of PPE (Ind AS 16, para 35)
- If active market not available, valued at cost less amortization / impairment
- If Fair Value not updatable, valued at last FV less subsequent amortization / impairment

Disposals

Separate acquisition

! AS 26 has no provision for revaluation of intangible assets

Other intangible assets

- Research phase
- Development phase

Cost model

Revaluation model

Useful life

- Finite
- Indefinite

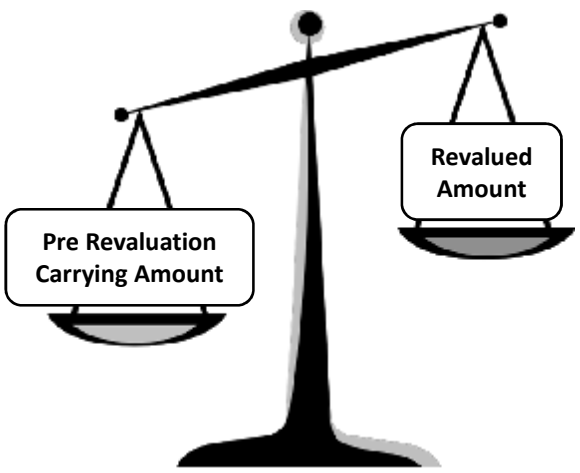
50 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016

### Treatment of Increase in Carrying Amount on Revaluation

- Recognized in **Other Comprehensive Income**
- Accumulated in **Equity** as **Revaluation Surplus**
- ...but recognized in **P&L** to the extent of **reversal** of previous revaluation decrease of same asset

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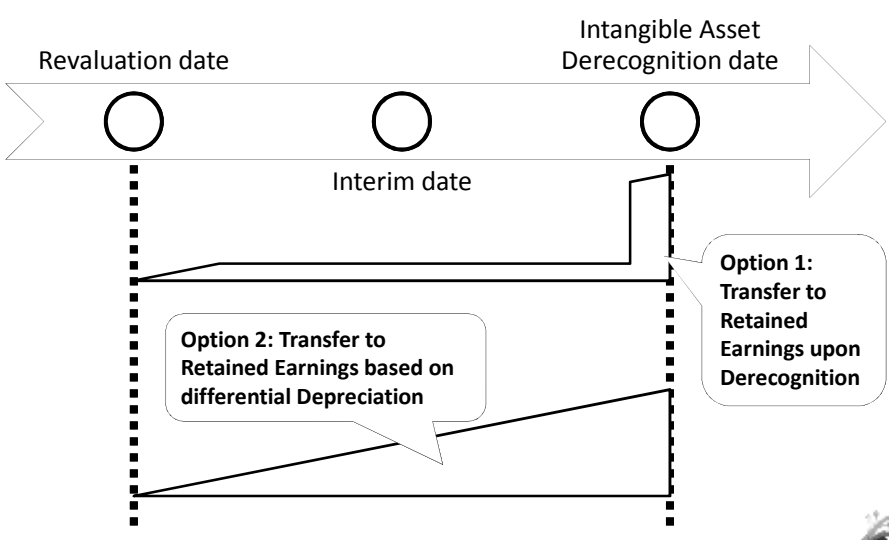
### Treatment of Decrease in Carrying Amount on Revaluation



- Recognized in **P&L**
- ...but recognized in **Other Comprehensive Income** to the extent of **credit balance** in revaluation surplus of same asset, thus **reducing revaluation surplus** in Equity

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### Treatment of Revaluation Surplus



