# Exposure Draft

## Accounting Standard (AS) 10 (revised)

## *Property Plant and Equipment*

**(Last date for Comments: December 18, 2014)**

***Issued by***

Accounting Standards Board

**The Institute of Chartered Accountants of India**

# Exposure Draft

## Accounting Standard (AS) 10 (revised)

# Property, Plant and Equipment

*Following is the Exposure Draft of the revised Accounting Standard (AS) 10, 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. The Board would particularly welcome answers to the questions set out below. 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.*

*Comments can be submitted using one of the following methods, so as to be received not later than December 18, 2014:*

1. *Electronically: Click on* ***http://www.icai.org/comments/asb/*** *to* submit comments online.
2. *Email: Comments can be sent to 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 e-mail to geetanshu.bansal@icai.in.

*(This Accounting Standard includes paragraphs set in* ***bold italic*** *type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Standard should be read in the context of the Preface to the Statements of Accounting Standards issued by the Institute of Chartered Accountants of India).*

***Question 1.***

*Paragraph 25 of the Exposure Draft proposes that the cost of an item of property, plant and equipment is the* ***cash price equivalent*** *at the recognition date. As per the definition of cost given in paragraph 6 of the Exposure Draft,* ***cost*** *is the amount of cash or* ***cash equivalents paid*** *or the fair value of the other considerationcan be 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. This definition is also contained in IAS 16 and Ind AS 16. One view can be that the term* ***"cash equivalents"*** *used in the definition is different from the term* ***"cash price equivalents"*** *used in* *paragraph 25 of this Standard. According to this view, the term* ***"cash equivalents"*** *be replaced by* ***"cash price equivalents"*** *in the definition. The other view is that the* ***"cash equivalents"*** *should be considered as short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value (definition of 'cash equivalents' as per AS 3). The reasoning for this view is that* ***"cash equivalents"*** *is used in the definition to represent* ***"cash"*** *paid as a consideration for acquiring the asset.*

*Do you think it is appropriate to use the term "**cash price equivalent"** instead of **"cash equivalents"** in the definition of **"cost"** in order to avoid interpretational issues.? Why or why not?*

***Question 2.***

*In paragraph 60 of the Exposure Draft, it is proposed to clarify that where land cannot be transacted separately from a building, in such cases the land and building can be recognised as a single asset. This clarification is not there in IAS 16 and Ind AS 16. Do you agree with the proposed clarification? Why or Why not?*

***Question 3.***

*The Exposure Draft of AS 10 proposes certain disclosure requirements in paragraph 86 which an enterprise is encouraged to disclose and not required to do so mandatorily. In the Board's view, these disclosures are relevant for the users. Do you agree with the proposed. Why or Why not? If not, what changes do you recommend and why?*

## 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 enterprise 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) 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 ; and

(b) wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (a) and (b) above.

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 enterprise 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 enterprise should apply AS 13, *Accounting for Investments*, to property that is being constructed or developed for future use as investment property.

## Definitions

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

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

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

***<u>Bearer plant is a plant</u> that***

***(a) is used in the production of supply of agricultural produce;***

***(b) is expected to bear produce for more than one period; and***

***(c) <u>has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.</u>***

The following are not bearer plants:

(i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and

(iii) annual crops (for example, maize and wheat).

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

***Biological Asset*** ***is a living animal or plant***

***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.***

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

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

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

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

***Property, plant and equipment*** ***are tangible items that:***

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

***(b) are expected to be used during more than one period.***

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

***The residual value of an asset is the estimated amount that an enterprise would currently obtain from disposal of the asset, after deducting the estimated costs of***

***disposal, if the asset were already of the age and in the condition expected at the end of its useful life.***

***Useful life is:***

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

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

## Recognition

***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 enterprise; 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 enterprise. An example of a 'unit of measure' can be a 'project' of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. Similarly, it may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as property, plant and equipment, because the amount of the expenditure is not material.

10. An enterprise evaluates under this recognition principle all its costs on property, plant and equipment at the time they are incurred. These costs include costs incurred:

(a) initially to acquire or construct an item of property, plant and equipment; and

(b) subsequently to add to, replace part of, or service it.

## Initial Costs

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 enterprise. 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 enterprise 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 enterprise to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the enterprise is unable to manufacture and sell chemicals. The resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with AS 28, *Impairment of Assets*.

