Exposure Draft

Accounting Standard (AS) 16

Property, Plant and Equipment

Last date for the comments: 24th February, 2018

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft Accounting Standard (AS) 16
Property, Plant and Equipment

(The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February, 2015, have been applicable to the specified class of companies. For other class of companies, i.e., primarily the unlisted companies having net worth less than Rs. 250 crores, Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, have been applicable. However, the Ministry of Corporate Affairs has requested the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) to upgrade Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, to bring them nearer to Indian Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of upgradation of these standards which will be applicable to all companies having net-worth less than Rs. 250 crores including non-corporate entities.

AS 10 has been taken as the base for formulating the upgraded Standard on Property, Plant and Equipment. The upgraded Standard on AS 16 is almost similar to AS 10. However, there are certain differences between draft AS 16 and AS 10. An appendix covering major differences between draft AS 16 and AS 10 is included in the draft Standard. Similarly, major differences between draft AS 16 and Ind AS 16 are given in another appendix of this draft Standard.)

Following is the Exposure Draft of the Accounting Standard (AS) 16, Property, Plant and Equipment, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment

Comments can be submitted using one of the following methods so as to receive not later than 24th February, 2018:

1. Electronically: Visit the following link
http://www.icai.org/comments/asb/

2. Email: Comments can be sent at commentsasb@icai.in

3. Postal: Secretary, Accounting Standards Board,
The Institute of Chartered Accountants of India, ICAI Bhawan,
Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by email to asb@icai.in.

Questions for respondents

Question 1
(a) Ind AS 16, *Property, Plant and Equipment* requires that land and buildings are separable assets and are accounted for separately, even when they are acquired together. Similar provisions are given in the draft AS 16. Do you agree with this? (b) If you do not agree with (a) above, do you agree that land and building should be accounted for together unless acquired separately. What are your views with regard to computation of depreciation in such a case?

Accounting Standard (AS) 16
Property, Plant and Equipment

*(This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles*

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about investment made by an entity in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

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

3. This Standard does not apply to:

    (a) [Refer Appendix 1].

    (b) biological assets related to agricultural activity other than bearer plants. This Standard applies to bearer plants but it does not apply to the produce on bearer plants.

    (c) [Refer Appendix 1]

    (d) 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.

4. Other Accounting Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, AS 19, *Leases*, requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

5. An entity accounting for investment property in accordance with AS 40, *Investments Property*, shall use the cost model in this standard.

Definitions

6. The following terms are used in this Standard with the meanings specified:

Bearer plant **is a plant that**

(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.

Carrying amount **is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.**

Cost **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.**

Depreciable amount **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.**

Entity -specific value **is the present value of the cash flows an entity 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 value as defined under AS 113,** ***Fair Value Measurement.*** **.**

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 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 entity 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 entity ; or**

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

Recognition

7. **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 entity; and**

(b) **the cost of the item can be measured reliably.**

8. 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.

9. 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 entity. 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 insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value. An entity 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.

10. An entity 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

11. 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 entity. Items of property, plant and equipment may also be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity 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 entity 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 36, *Impairment of Assets*.

Subsequent Costs

12. Under the recognition principle in paragraph 7, an entity 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.

13. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Similarly, major parts of conveyor system, such as, conveyor belts, wire ropes, etc., may require replacement several times during the life of the conveyor system. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity 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 (see paragraphs 67-72).

14. 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.

14A The derecognition of the carrying amount as stated in paragraphs 13-14 occurs regardless of whether the cost of the previous part / inspection was identified in the transaction in which the item was acquired or constructed. If it is not practicable for an entity to determine the carrying amount of the replaced part/ 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

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

Elements of Cost

16. 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 entity 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.

17. Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in AS 19, *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) 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.

18 An entity 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 16 are recognised and measured in accordance with AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

19 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.

20 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 to be 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 entity.

21 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.

22 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity 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 23, *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.

22A. 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

23 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. 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 23.

24 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 described in the preceding sentence. 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 entity 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.

25 An entity 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 entity-specific value of the portion of the operations of the entity 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 entity -specific value of the portion of operations of the entity affected by the transaction should reflect post-tax cash flows. In certain cases, the result of these analyses may be clear without an entity having to perform detailed calculations.

26 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 entity 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.

26A Where several items of property, plant and equipment are purchased for a consolidated price, cost should be measured in accordance with AS 103.

27 The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with AS 17, *Leases*.

28. The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with AS 20, *Accounting for Government Grants*.

Measurement after Recognition

29. **An entity should choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and should apply that policy to an entire class of property, plant and equipment.**

Cost Model

30 **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

31 **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.**

32 [Refer Appendix 1].

