

INDAS 16 – PROPERTY, PLANT & EQUIPMENT

(TOTAL NO. OF QUESTIONS – 18)

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RTPs QUESTIONS

Q1 (MAY 18)

A Ltd. purchased some Property, Plant and Equipment on 1st April, 20X1, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS:

Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 20X1:

Property, Plant and Equipment	Original Cost	Estimated useful life
Buildings	Rs 15,000,000	15 years
Plant and machinery	Rs 10,000,000	10 years
Furniture and fixtures	Rs 3,500,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 20X4, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert:

Buildings	10 years
Plant and machinery	7 years
Furniture and fixtures	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

Compute the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 20X4.



SOLUTION

The annual depreciation charges prior to the change in useful life were:

Buildings	$\text{Rs}1,50,00,000/15 =$	Rs 10,00,000
Plant and machinery	$\text{Rs}1,00,00,000/10 =$	Rs 10,00,000
Furniture and fixtures	$\text{Rs } 35,00,000/7 =$	Rs5,00,000
Total =		Rs 25,00,000 (A)

The revised annual depreciation for the year ending 31st March 20X4, would be:

Buildings	$[1,50,00,000 - (10,00,000 \times 3)] / 10$	Rs. 12,00,000
Plant and machinery	$[1,00,00,000 - (10,00,000 \times 3)] / 7$	Rs. 10,00,000
Furniture and fixtures	$[35,00,000 - (5,00,000 \times 3)] / 5$	Rs. 4,00,000
Total =		Rs 16,00,000 (B)

The impact on Statement of Profit and Loss for the year ending 31st March, 20X4 = [A-B]

$$= \text{Rs. } 26,00,000 - \text{Rs. } 25,00,000 = \text{Rs. } 1,00,000$$

This is a change in accounting estimate which is adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected. Accordingly, from 20X4-20X5 onward, excess of Rs1,00,000 will be charged in the Statement of Profit and Loss every year till the time there is any further revision.

Q2 (Nov. 18)

On 1st October, 2017, A Ltd. completed the construction of a power generating facility. The total construction cost was Rs. 2,00,00,000. The facility was capable of being used from 1st October, 2017 but A Ltd. did not bring the facility into use until 1st January, 2018. The estimated useful life of the facility at 1st October, 2017 was 40 years. Under legal regulations in the jurisdiction in which A Ltd. operates, there are no requirements to restore the land on which power generating facilities stand to its original state at the end of the useful life of the facility. However, A Ltd. has a reputation for conducting its business in an environmentally friendly way and has previously chosen to restore similar land even in the absence of such legal requirements. The directors of A Ltd. estimated that the cost of restoring the land in 40 years' time (based on prices prevailing at that time) would be Rs. 1,00,00,000. A relevant annual discount rate to use in any discounting calculations is 5%. When the annual discount rate is 5%, the present value of Rs. 1 receivable in 40 years' time is approximately 0.142. Analyze and present how the above events would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS.

SOLUTION

(All figures are Rs in '000.)

The power generating facility should be depreciated from the date it is ready for use, rather than when it would actually start being used. In this case, the facility should be depreciated from 1st October, 2017.



Although A Ltd. has no legal obligation to restore the piece of land, it does have a constructive obligation, based on its past practice and policies.

The amount of the obligation will be 1,420, being the present value of the anticipated future restoration expenditure ($10,000 \times 0.142$).

This will be recognised as a provision under non-current liabilities in the Balance Sheet of A Ltd. at 31st March, 2018.

As time passes the discounted amount unwinds. The unwinding of the discount for the year ended 31st March, 2018 will be $35.5 = (1,420 \times 5\% \times 6/12)$.

The unwinding of the discount will be shown as a finance cost in the statement of profit or loss and the closing provision will be $1,455.50 = (1,420 + 35.5)$.

The initial amount of the provision is included in the carrying amount of the non-current asset, which becomes $21,420 = (20,000 + 1,420)$.

The depreciation charge in profit or loss for the year ended 31st March, 2018 is $267.75 = (21,420 \times 1/40 \times 6/12)$.

The closing balance included in non-current assets will be $21,152.25 = (21,420 - 267.75)$.

Q3 (Nov 18)

ABC Ltd is setting up a new refinery outside the city limits. In order to facilitate the construction of the refinery and its operations, ABC Ltd. is required to incur expenditure on the construction /development of railway siding, road and bridge. Though ABC Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether ABC Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, how should these items be depreciated and presented in the financial statements of ABC Ltd. as per Ind AS?

SOLUTION

Ind AS 16 states that the cost of an item of property, plant and equipment shall 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.

Further, paragraph 9 provides that the standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances.

Paragraph 16, inter alia, states that the cost of an item of property, plant and equipment comprise 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.

In the given case, railway siding, road and bridge are required to facilitate the construction of the refinery and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits



from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually. It is apparent that the aforesaid expenditure is 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.

In view of this, even though ABC Ltd. may not be able to recognize expenditure incurred on these assets as an individual item of property, plant and equipment in many cases (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project. From this, it can be concluded that, in the extant case the expenditure incurred on these assets, i.e., railway siding, road and bridge, should be considered as the cost of constructing the refinery and accordingly, expenditure incurred on these items should be allocated and capitalised as part of the items of property, plant and equipment of the refinery.

Depreciation

As per paragraph 43 and 47 of Ind AS 16, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of these assets should not exceed that of the asset to which it relates.

Presentation

These assets should be presented within the class of asset to which they relate.