Revaluation date

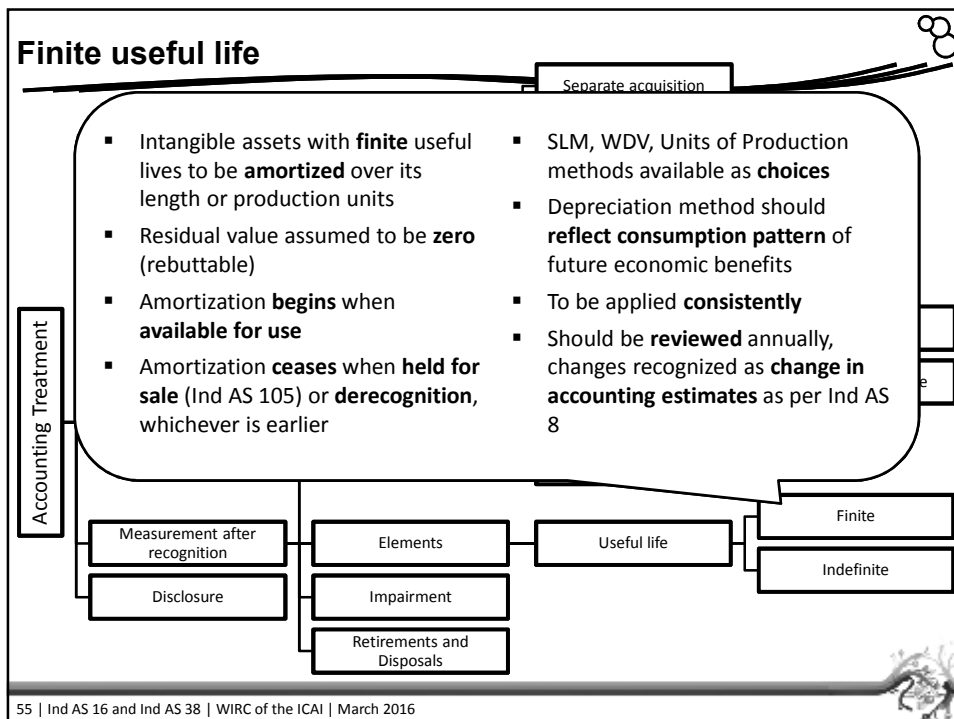
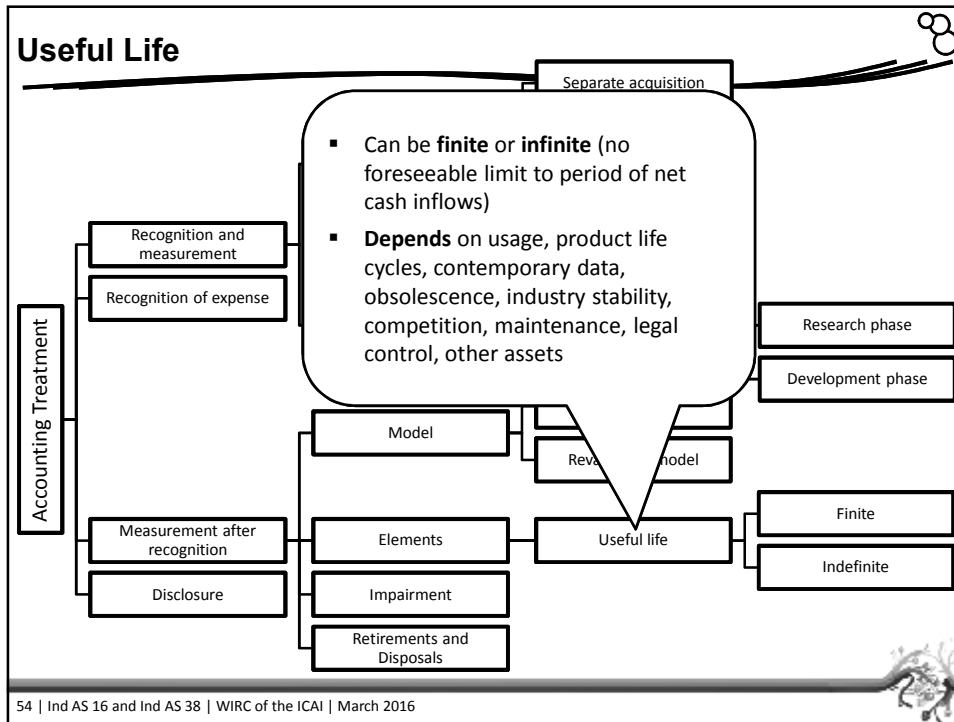
Intangible Asset Derecognition date