33 [Refer Appendix 1].

34 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 three or five years.

35 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 paragraphs 39 and 40.

36 **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.**

37 A class of property, plant and equipment is a grouping of assets of a similar nature and use in operations of an entity. 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.

38. 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.

39. **If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.**

40 **If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other**

comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

41 The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings 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 entity. 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 retained earnings are not made through the profit or loss.

42. The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with AS 12, *Income Taxes.*

Depreciation

43 **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.**

44 An entity 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.

45 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.

46 To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

47 An entity 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.

48 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.

49 The depreciation charge for a period is usually recognised in the statement of profit and loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. 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 38, *Intangible Assets*.

Depreciable Amount and Depreciation Period

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

51 **The residual value and the useful life of an asset should be reviewed ~~and changed~~ 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 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

52 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.

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

54 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.

55 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.

56 The future economic benefits embodied in an asset are consumed by an entity 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.

57 The useful life of an asset is defined in terms of its expected utility to the entity. The asset management policy of the entity 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 entity with similar assets.

58 Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries 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.

59 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

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

61 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 ~~reviewed and changed~~. Such a change should be accounted for as a change in an accounting estimate in accordance with AS 5.

62 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over 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 entity 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

62A 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.

Impairment

63. To determine whether an item of property, plant and equipment is impaired, an entity applies AS 36, *Impairment of Assets*. AS 36 explains how an entity 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.

64 [Refer Appendix 1]

Compensation for Impairment

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

66 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 36;

(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

66A **Items of property, plant and equipment retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down in this regard should be recognised immediately in the statement of profit and loss.**

Derecognition

67 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.

68 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 17, *Leases*, requires otherwise on a sale and leaseback). Gains should not be classified as revenue, as defined in AS 18, *Revenue Recognition*.

68A However, an entity 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 18, *Revenue Recognition*.

69 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 entity applies the criteria in AS 18 for recognising revenue from the sale of goods. AS 17, *Leases*, applies to disposal by a sale and leaseback.

70 If, under the recognition principle in paragraph 7, an entity 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 entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

71 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.

72 The consideration receivable on disposal of an item of property, plant and equipment is recognised in accordance with the principles enunciated in AS 18.

Disclosure

73 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 entity, 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; and**
- **(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 31, 39 and 40 and from impairment losses recognised or reversed directly in other comprehensive income in accordance with AS 36;**
  - **(v) impairment losses recognised in the statement of profit and loss in accordance with AS 36;**
  - **(vi) impairment losses reversed in the statement of profit and loss in accordance with AS 36;**
  - **(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 21, The Effects of Changes in Foreign Exchange Rates; and

(ix) other changes.

74 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.

75 Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. 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 entities. 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.

76 In accordance with AS 8, an entity 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.

77 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; and

(c) [Refer Appendix 1]

(d) [Refer Appendix 1]

(e) [Refer Appendix 1]

(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

78 [Refer Appendix 1]

79 [Refer Appendix 1]

Appendix A

Changes in Existing Decommissioning, Restoration and Similar Liabilities

This Appendix is an integral part of the AS.

Background

1 Many entities have obligations to dismantle, remove and restore items of property, plant and equipment. In this Appendix such obligations are referred to as 'decommissioning, restoration and similar liabilities'. Under AS 16, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity 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. AS 37 contains requirements on how to measure decommissioning, restoration and similar liabilities. This Appendix provides guidance on how to account for the effect of changes in the measurement of existing decommissioning, restoration and similar liabilities.

Scope

2 This Appendix applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is recognised as part of the cost of an item of property, plant and equipment in accordance with AS 16 and recognised as liability in accordance with AS 37.

For example, a decommissioning, restoration or similar liability may exist for decommissioning a plant, rehabilitating environmental damage in extractive industries, or removing equipment.

Issue

3 This Appendix addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

(a) a change in the estimated outflow of resources embodying economic benefits (eg cash flows) required to settle the obligation;
(b) a change in the current market-based discount rate as defined in paragraph 47 of AS 37 (this includes changes in the time value of money and the risks specific to the liability); and
(c) an increase that reflects the passage of time (also referred to as the unwinding of the discount).

Accounting Principles

4 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 5-7 below.

5 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 entity 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 entity should test the asset for impairment by estimating its recoverable amount, and should account for any impairment loss, in accordance with AS 36.

6 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 shall (subject to (b)) be recognised in other comprehensive income and increase the revaluation surplus within equity, except that it shall be recognised in profit or loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in profit or loss;
   (ii) an increase in the liability shall be recognised in profit or loss, except that it shall be recognised in other comprehensive income and reduce the revaluation surplus within equity 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 recognised 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 in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation shall be taken into account in determining the amounts to be recognised in profit or loss or in other comprehensive income under (a). If a revaluation is necessary, all assets of that class shall be revalued.
(d) AS 1 requires disclosure in the statement of profit and loss of each component of other comprehensive income or expense. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

7 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.