Q4. (Exam - May 19 & May 20 & MTP March 2021 - 6 marks)

Company X performed a revaluation of all of its plant and machinery at the beginning of 2018-2019. The following information relates to one of the machineries:

	Amount (Rs000)
Gross carrying amount	Rs 200
Accumulated depreciation (straight-line method)	Rs 80
Net carrying amount	Rs 120
Fair value	Rs 150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of the 4th year.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation?



SOLUTION

According to Ind AS 16, 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 Ind AS 16.

If the Company opts for option (a), then the revised carrying amount of the machinery will be:

Particulars	W.N.	Amount
Gross carrying amount	$[(200/120) \times 150]$	Rs 250
Net carrying amount		Rs 150
Accumulated depreciation	$(Rs\ 250 - Rs\ 150)$	Rs 100
Plant and Machinery A/c (Gross Block) Dr.		Rs. 50
To Accumulated Depreciation		Rs. 20
To Revaluation Reserve		Rs. 30

If the balance of accumulated depreciation is eliminated as per option (b), then the revised carrying amount of the machinery will be as follows:

Gross carrying amount is restated to Rs 150 to reflect the fair value and Accumulated depreciation is set at zero.

Journal entry

Accumulated Depreciation	Dr.	Rs 80	
To Plant and Machinery A/c (Gross Block)			Rs 80
Plant and Machinery A/c (Gross Block)	Dr.	Rs. 30	
To Revaluation Reserve			Rs. 30

Depreciation

Option a – Since the Gross Block has been restated, the depreciation charge will be Rs25 per annum (Rs250 / 10 years).

Option b – Since the Revalued amount is the revised Gross Block, the useful life to be considered is the remaining useful life of the asset which results in the same depreciation charge of Rs25 per annum as per Option A (Rs150 / 6 years).

Q5. (Nov. 20)

Entity X has a warehouse which is closer to the factory of Entity Y and vice versa. The factories are located in the same vicinity. Entity X and Entity Y agree to exchange their warehouses. The carrying value of warehouse of Entity X is Rs. 1,00,000 and its fair value is Rs. 1,25,000. It exchanges its warehouse with that of Entity Y, the fair value of which is Rs. 1,20,000. It also receives cash amounting to Rs. 5,000. How should Entity X account for the exchange of warehouses?

SOLUTION

In the given case, the transaction lacks commercial substance as the company's cash flows are not expected to significantly change as a result of the exchange because the factories are located in the same vicinity i.e. it is in the same position as it was before the transaction. Hence, Entity X will have to recognise the assets received at the carrying amount of assets given up, i.e. Rs. 1,00,000 being the carrying amount of the existing warehouse of Entity X and Rs. 5,000 received will be deducted from the cost of property, plant and equipment. Therefore, the warehouse of Entity Y is recognised as property, plant and equipment with a carrying value of Rs. 95,000 in the books of Entity X.

Q6. (May. 21)

An entity has the following items of property, plant and equipment:

- Property A – a vacant plot of land on which it intends to construct its new administration headquarters;
- Property B – a plot of land that it operates as a landfill site;
- Property C – a plot of land on which its existing administration headquarters are built;
- Property D – a plot of land on which its direct sales office is built;
- Properties E1-E10 – ten separate retail outlets and the land on which they are built;
- Equipment A – computer systems at its headquarters and direct sales office that are integrated with the point of sale computer systems in the retail outlets;
- Equipment B – point of sale computer systems in each of its retail outlets;
- Furniture and fittings in its administrative headquarters and its sales office;
- Shop fixtures and fittings in its retail outlets.

How many classes of property, plant and equipment must the entity disclose?

SOLUTION

To answer this question, one must make a materiality judgment.

A class of assets is defined as a group of assets of a similar nature and use in an entity's operations.

The nature of land without a building is different to the nature of land with a building.

Consequently, land without a building is a separate class of asset from land and buildings. Furthermore, the



nature and use of land operated as a landfill site is different from vacant land. Hence, the entity should disclose Property A separately. The entity must apply judgment to determine whether the entity's retail outlets are sufficiently different in nature and use from its office buildings, and thus constitute a separate class of land and buildings.

The computer equipment is integrated across the organisation and would probably be classified as a single separate class of asset.

Furniture and fittings used for administrative purposes could be sufficiently different to shop fixtures and fittings in retail outlets. Hence, they should be classified in two separate classes of assets.

Q7. (Nov. 21)

Heaven Ltd. had purchased machinery on 1.4.2X01 for Rs. 30,00,000, which is reflected in its books at a written down value of Rs. 17,50,000 on 1.4.2X06. The company has estimated an upward revaluation of 10% on 1.4.2X06 to arrive at the fair value of the asset. Heaven Ltd. availed the option given by Ind AS of transferring some of the surplus as the asset is used by an enterprise.

On 1.4.2X08, the machinery was revalued downward by 15% and the company also re-estimated the machinery's remaining life to be 8 years. On 31.3.2X10 the machinery was sold for Rs. 9,35,000.

The company charges depreciation on the straight line method.

Prepare machinery accounts in the books of Heaven Ltd. over its useful life to record the above transactions.

SOLUTION

In the books of Heaven Ltd.