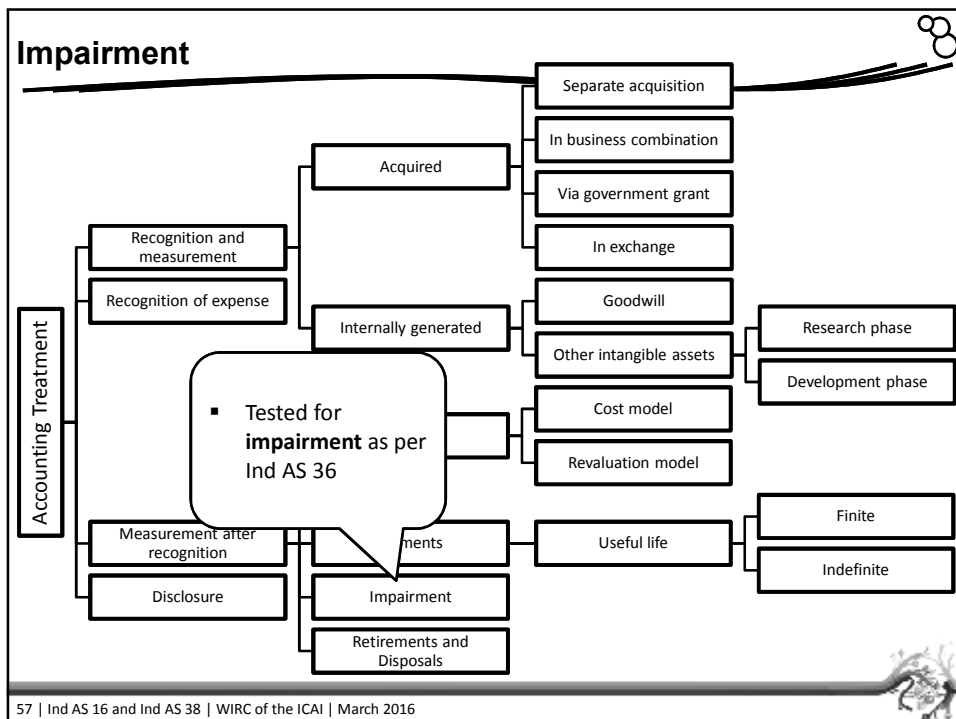
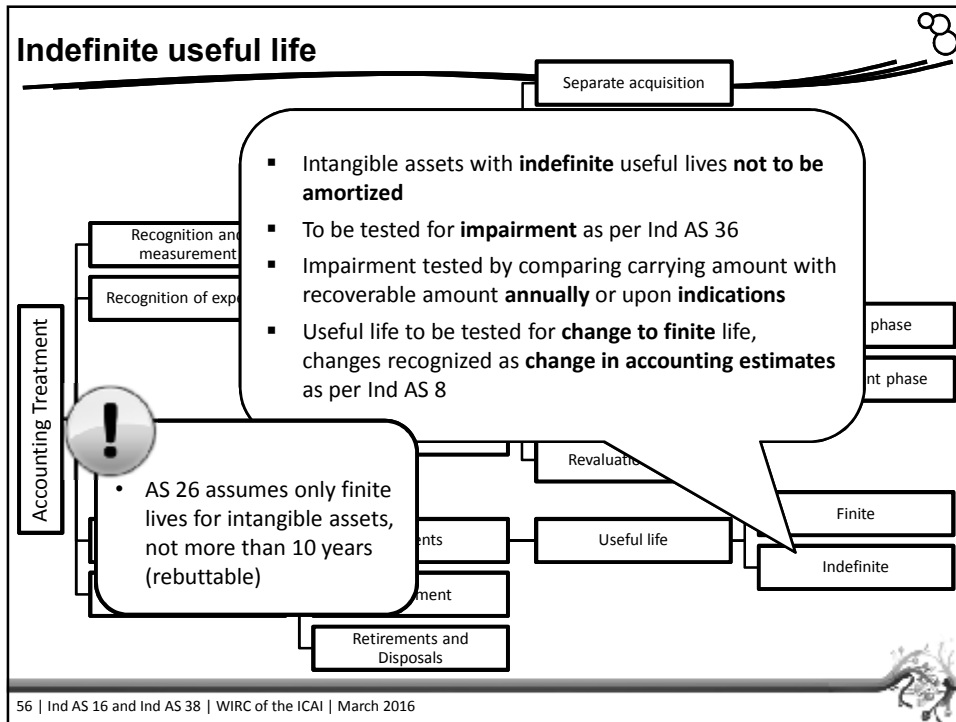
Interim date