8 The periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. Capitalisation under Ind AS 23 is not permitted.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 16 and Accounting Standard (AS) 16, *Property, Plant and Equipment*

Comparison with Ind AS 16, *Property, Plant and Equipment*

1. Ind AS 16 does not deal with the assets 'held for sale' because the treatment of such assets is covered in Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations.* AS 16 deals with accounting for items of fixed assets retired from active use and held for sale.

   In this regard, consequential changes are as follows:

   (i) Paragraph 3(a) of Ind AS 16 dealing with property, plant and equipment held for sale in accordance with Ind AS 105 has been deleted in AS 16. However, in order to maintain consistency with paragraph numbers of Ind AS 16, the paragraph number has been retained in AS 16.

   (ii) Paragraphs 66A and 74(e) prescribing the accounting for items of property, plant and equipment retired from active use and held for disposal and disclosure respectively has been included in AS 16.

2. Paragraph 3(c) of Ind AS 16 dealing with recognition and measurement of exploration and evaluation assets has been merged with paragraph 3(d) in the upgraded AS 16.

3. Ind AS 16 provides guidance on measuring 'Stripping Costs in the Production Phase of a Surface Mine'. AS 16 does not contain this guidance.

4. The definition of 'property, plant and equipment' covers tangible items which are held for use or for administrative purposes. Explanation regarding the term 'administrative purposes' has been given in AS 16 while the same is not given in Ind AS 16

5. Paragraph 28 has been deleted in Ind AS 16 since Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, does not permit the option of reducing the carrying amount of an item of property, plant and equipment by the amount of government grant received in respect of such an item, which is permitted in AS 20. Accordingly, paragraph 28 has been added in AS 16.

6. Paragraph 26A of AS 16 provides that 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. However, Ind AS 16 does not provide so.

7. AS 16 requires that if items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

   a) the methods and significant assumptions applied in estimating fair values of the items;

   b) 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.

   However, Ind AS 16 does not require these disclosures.

8. Ind AS 16 requires that if items of property, plant and equipment are stated at revalued amounts, 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 should be disclosed However, AS 16 does not require this disclosure. Accordingly, Paragraph 77(e) appear as 'Deleted' in AS 16.

9. Paragraph 73(c) of AS 16 requires that in case the useful lives or the depreciation rates used are different from those specified in the statute governing the entity, it should make a specific mention of that fact. However, this is not required in Ind AS 16.

10. The following paragraph numbers pertaining to encouraged disclosures have not been included in AS 16:

    i. paragraph 78

    ii. paragraph 79

11. The following paragraph numbers appear as 'Deleted' in Ind AS 16. In order to maintain consistency with paragraph numbers of Ind AS 16, the paragraph numbers are retained in AS 16:

    (i) paragraphs 32-33

    (ii) paragraph 64

    (iii) paragraphs 77(c)-77(d)

Appendix 2

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 10 and Accounting Standard (AS) 16, *Property, Plant and Equipment*

Comparison with AS 10, *Property, Plant and Equipment*

1. Definitions related to agriculture given in AS 10 have been removed in AS 16 since AS 41, *Agriculture* would deal with the same.

2. Paragraphs 35-36, 85(c) &(d) of AS 10 pertaining to determination of fair value in case revaluation model is adopted have not been retained in AS 16 because these aspects will be dealt by a separate Standard, i.e., AS 113, Fair value Measurement.

3. Paragraph 42 of AS 16 provides that the effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with AS 12, *Income Taxes*. This requirement is not there in AS 10.

4. As a result of bringing in concept of 'Other Comprehensive Income' under AS 1[1], Presentation of Financial Statements, any increase in revaluation surplus is required to be recognised in Other Comprehensive Income instead of Owner's interest.

5. Encouraged disclosures given in paragraphs 86-87 of AS 10 have been removed in AS 16 for the purpose of simplification.

6. Transitional provisions given in paragraphs 88-91 of AS 10 have been removed in AS 16 since these will be incorporated in separate Standard.

7. In AS 16, guidance pertaining to changes in Existing Decommissioning, Restoration and Similar Liabilities is given in Appendix A. However, in AS 10, paragraphs 66-69 provide guidance on accounting for changes in Existing Decommissioning, Restoration and Similar Liabilities. Guidance is similar under both the Standards.

[1] AS1, Presentation of Financial Statements, is under formulation.