Machinery, A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.2X01	To Bank / Vendor	30,00,000	31.3.2X02	By Depreciation (W.N.1)	2,50,000
			31.3.2X02	By Balance c/d	27,50,000
		30,00,000			30,00,000
1.4.2X02	To Balance b/d	27,50,000	31.3.2X03	By Depreciation	2,50,000
			31.3.2X03	By Balance c/d	25,00,000
		27,50,000			27,50,000
1.4.2X03	To Balance b/d	25,00,000	31.3.2X04	By Depreciation	2,50,000
			31.3.2X04	By Balance c/d	22,50,000
		25,00,000			25,00,000
1.4.2X04	To Balance b/d	22,50,000	31.3.2X05	By Depreciation	2,50,000
			31.3.2X05	By Balance c/d	20,00,000
		22,50,000			22,50,000
1.4.2X05	To Balance b/d	20,00,000	31.3.2X06	By Depreciation	2,50,000
			31.3.2X06	By Balance c/d	17,50,000
		20,00,000			20,00,000
1.4.2X06	To Balance b/d	17,50,000	31.3.2X07	By Depreciation (W.N.2)	2,75,000
1.4.2X06	To Revaluation		31.3.2X07	By Balance c/d	16,50,000
	Reserve @ 10%	1,75,000			
		19,25,000			19,25,000
1.4.2X07	To Balance b/d	16,50,000	31.3.2X08	By Depreciation	2,75,000

			31.3.2X08	By Balance c/d	13,75,000
		16,50,000			16,50,000
1.4.2X08	To Balance b/d	13,75,000	1.4.2X08	By Revaluation Reserve (W.N.4)	1,25,000
			31.3.2X09	By Profit and Loss A/c (W.N.5)	81,250
			31.3.2X09	By Depreciation (W.N.3)	1,46,094
			31.3.2X09	By Balance c/d	10,22,656
		13,75,000			13,75,000
1.4.2X09	To Balance b/d	10,22,656	31.3.2X10	By Depreciation	1,46,094
31.3.2X10	To Profit and Loss A/c (balancing figure)	58,438*	31.3.2X10	By Bank A/c	9,35,000
		10,81,094			10,81,094

Working Notes:

1. Calculation of useful life of machinery on 1.4.2X01

Depreciation charge in 5 years = $(30,00,000 - 17,50,000) = \text{Rs. } 12,50,000$

Depreciation per year as per Straight Line method = $12,50,000 / 5 \text{ years} = \text{Rs. } 2,50,000$

Remaining useful life = $\text{Rs. } 17,50,000 / \text{Rs. } 2,50,000 = 7 \text{ years}$

Total useful life = $5 \text{ years} + 7 \text{ years} = 12 \text{ years}$

2. Depreciation after upward revaluation as on 31.3.2X06

Rs.

Book value as on 1.4.2X06 17,50,000

Add: 10% upward revaluation 1,75,000

Revalued amount 19,25,000

Remaining useful life 7 years (Refer W.N.1)

Depreciation on revalued amount = $19,25,000 / 7 \text{ years} = \text{Rs. } 2,75,000 \text{ lakhs}$

3. Depreciation after downward revaluation as on 31.3.2X08

Rs.

Book value as on 1.4.2X08 13,75,000

Less: 15% Downward revaluation (2,06,250)

Revalued amount 11,68,750

Revised useful life 8 years

Depreciation on revalued amount = $11,68,750 / 8 \text{ years} = \text{Rs. } 1,46,094$

4. Amount transferred from revaluation reserve

Revaluation reserve on 1.4.2X06 (A) Rs. 1,75,000

Remaining useful life 7 years

Amount transferred every year $(1,75,000 / 7)$ Rs. 25,000

Amount transferred in 2 years $(25,000 \times 2)$ (B) Rs. 50,000

Balance of revaluation reserve on 1.4.2X08 (A-B) Rs. 1,25,000

5. Amount of downward revaluation to be charged to Profit and Loss Account

Downward revaluation as on 1.4.2X08 (W.N.3) Rs. 2,06,250

Less: Adjusted from Revaluation reserve (W.N.4) (Rs. 1,25,000)

Amount transferred to Profit and Loss Account Rs. 81,250



MTPs QUESTIONS

Q8. (March & October 19 – 10 Marks)

An entity has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on April 1, 2015. The plant has a useful life of 40 years. Its initial cost was Rs. 1,20,000. This included an amount for decommissioning costs of Rs. 10,000, which represented Rs. 70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on March 31. Assume that a market-based discounted cash flow valuation of Rs. 1,15,000 is obtained at March 31, 2018. It includes an allowance of Rs. 11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. On March 31, 2019, the entity estimated that, as a result of technological advances, the present value of the decommissioning liability has decreased by Rs. 5,000. The entity decides that a full valuation of the asset is needed at March 31, 2019, in order to ensure that the carrying amount does not differ materially from fair value. The asset is now valued at Rs. 1,07,000, which is net of an allowance for the reduced decommissioning obligation.

How will the entity account for the above changes in decommissioning liability if it adopts a revaluation model?

SOLUTION

(a) At March 31, 2018:	Rs.
Asset at valuation (1)	1,26,600
Accumulated depreciation	Nil
Decommissioning liability	(11,600)
Net assets	1,15,000
Retained earnings (2)	(10,600)
Revaluation surplus (3)	15,600

Notes:

- (1)** Valuation obtained of Rs. 1,15,000 plus decommissioning costs of Rs. 11,600, allowed for in the valuation but recognised as a separate liability = Rs. 1,26,600.
- (2)** Three years' depreciation on original cost Rs. 1,20,000 \times 3/40 = Rs. 9,000 plus cumulative discount on Rs. 10,000 at 5 percent compound = Rs. 1,600; total Rs. 10,600.
- (3)** Revalued amount Rs. 1,26,600 less previous net book value of Rs. 1,11,000 (cost Rs. 120,000 less accumulated depreciation Rs. 9,000).