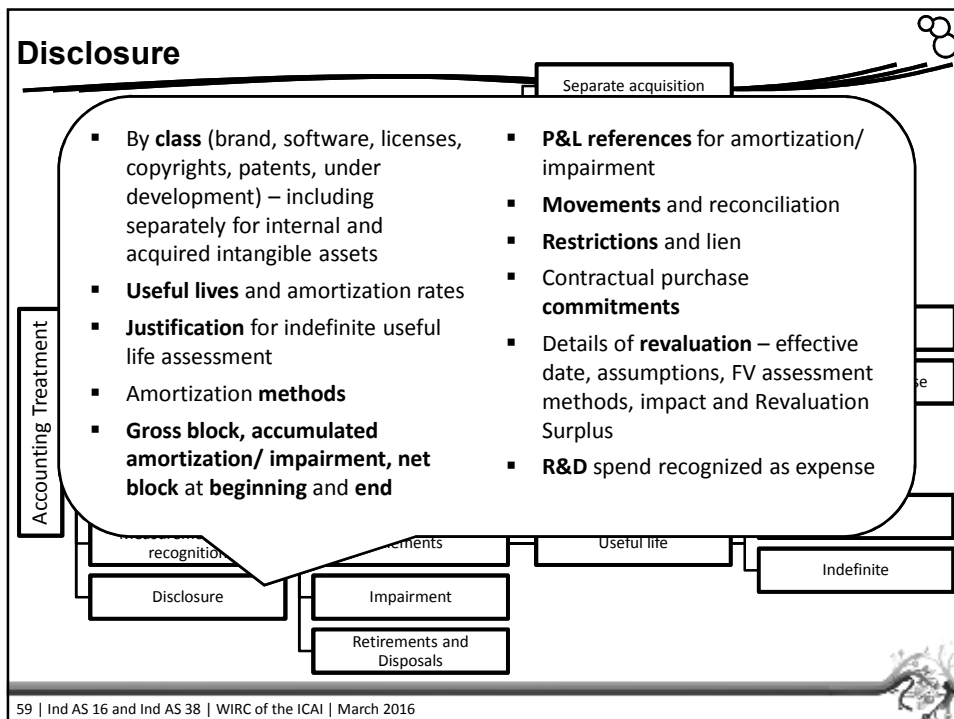
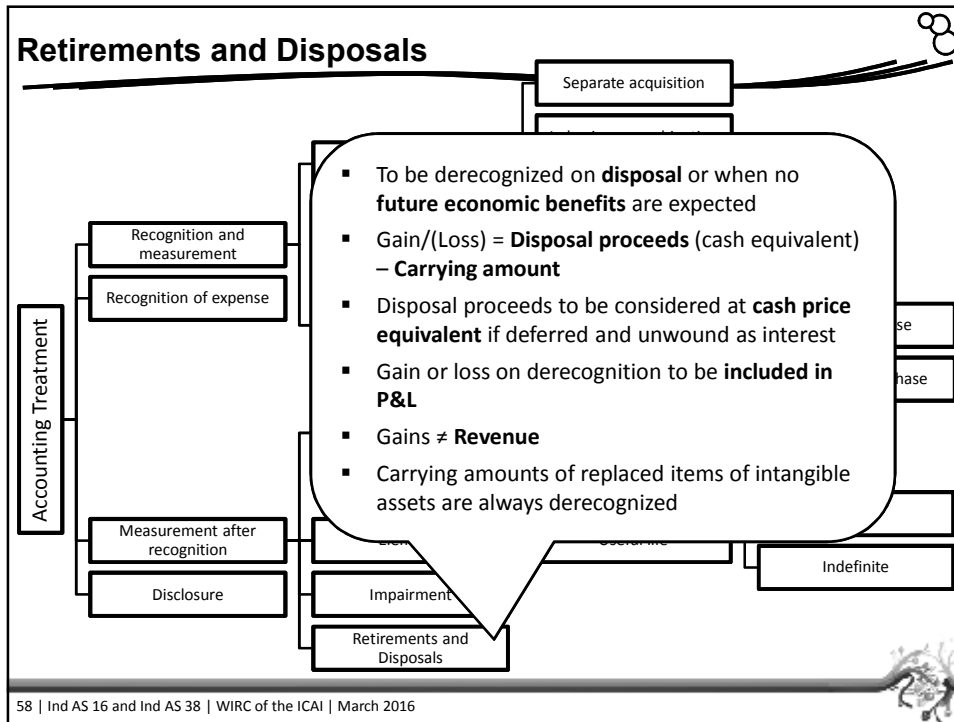
**Option 2: Transfer to Retained Earnings based on differential Depreciation**