## Subsequent Costs

12. Under the recognition principle in paragraph 7, an enterprise does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the statement of profit and loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of such expenditures is often described as for the ‘repairs and maintenance’ of the item of property, plant and equipment.

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 enterprise recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 74-80). .

14. A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections or 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.

15 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 enterprise 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

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

### Elements of Cost

17. 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 and removing the item and restoring the site on which it is located, the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

18. Examples of directly attributable costs are:

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

    (b) costs of site preparation;

    (c) initial delivery and handling costs;

    (d) installation and assembly costs;

(e) 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.

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

20. 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.

21. 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 enterprise.

22. 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.

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

24 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

25. 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 16.

26. 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 enterprise cannot immediately derecognise the asset given up. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

27. An enterprise determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

(b) the enterprise-specific value of the portion of the operations of the enterprise affected by the transaction changes as a result of the exchange;

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

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

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

29. 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.

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

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

## Measurement after Recognition

***32. An enterprise should choose either the cost model in paragraph 33 or the revaluation model in paragraph 33 as its accounting policy and should apply that policy to an entire class of property, plant and equipment.***

### Cost Model

***33. 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

***34. 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.***

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

36. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an enterprise may need to estimate fair value using an income approach (for example, based on discounted cash flow projections) or a depreciated replacement cost approach which aims at making a realistic estimate of the current cost of acquiring or constructing an item that has the same service potential as the existing item.

37. 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.

38. 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 42 and 43.

***39. 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.***

40. A class of property, plant and equipment is a grouping of assets of a similar nature and use in operations of an enterprise. The following are examples of separate classes:

(a) land;

(b) land and buildings;

(c) machinery;

(d) ships;

(e) aircraft;

(f) motor vehicles;

(g) furniture and fixtures;

(h) office equipment;and

(i) bearer plants.

41. 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.

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

***43. 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.***

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

## Depreciation

***45. 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.***

46. An enterprise allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates each such part separately. For

example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

47. 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.

48. To the extent that an enterprise 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 enterprise 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.

49. An enterprise may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

***50. 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.***

51. 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 26, *Intangible Assets*.

**Depreciable Amount and Depreciation Period**

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

***53. The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.***

-54. 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.

55. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

56. 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.

57. 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.

58. The future economic benefits embodied in an asset are consumed by an enterprise principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(a) expected usage of the asset. Usage is assessed by reference to the expected capacity or physical output of the asset.

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

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

60. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. However where land cannot be transacted separately from the building, in such cases the land and building can be recognised as a single asset. 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.

61. 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**

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

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

64. 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 enterprise selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or that the method is changed in accordance with the statute to best reflect the way the asset is consumed

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

## Changes in Existing Decommissioning, Restoration and Similar Liabilities

***66. 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 67–68 below.***

***67. If the related asset is measured using the cost model:***

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

***68. If the related asset is measured using the revaluation model:***

- ***(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:***
  - ***(i) a decrease in the liability should (subject to (b)) be credited directly to revaluation surplus in the owners' interest, except that it should be recognised in the statement of profit and loss to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the statement of profit and loss;***
  - ***(ii) an increase in the liability should be recognised in the statement of profit and loss, except that it should be debited directly to revaluation surplus in the owners' interest to the extent of any credit balance existing in the revaluation surplus in respect of that asset.***
- ***(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess should be 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 balance sheet date. Any such revaluation should be taken into account in determining the amounts to be taken to the statement of profit and loss and the owners' interest under (a). If a revaluation is necessary, all assets of that class should be revalued.***

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

## Impairment

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

## Compensation for Impairment

***71. 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.***

72. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of items of property, plant and equipment are recognised in accordance with AS 28;

(b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

## Retirements

***73. 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

***74. 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.***

***75. The gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognised***

***(unless AS 19, Leases, requires otherwise on a sale and leaseback). Gains should not be classified as revenue, as defined in AS 9, Revenue Recognition.***

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

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

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

***79. 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.***

80. The consideration receivable on disposal of an item of property, plant and equipment is recognised in accordance with AS 9. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue reflecting the effective yield on the receivable.