The depreciation expense for 2018-2019 is therefore Rs. 3,420 (Rs. 1,26,600 \times 1/37) and the discount expense for 2019 is Rs. 600. On March 31, 2019, the decommissioning liability (before any adjustment) is Rs. 12,200. However, as per estimate of the entity, the present value of the decommissioning liability has decreased by Rs. 5,000. Accordingly, the entity adjusts the decommissioning liability from Rs. 12,200 to Rs. 7,200.

The whole of this adjustment is taken to revaluation surplus, because it does not exceed the carrying amount that would have been recognised had the asset been carried under the cost model. If it had done, the excess would have been taken to profit or loss. The entity makes the following journal entry to reflect the change:



		Rs.	Rs.
Decommissioning liability	Dr.	5,000	
To Revaluation surplus			5,000

As at March 31, 2019, the entity revalued its asset at Rs. 1,07,000, which is net of an allowance of Rs. 7,200 for the reduced decommissioning obligation that should be recognised as a separate liability. The valuation of the asset for financial reporting purposes, before deducting this allowance, is therefore Rs. 1,14,200. The following additional journal entry is needed:

Notes:

		Rs.	Rs.
Accumulated depreciation (1)	Dr.	3,420	
To Asset at valuation			3,420
Revaluation surplus (2)	Dr.	8,980	
To Asset at valuation (3)			8,980

- 1) Eliminating accumulated depreciation of Rs. 3,420 in accordance with the entity's accounting policy.
- 2) The debit is to revaluation surplus because the deficit arising on the revaluation does not exceed the credit balance existing in the revaluation surplus in respect of the asset.
- 3) Previous valuation (before allowance for decommissioning costs) Rs. 1,26,600, less cumulative depreciation Rs. 3,420, less new valuation (before allowance for decommissioning costs) Rs. 1,14,200.

Following this valuation, the amounts included in the balance sheet are:

Asset at valuation	1,14,200
Accumulated depreciation	Nil
Decommissioning liability	(7,200)
Net assets	1,07,000
Retained earnings (1)	(14,620)
Revaluation surplus (2)	11,620

Notes:

- (1) Rs. 10,600 at March 31, 2018, plus depreciation expense of Rs. 3,420 and discount expense of Rs. 600 = Rs. 14,620.
- (2) Rs. 15,600 at March 31, 2018, plus Rs. 5,000 arising on the decrease in the liability, less Rs. 8,980 deficit on revaluation = Rs. 11,620. [15,600 + 5,000 - 8,980]

Q9. (May 20 – 12 Marks)

Flying Airways Ltd is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries.

On 1 April 20X1, the company began the construction of a new production line in its aircraft parts



manufacturing shed.

Costs relating to the production line are as follows:

Details	Amount Rs.'000
Costs of the basic materials (list price Rs.12.5 million less a 20% trade discount)	10,000
Recoverable goods and services taxes incurred not included in the purchase cost	1,000
Employment costs of the construction staff for the three months (April to June)	1,200
Other overheads directly related to the construction	900
Payments to external advisors relating to the construction	500
Expected dismantling and restoration costs	2,000

Additional Information

The construction staff was engaged in the production line, which took two months to make ready for use and was brought into use on 31 May 20X1.

The other overheads were incurred in the two months period ended on 31 May 20X1. They included an abnormal cost of Rs. 3,00,000 caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. At the end of that time Flying Airways Ltd was legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of Rs.2 million mentioned above is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate rate to use in any discounting calculations is 5%. The present value of Re.1 payable in eight years at a discount rate of 5% is approximately Re.0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is Rs.3 million.

The Company computes its depreciation charge on a monthly basis. No impairment of the plant had occurred by 31 March 20X2.

Analyze the accounting implications of costs related to production line to be recognized in the balance sheet and profit and loss for the year ended 31 March, 20X2.

SOLUTION

Statement showing Cost of production line:

Particulars	Amount Rs.'000
Purchase cost	10,000
Goods and services tax – recoverable goods and services tax not included	-
Employment costs during the period of getting the production line ready for use (1,200 x 2 months / 3 months)	800
Other overheads – abnormal costs	600
Payment to external advisors – directly attributable cost	500
Dismantling costs – recognized at present value where an obligation exists (2,000 x 0.68)	1,360
Total	13,260

Carrying value of production line as on 31st March, 20X2:

Particulars	Amount Rs. '000
Cost of Production line	13,260
Less: Depreciation (W.N.1)	(1,694)
Net carrying value carried to Balance Sheet	11,566

Provision for dismantling cost:

Particulars	Amount Rs. '000
Non-current liabilities	1,360
Add: Finance cost (W.N.3)	57
Net book value carried to Balance Sheet	1,417

Extract of Statement of Profit & Loss

Particulars	Amount Rs. '000
Depreciation (W.N.1)	1,694
Finance cost (W.N.2)	57
Amounts carried to Statement of Profit & Loss	1,751

Extract of Balance Sheet

Particulars	Amount Rs. '000
Assets	
Non-current assets	
Property, plant and equipment	11,566
Equity and liabilities	
Non-current liabilities Other liabilities	
Provision for dismantling cost	1417

Working Notes:

1. Calculation of depreciation charge

Particulars	Amount Rs. '000
In accordance with Ind AS 16 the asset is split into two depreciable components: Out of the total capitalization amount of 13,260, Depreciation for 3,000 with a useful economic life (UEL) of four years ($3,000 \times \frac{1}{4} \times 10/12$). This is related to a major overhaul to ensure that it generates economic benefits for the second half of its useful life	625
For balance amount, depreciation for 10,260 with an useful economic life of eight years will be : $10,260 \times \frac{1}{8} \times 10/12$	1,069
Total (To Statement of Profit & Loss for the year ended 31st March 20X2)	1,694

2. Finance costs

Particulars	Amount Rs. '000
Unwinding of discount (Statement of Profit and Loss – finance cost) $1,360 \times 5\% \times 10/12$	57

Q10. (October 21 – 7 Marks)

WLL Ltd. was incorporated on 1st April, 20X1 and follows Ind AS in preparing its financial statements. In preparing its financial statements for financial year ending 31st March, 20X4, WLL Ltd. used these useful lives for its property, plant, and equipment:

Buildings :	15 years
Plant and machinery :	10 years
Furniture and fixtures :	7 years

On 1st April, 20X4, the entity decided to review the useful lives of the property, plant, and equipment. For this purpose it hired external valuation experts. These independent experts certified the remaining useful lives of the property, plant, and equipment of WLL Ltd. on 1st April, 20X4 as

Buildings :	10 years
Plant and machinery :	7 years
Furniture and fixtures :	5 years

WLL Ltd. uses the straight-line method of depreciation. The original cost of the various components of property, plant, and equipment were:

Buildings :	Rs. 1,50,00,000
Plant and machinery :	Rs. 1,00,00,000
Furniture and fixtures :	Rs. 35,00,000

Compute the impact on the statement of profit and loss for the year ending 31st March, 20X5, if WLL Ltd. decides to change the useful lives of the property, plant, and equipment in compliance with the recommendations of external valuation experts. Assume that there were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

SOLUTION

1. The annual depreciation charges prior to the change in estimate were:

Buildings :	Rs. 1,50,00,000 / 15 = Rs. 10,00,000
Plant and machinery :	Rs. 1,00,00,000 / 10 = Rs. 10,00,000
Furniture and fixtures :	Rs. 35,00,000 / 7 = Rs. 5,00,000
Total =	Rs. 25,00,000 (A)

2. The revised annual depreciation for the year ending 31st December, 20X4, would be

Buildings :	[Rs. 1,50,00,000 – (Rs. 10,00,000 × 3)]/10 = Rs. 12,00,000
Plant and machinery :	[Rs. 1,00,00,000 – (Rs. 10,00,000 × 3)]/7 = Rs. 10,00,000
Furniture and fixtures :	[Rs. 35,00,000 – (Rs. 5,00,000 × 3)]/5 = Rs. 4,00,000
Total =	Rs. 26,00,000 (B)

3. The impact on Statement of profit and loss for the year ending 31st March, 20X5
= (B) – (A)



= Rs. 26,00,000 – Rs. 25,00,000

= Rs. 1,00,000

Change in the useful lives of the various items of property, plant and equipment is a change in accounting estimate. Change in accounting estimate is to be adjusted prospectively in the period in which the estimate is amended and, if relevant, to future periods if they are also affected.



QUESTIONS FROM PAST EXAM PAPERS

Q11. (May 18 – 10 Marks)

Stars Ltd. is a multinational entity that owns three properties. All the three properties were purchased on 1st April 2016. The details of purchase price and the market values of the properties are given as follows:

Particulars	Property 1	Property 2	Property 3
	Factory	Factory	Let-out Building
Purchase Price	30,000	20,000	24,000
Market Value (31-03-2017)	32,000	22,000	27,000
Life	10 years	10 years	10 years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are occupied by Stars Ltd, whilst property 3 is let out to a non-related party at a market rent. The management presents all three properties in the balance sheet as 'Property, plant and equipment'. The company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by the Stars Ltd. in relation to these properties is in accordance with relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings.

SOLUTION

(i) For classification of assets

Ind AS 16 'Property, Plant and Equipment' states that Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

As per Ind AS 40 'Investment property', investment property is a property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

According to the facts given in the question, since Property 1 and 2 are used as factory buildings, their classification as PPE is correct. However, Property 3 is held to earn rentals; hence, it should be classified as Investment Property. Thus, its classification as PPE is not correct. Property 3 shall be presented as a separate line item as Investment Property as per Ind AS 1.

(ii) For valuation of assets

Ind AS 16 states that an entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Also, Ind AS 16 states that - if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.



However, for investment property, Ind AS 40 states that an entity shall adopt as its accounting policy the cost model to all of its investment property. Ind AS 40 also requires that an entity shall disclose the fair value of investment property.

Since property 1 and 2 are used as factory buildings, they should be classified under same category or class i.e. 'Factory building'. Therefore, both the properties should be valued either at cost model or revaluation model.

Hence, the valuation model adopted by Stars Ltd. is not consistent and correct as per Ind AS 16.

In respect to property 3 being classified as Investment Property, there is no alternative of revaluation model i.e. only cost model is permitted for subsequent measurement. However, Stars Ltd. is required to disclose the fair value of the investment property in the Notes to Accounts.