**Option 1: Transfer to Retained Earnings upon Derecognition**

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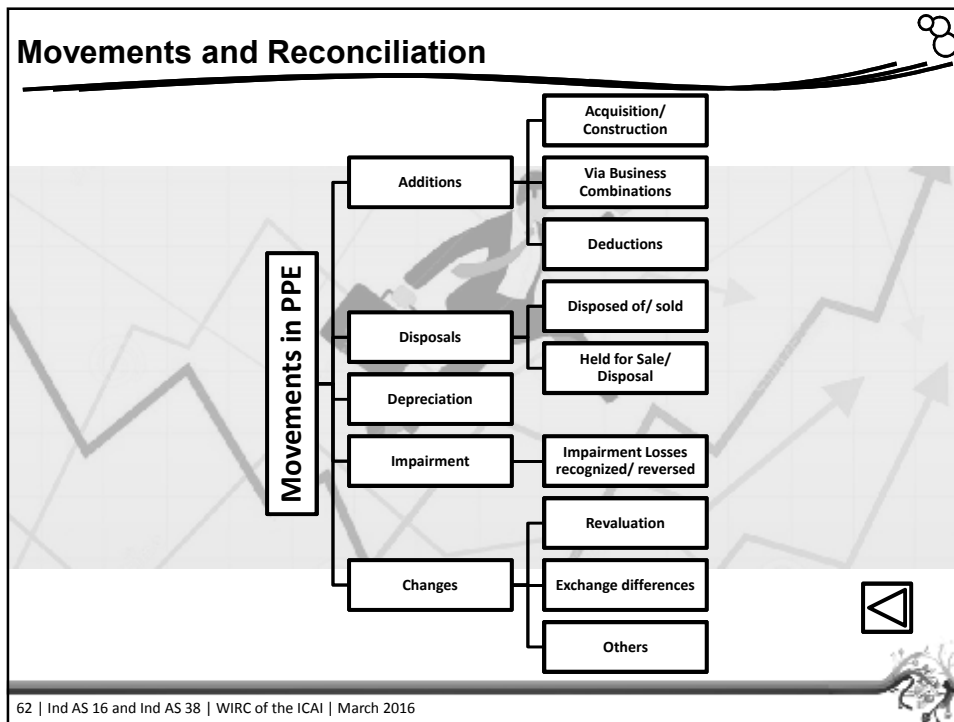






**THANK YOU FOR YOUR TIME  
AND CONSIDERATION.**

**Piروز P Movdawalla**  
[piroozpm@alumni.carnegiemellon.edu](mailto:piroozpm@alumni.carnegiemellon.edu)



### Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors

36 The effect of change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

37 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

63 | Ind AS 16 and Ind AS 38 | WIRC of the ICAI | March 2016