## Disclosure

***81. The financial statements should disclose, for each class of property, plant and equipment:***

- ***(a) the measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;***
- ***(b) the depreciation methods used;***
- ***(c) the useful lives or the depreciation rates used. In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;***
- ***(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; 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 34, 42 and 43 and from impairment losses recognised or reversed directly in revaluation surplus in accordance with AS 28;*

*(v) impairment losses recognised in the statement of profit and loss in accordance with AS 28;*

*(vi) impairment losses reversed in the statement of profit and loss in accordance with AS 28;*

*(vii) depreciation;*

*(viii) the net exchange differences arising on the translation of the financial statements of a non-integral foreign operation in accordance with AS 11, The Effects of Changes in Foreign Exchange Rates; and*

*(ix) other changes.*

***82. 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.***

83. 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 enterprises. For similar reasons, it is necessary to disclose:

(a) depreciation, whether recognised in the statement of profit and loss or as a part of the cost of other assets, during a period; and

(b) accumulated depreciation at the end of the period.

84. In accordance with AS 5, an enterprise discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;

(c) useful lives; and

(d) depreciation methods.

***85. If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:***

***(a) the effective date of the revaluation;***

***(b) whether an independent valuer was involved;***

***(c) the methods and significant assumptions applied in estimating fair values of the items;***

***(d) the extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;and***

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

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

87. Users of financial statements may also find the following information relevant to their needs:

(a) the carrying amount of temporarily idle property, plant and equipment;

(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and

(d) the carrying amount of property, plant and equipment retired from active use and not held for disposal; and

(e) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, enterprises are encouraged to disclose these amounts.

## Transitional Provisions

***88. The requirements of paragraphs 26-28 regarding the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction should be applied prospectively only to transactions entered into after this Standard becomes mandatory.***

***89. The component approach prescribed in this Standard, i.e., the requirements of this Standard concerning separate depreciation of parts of an item of property, plant and equipment (see paragraphs 45-49) and concerning capitalisation of cost of replacing such parts (see paragraphs 13-14) are applicable in respect of items of property, plant and equipment on the date this standard becomes mandatory.The effect of application of this requirement, if any, should be recognised net-of-tax***

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

***91. In case an entity has not earlier capitalised the costs of dismantling and removing the item of property, plant and equipment and restoring the site on which it is located, on the date of this Standard becoming mandatory, it should make an estimate of the costs of dismantling and removing the item and restoring the site on which it is located and should capitalise the same as per the requirements of this Standard with a corresponding provision created as per the requirements of AS 29, Provisions, Contingent Liabilities and Contingent Assets . In such a case, the depreciation on the incremental amount capitalised should be calculated from the date on which the item was put to use and additional depreciation (as adjusted by any related deferred tax) arising from retrospective computation of depreciation should be adjusted against the opening balance of revenue reserves and surplus.***

***92. The requirements of paragraph 32 and paragraphs 34 – 44 regarding the revaluation model should be applied prospectively. In case, on the date of this Standard becoming mandatory, an enterprise does not adopt the revaluation model as its accounting policy but the carrying amount of item(s) of property, plant and equipment reflects any previous revaluation:***

***(a) the asset which has been revalued may continue at the revalued amount;***

***(b) as the asset is used by the enterprise, the enterprise may transfer out of the revaluation surplus, to the statement of profit and loss, an amount equivalent to the difference between depreciation based on the carrying amount of the revalued asset and the depreciation based on the original cost, for accounting periods not exceeding five accounting periods commencing with the accounting period in respect of which this Standard comes into force. Thus, for the***

***aforesaid accounting periods, the enterprise may not transfer the revaluation surplus in respect of previously revalued asset during the use of the asset as envisaged in paragraph 44. Thereafter, paragraph 44 should be applied.***

***In such a case the enterprise should disclose the fact that the transitional provisions of this Standard are being followed and the revaluations are not up-dated, and give the date of the last revaluation and the amount of the revalued asset.***

## Appendix A

# Comparison with Accounting with Accounting Standard (AS) 10, 'Accounting for Fixed Assets'.

*Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is to bring out the objectives and reasons for the revision to AS 10, Accounting for Fixed Assets and major differences between Accounting Standard (AS)10, Accounting for Fixed Assets (issued 1985) and AS 10 (Revised) Property, Plant and Equipment.*

**Objectives of revision to AS 10 (issued 1985)**

Accounting Standard (AS) 10, ***Property, Plant and Equipment***, has been revised primarily to (i) improve accounting for fixed assets by requiring component based accounting; (ii) clarifying that only those costs that are necessary to be incurred to make the asset available for use in the intended manner; (iii) incorporate changes consequential to the requirements contained in Accounting Standard 29, *Provisions, Contingent Liabilities and Contingent Assets*, in respect of the provision made for costs of dismantling and removing the items and restoring the site on which an asset is located, the obligation for which an entity incurs 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; (iv) improve accounting for spares; and (v) bring about consistency between this standard and other Accounting Standards.