(iii) For changes in value on account of revaluation and treatment thereof

Ind AS 16 states that 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 '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. Accordingly, the revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

(iv) For treatment of depreciation

Ind AS 16 states that 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. Accordingly, Stars Ltd. is required to depreciate these properties irrespective of the fact that their fair value exceeds the carrying amount.

(v) Rectified presentation in the balance sheet

As per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet should be as follows:

Case 1: If Stars Ltd. has applied the Cost Model to an entire class of property, plant and equipment.

Balance Sheet extracts as at 31st March 2017

		Rs
Assets		
Non-Current Assets		
<u>Property, Plant and Equipment</u>		
Property 1 (30,000-3,000)	27,000	
Property 2 (20,000 - 2,000)	<u>18,000</u>	45,000
<u>Investment Property</u>		
Property 3 (Fair value being Rs 27,000) (Cost = 24,000-2,400)		21,600

Case 2: If Stars Ltd. has applied the Revaluation Model to an entire class of property, plant and equipment.

Balance Sheet extracts as at 31st March 2017

Rs

Assets		
Non-current Assets		
Property, Plant and Equipment		
Property 1	32,000	
Property 2	<u>22,000</u>	54,000
Investment Properties		
Property 3 (Fair value being 27,000) (Cost = 24,000-2,400)		21,600
Equity and Liabilities		
Other Equity		
Revaluation Reserve *		
Property 1 (32,000 – 27,000)	5,000	
Property 2 (22,000 – 18,000)	<u>4,000</u>	9,000

*Revaluation reserve should be routed through Other Comprehensive Income (OCI) (subsequently not reclassified to Profit and Loss) in the Statement of Profit and Loss and shown as a separate column in the Statement of Changes in Equity.

Q12. (Nov 18 – 8 Marks)

On 1st April, 2017 Good Time Limited purchased some land for Rs1.5 crore (including legal cost of Rs10 lakhs) for the purpose of constructing a new factory. Construction work commenced on 1st May, 2017. Good Time Limited incurred the following costs in relation to its construction

	Rs
Preparation and leveling of the land	4,40,000
Purchase of materials for the construction	92,00,000
Employment costs of the construction workers (per month)	1,45,000
Overhead costs incurred directly on the construction of the factory (per month)	1,25,000
Ongoing overhead costs allocated to the construction project (using the company's normal overhead allocation model) per month	75,000
Costs of relocating employees to work at new factory	3,25,000
Costs of the opening ceremony on 1st January, 2018	
Income received during the temporary use of the factory premises as a store during the construction period.	2,50,000
	60,000

The construction of the factory was completed on 31st December, 2017 and production began on 1st February, 2018. The overall useful life of the factory building was estimated at 40 years from the date of completion.

However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

At the end of the 40 years period, Good Time Limited has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The company estimates that the cost of demolition in 40 years' time (based on price prevailing at that time) will be Rs3 crore. The annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Rs. 1 payable in 40 years' time at an annual discount rate of 8% is 0.046.

The construction of the factory was partly financed. by a loan of Rs. 1.4 crore taken out on 1st April, 2017. The loan was at an annual rate of interest of 9%. During the period 1st April, 2017 to 30th September, 2017 (when the loan proceeds had been fully utilized to finance the construction), Good Time Limited received investment income of Rs1,25,000 on the temporary investment of the proceeds.

You are required to compute the cost of the factory and the carrying amount of the factory in the Balance Sheet of Good Time Limited as at 31st March, 2018.

SOLUTION

Computation of the cost of the factory

Particulars	Rs
Purchase of land	1,50,00,000
Preparation and leveling	4,40,000
Materials	92,00,000
Employment costs of construction workers (1,45,000 x 8 months)	11,60,000
Direct overhead costs (1,25,000 x 8 months)	10,00,000
Allocated overhead costs	Nil
Income from use of a factory as a store	Nil
Relocation costs	Nil
Cost of the opening ceremony	Nil
Finance costs	9,45,000
Investment income on temporary investment of the loan proceeds	(1,25,000)
Demolition cost recognised as a provision (3,00,00,000 x 0.046)	13,80,000
Total	2,90,00,000

Computation of carrying amount of the factory as at 31st March, 2018

Particulars	Land (Non-depreciable asset)	Factory (Depreciable asset)
Cost of the asset (Total cost 2,90,00,000)	1,50,00,000	1,40,00,000
Less: Depreciation On Land	Nil	

<i>On Factory :</i>			
<i>i. Depreciation on roof component (1,40,00,000 × 25% × 1/20 × 3/12)</i>	<i>43,750</i>		
<i>ii. Depreciation on remaining factory (1,40,00,000 × 75% × 1/40 × 3/12)</i>	<i><u>65,625</u></i>		<i>(1,09,375)</i>
<i>Carrying amount of depreciable asset i.e factory</i>		<i>1,50,00,000</i>	<i>1,38,90,625</i>
Total cost			2,88,90,625

Note:

1. Interest cost has been capitalised based on a nine-month period. This is because; purchase of land would trigger off capitalisation.
2. All of the net finance cost of Rs. 8,20,000 (Rs9,45,000 - Rs1,25,000) has been allocated to the depreciable asset i.e. Factory. Alternatively, it can be allocated proportionally between land and factory.

Q13. (Nov. 2019) - Similar to Q.3

M Ltd. is setting up a new factory outside the Delhi city limits. In order to facilitate the construction of the factory and its operations, M Ltd. is required to incur expenditure on the construction/ development of electric-substation. Though M Ltd. incurs (or contributes to) the expenditure on the construction /development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether M Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE)? If yes, then how should these items be depreciated and presented in the financial statements of M Ltd. as per Ind AS?