AS 10 (revised) deals with accounting for property, plant and equipment which are covered by pre-revised AS 10, *Accounting for Fixed Assets*. The revised Standard also deals with depreciation of property, plant and equipment which is presently covered by AS 6, *Depreciation Accounting*. Therefore, the major differences mentioned below are between the revised AS 10 and pre-revised AS 10 (1985) and pre-revised AS 6.

1. The scope of AS 10 has been extended to include bearer plants related to agricultural activity. Accordingly, paragraph 3 has been amended and definition of agricultural activity has been included in paragraph 6.

2. The definition of 'property, plant and equipment' given in paragraph 6 has been modified to make it comprehensive as per the international best practices.

3. The revised AS 10, apart from defining the term property, plant and equipment, also lays down the following criteria in paragraph 7, which should be satisfied for recognition of items of property, plant and equipment:

(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.

AS 10 (1985) does not lay down any specific recognition criteria for recognition of a fixed asset. As per the standard, any item which meets the definition of a fixed asset should be recognised as a fixed asset.

4. As per the revised AS 10, initial costs as well as the subsequent costs are evaluated on the same recognition principles to determine whether the same should be recognised as an item of property, plant and equipment. AS 10 (1985), on the other hand, prescribes separate recognition principles for subsequent expenditure. As per AS 10 (1985), subsequent expenditures related to an item of fixed asset are capitalised only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance. (paragraph 10)

5. With regard to accounting for spare parts and stand-by equipments, the existing paragraph 8.2 of AS 10 (1985) requires that stand-by equipment and servicing equipment are normally capitalised. Machinery spares are usually charged to the profit and loss statement as and when consumed. However, if such spares can be used only in connection with an item of fixed asset and their use is expected to be irregular, it may be appropriate to allocate the total cost on a systematic basis over a period not exceeding the useful life of the principal item'. These requirements had given rise to a number of interpretations. The ICAI had, accordingly, issued an Accounting Standard Interpretation (ASI 2), *Accounting for Machinery Spares*. However, the ASI 2 had not been included in the notified AS 10. In view of this, the ICAI had also withdrawn this ASI based on the Council decision in this regard. Paragraph 8 of revised AS 10 has, accordingly, been revised to simplify the accounting for spare parts and stand-by equipments on the lines of IAS 16.

6. Paragraph 9 of the Standard has been amended to specifically recognise ‘unit of measure’ approach, for instance, for recognition of certain expenditure incurred on construction of assets not owned by an enterprise during the construction stage of a project as a part of the aggregate assets constructed in a project and apportioned to the other assets recognised in the balance sheet. However, this does not mean that in all situations an entity would be able to take the benefit of ‘unit of measure’ to capitalise any type of expenditure on assets not owned by an entity over which it does not have control. For example, a road constructed by an entity on government land which is not owned by the enterprise and over which it does not have exclusive control as the road can be used by general public, can be capitalised as a part of the project cost if such a road is constructed to facilitate the construction of the manufacturing plant itself because this cost is considered necessary for the project to be capable of operating in the manner intended. However, in case another road is constructed by the same plant after commencement of operations which is neither owned nor controlled by the entity, it would not be eligible for capitalisation either as a part of the project or as an individual asset.

7. Paragraph 11 has been added to explain the new aspects covered in the definition of ‘property, plant and equipment’, particularly, with regard to the assets held for use for administrative purposes and assets acquired for safety and environmental purposes.

8. The revised AS 10 is based on the component approach. Under this approach, 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 is depreciated separately (paragraph 45). As a corollary, cost of replacing such parts is capitalised, if recognition criteria are met with consequent derecognition of carrying amount of the replaced part. The cost of replacing those parts which have not been depreciated separately is also capitalised with the consequent derecognition of the replaced parts. 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 (paragraphs 13 and 15).

AS 10 (1985), however, does not mandatorily require full adoption of the component approach. It recognises the said approach in only one paragraph by stating that accounting for a tangible fixed asset may be improved if total cost thereof is allocated to its various parts. Apart from this, neither AS 10 (1985) nor AS 6 (1994) deals with the aspects such as separate depreciation of components, capitalising the cost of replacement, etc.

9. The revised AS 10 requires the cost of major inspection costs to be capitalised with the consequent derecognition of any remaining carrying amount of the cost of the previous inspection(paragraph 14). AS 10 (1985) does not deal with this aspect.

10. Accounting Standard 29, '*Provisions: Contingent Liabilities and Contingent Assets*', was issued as a revision of AS 4. This Standard, inter alia, requires creation of a provision in respect of costs of dismantling and removing an item of fixed asset and restoring the site at which it is located, the obligation in respect of which an entity incurs either when the item of fixed asset is acquired or as a consequence of having used the item during a particular period. While AS 29 requires creation of a provision, there is no corresponding treatment prescribed as to where the debit arising on the creation of the provision should go. In this regard, amendments have been made to indicate that where such a provision is made on creation of a fixed asset, the same should form part of the cost of the asset and where provision is made as a consequence of having used the item to produce inventories during that period, the same should be considered as the part of inventories (paragraph 19).

11. With regard to self-constructed assets, the revised AS 10, on the lines of IAS 16, specifically states that the cost of abnormal amounts of wasted material, labour, or other resources incurred in the construction of an asset is not included in the cost of the assets (paragraph 23).

AS 10 (1985) while dealing with self-constructed fixed assets does not mention the same.

12. The revised AS 10 requires an entity to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of property

plant and equipment (paragraph 32). It requires that under revaluation model, revaluation be made with reference to the fair value of items of property plant and equipment. It also requires that 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.

AS 10 (1985) recognises revaluation of fixed assets. However, the revaluation approach adopted therein is ad hoc in nature, as it does not require the adoption of fair value basis as its accounting policy or revaluation of assets with regularity. It also provides an option for selection of assets within a class for revaluation on systematic basis.

13. AS 10 (1985) specifically deals with the fixed assets owned by the entity jointly with others. The revised AS 10 does not specifically deal with this aspect as these would basically be covered by AS 27 as jointly controlled assets.

14. On the lines of IAS 16, paragraph 44 of the revised AS 10 provides that the revaluation surplus included in owners' interest in respect of an item of property plant and equipment may be transferred to the revenue reserves when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an enterprise. In such a case, the amount of the surplus transferred would be the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on its original cost. Transfers from revaluation surplus to the revenue reserves are not made through the statement of profit and loss.

As compared to the above, neither AS 10 (1985) nor AS 6 (1994) deals with the transfers from revaluation surplus. To deal with this aspect, the Institute has issued a *Guidance Note on Treatment of Reserve Created on Revaluation of Fixed Assets*. The Guidance Note provides that if a company has transferred the difference between the revalued figure and the book value of fixed assets to the 'Revaluation Reserve' and has charged the additional depreciation related thereto to its profit and loss account, it is possible to transfer an amount equivalent to accumulated additional depreciation from the revaluation reserve to the profit and loss account or to the general reserve as the circumstances may permit, provided suitable disclosure is made in the accounts. However, the said Guidance Note also recognises that it would be prudent not to charge the additional depreciation arising due to revaluation against the revaluation reserve.

15. On the lines of IAS 16, paragraph 53 of the revised AS 10 requires that change in depreciation method should be considered as a change in accounting estimate and treated accordingly. In AS 6 (1994), it is considered as a change in accounting policy and treated accordingly.

As a consequence, the revised AS 10 requires that 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. In AS 6 (1994), change in depreciation method can be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements.

16. On the lines of IAS 16, paragraph 53 of the revised AS 10 requires that the residual value and useful life of an asset be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with AS 5. Under AS 6 (1994), such a review is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.

17. Paragraphs 66 -69 have been added to explain the accounting for the situations where the cost of a tangible fixed asset undergoes changes subsequent to acquisition or construction on account of changes in liabilities, price adjustments, changes in duties, changes in existing liabilities for dismantling, removing, restoration and similar factors.

18. On the lines of IAS 16, the revised AS 10 requires that compensation from third parties for items of property, plant and equipment should be included in the statement of profit

and loss when the compensation becomes receivable (paragraph 70). AS 10(1985) does not specifically deal with this aspect.

19. On the lines of IAS 16, the revised AS 10 specifically provides that gains arising on derecognition of an item of property, plant and equipment should not be treated as revenue as defined in AS 9. AS 10 (1985) is silent on this aspect(paragraph 75).

20. The disclosure requirements of the revised AS 10 are significantly elaborate as compared to AS 10 (1985)/ AS 6 (1994)(Paragraph 81-87).