SOLUTION

As per Ind AS 16, the cost of an item of property, plant and equipment shall 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.

Further, Ind AS 16 does not prescribe what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances.

Ind AS 16, further, states that the cost of an item of property, plant and equipment comprises any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In the given case, electric-substation is required to facilitate the construction of the factory and for its operations. Expenditure on these items is required to be incurred in order to get future economic benefits from the project as a whole which can be considered as the unit of measure for the purpose of capitalisation of the said expenditure even though the company cannot restrict the access of others for using the assets individually.

It is apparent that the aforesaid expenditure is 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.

In view of this, even though M Ltd. may not be able to recognise expenditure incurred on electric-substation as an individual item of property, plant and equipment (where it cannot restrict others from using the asset), expenditure incurred may be capitalised as a part of overall cost of the project.

From this, it can be concluded that, in the extant case the expenditure incurred on electric-substation should be considered as the cost of constructing the factory and accordingly, expenditure incurred on electric-substation should be allocated and capitalised as part of the items of property, plant and equipment of the factory.

Depreciation

As per Ind AS 16, 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 shall be depreciated separately.

Further, Ind AS 16 provides that, if these assets have a useful life which is different from the useful life of the item of property, plant and equipment to which they relate, it should be depreciated separately. However, if these assets have a useful life and the depreciation method that are the same as the useful life and the depreciation method of the item of property, plant and equipment to which they relate, these assets may be grouped in determining the depreciation charge. Nevertheless, if it has been included in the cost of property, plant and equipment as a directly attributable cost, it will be depreciated over the useful lives of the said property, plant and equipment.

The useful lives of electric-substation should not exceed that of the asset to which it relates.

Presentation

Electric-substation should be presented within the class of asset to which they relate ie factory.

Q14. (Nov. 20 FR Old Syllabus - 4 Marks) - Same as Q.8

Grey Ltd. had purchased a machinery on 01.04.2011 for Rs. 30 Lakhs, which is reflected in its books at written down value of Rs. 17.5 lakhs on 01.04.2016. The Company has estimated an upward revaluation of 10% on 01.04.2016 to arrive at the fair value of the asset.

On 01.04.2018, the machinery was revalued downward by 15% and the company also re-estimated the machinery's remaining life to be 8 years. On 31.03.2020 the machinery was sold for Rs. 9,35,000. The company charges depreciation on SLM.

Prepare machinery account in the books of Grey Ltd. to record the above transaction.

SOLUTION

Machinery A/c

Date	Particulars	Amount	Date	Particulars	Amount
1.4.11	To Bank / Vendor	30,00,000	31.3.12	By Depreciation	2,50,000
				(W.N.I)	
			31.3.12	By Balance c/d	27,50,000



		30,00,000			30,00,000
1.4.12	To Balance b/d	27,50,000	31.3.13	By Depreciation	2,50,000
			31.3.13	By Balance c/d	25,00,000
		27,50,000			27,50,000
1.4.13	To Balance b/d	25,00,000	31.3.14	By Depreciation	2,50,000
			31.3.14	By Balance c/d	22,50,000
		25,00,000			25,00,000
1.4.14	To Balance b/d	22,50,000	31.3.15	By Depreciation	2,50,000
			31.3.15	By Balance c/d	20,00,000
		22,50,000			22,50,000
1.4.15	To Balance b/d	20,00,000	31.3.16	By Depreciation	2,50,000
			31.3.16	By Balance c/d	17,50,000
		20,00,000			20,00,000
1.4.16	To Balance b/d	17,50,000	31.3.17	By Depreciation	2,75,000
				(W.N.2)	
1.4.16	To Revaluation Reserve @ 10%	1,75,000	31.3.17	By Balance c/d	16,50,000
		19,25,000			19,25,000
1.4.17	To Balance b/d	16,50,000	31.3.18	By Depreciation	2,75,000
			31.3.18	By Balance c/d	13,75,000
		16,50,000			16,50,000
1.4.18	To Balance b/d	13,75,000	31.3.19	By Revaluation Reserve	1,25,000*
			31.3.19	By Profit and Loss A/c	81,250*
			31.3.19	By Depreciation (W.N.3)	1,46,094
			31.3.19	By Balance c/d	10,22,656
		13,75,000			13,75,000
1.4.19	To Balance b/d	10,22,656	31.3.20	By Depreciation	1,46,094
31.3.20	To Profit and Loss A/c (balancing figure)	58,438*	31.3.20	By Bank A/c	9,35,000
		10,81,094			10,81,094

***Note:** As per para 44 of AS 10 (revised), an entity has an option either to transfer the value of revaluation reserve to revenue reserve on derecognition of the asset. 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.

The above Machinery account is drawn on the basis that some of the surplus is transferred every year as the asset is used by an enterprise. However, if the Machinery account may be prepared on the basis that whole of the surplus will be transferred when the asset is disposed. In such a situation on downward revaluation,

'Revaluation reserve account' will be debited by Rs. 1,75,000 and 'Profit and Loss Account' will be debited by Rs. 31,250.

WORKING NOTES:

1. Calculation of useful life of machinery on 1.4.2011

Depreciation charge in 5 years = (30 lakh - 17.5 lakh)	= Rs. 12.5 lakh
Depreciation per year as per	
Straight Line method = 12.5 lakh/5 years	= Rs. 2.5 lakh
Remaining useful life = Rs. 17.5 lakh / Rs. 2.5 lakh	= 7 years
Total useful life = 5 years + 7 years	= 12 years

2. Depreciation after upward revaluation as on 31.3.2016

Book value as on 1.4.2016	=17.5 lakh
Add: 10% upward revaluation	=1.75 lakh
Revalued amount	19.25 lakh
Remaining useful life 7 years (Refer W.N.1)	
Depreciation on revalued amount = 19.25 / 7 years	= Rs. 2.75 lakh

3. Depreciation after downward revaluation as on 31.3.2018

Book value as on 1.4.2018	=13.75 lakh
Less: 15% Downward revaluation	= (2.0625 lakh)
Revalued amount	11.6875 lakh
Revised useful life 8 years	
Depreciation on revalued amount = 11.6875 / 8 years	= Rs. 1.46094 lakh

Q15. (Jan. 21 - 5 Marks)- (Mix of IndAS 16 & IndAS 40)

On 1st April 2019, an entity purchased an office block (building) for Rs. 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of Rs. 2,50,000 and Rs. 50,000 respectively while acquiring the building.

During 2019, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- Rs. 1,00,000 Building plan approval;
- Rs. 10,00,000 construction costs (including Rs. 60,000 refundable purchase taxes); and
- Rs. 40,000 due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1st October 2019, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above-mentioned expenses in the books of account?

Also, discuss how the above building will be shown in Consolidated financial statement of the entity as a group and in its separate financial statements as per relevant Ind AS.



SOLUTION

In accordance with Ind AS 16, all costs required to bring an asset to its present location and condition for its intended use should be capitalised. Therefore, the initial purchase price of the building would be:

Particulars	Amount Rs.
Purchase amount	50,00,000
Non-refundable property tax	2,50,000
Direct legal cost	50,000
	53,00,000
Expenditures on redevelopment:	
Building plan approval	1,00,000
Construction costs (10,00,000 – 60,000)	9,40,000
Total amount to be capitalised at 1st October 2019	63,40,000

Treatment of abnormal wastage of material and labour:

As per Ind AS 16, 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.

It will be charged to Profit and Loss in the year it is incurred. Hence, abnormal wastage of Rs. 40,000 will be expensed off in Profit & Loss in the financial year 2019-2020.

Accounting of property- Building:

When the property is used as an administrative centre, it is not an investment property, rather it is an 'owner occupied property'. Hence, Ind AS 16 will be applicable.

When the property (land and/or buildings) is held to earn rentals or for capital appreciation (or both), it is an Investment property. Ind AS 40 prescribes the cost model for accounting of such investment property.

Since equal value can be attributed to each floor, Ground Floor of the building will be considered as Investment Property and accounted as per Ind AS 40 and First Floor would be considered as Property, Plant and Equipment and accounted as per Ind AS 16.

Cost of each floor = Rs.63,40,000 / 2 = Rs. 31,70,000

As on 1st October 2019, the carrying value of building vis-à-vis its classification would be as follows:

- (i) In Separate Financial Statements: The Ground Floor of the building will be classified as investment property for Rs. 31,70,000, as it is property held to earn rentals. While First Floor of the building will be classified as item of property, plant and equipment for Rs. 31,70,000.
- (ii) In Consolidated Financial Statements: The consolidated financial statements present the parent and its subsidiary as a single entity. The consolidated entity uses the building for the supply of goods. Therefore, the leased-out property to a subsidiary does not qualify as investment property in the consolidated financial statements. Hence, the whole building will be classified as an item of Property, Plant and Equipment for Rs. 63,40,000.

Q18. (July. 21 - 8 Marks) – Mix of IndAS 16 & IndAS 40

Special Limited is a multinational entity that owns 3 properties. All 3 properties were purchased on 1st April, 2020. The following details were furnished:

Particulars	Property 1	Property 2	Property 3
Purchase Price	Rs. 7,50,000	Rs. 10,50,000	Rs. 12,00,000
Estimated life	10 years	15 years	15 years
Fair value as on 31 st March, 2021	Rs. 8,00,000	Rs. 9,50,000	Rs. 13,00,000

The Company uses Property 1 and Property 2 for its business purposes. The Company is exploring the opportunity to sell Property 3 if it gets reasonable consideration. Till the time it is not sold, the Company has rented the property.

It has adopted revaluation model for subsequent measurement of these properties. The depreciation is charged on straight line method. However, the Company has not charged any depreciation on Property 1 and Property 3 for the current year since the fair value of properties exceeds their carrying amount. The difference between their fair value and carrying amount has been recognized in the statement of profit and loss. The properties are shown under the head property, plant and equipment in the Balance Sheet.

Analyze whether the accounting policies adopted by the Company in relation to the given properties are in accordance with Ind AS. If not, advise the correct treatment and present an extract of the Balance Sheet for the year ended 31st March 2021.

SOLUTION

(a) Preamble:

The given issue needs to be examined in the umbrella of the provisions given in Ind AS 1 'Presentation of Financial Statements', Ind AS 16 'Property, Plant and Equipment' in relation to property '1' and '2' and Ind AS 40 'Investment Property' in relation to property '3'.

Guidance given in relevant Ind AS:

1. Property '1' and '2'

Definition and applicability:

As per Ind AS 16, Property plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services or for administrative purposes; and
- (b) are expected to be used during more than one period.

Hence, property 1 and 2 are held for use in the business, therefore Ind AS 16 shall apply in respect of these two properties.

Accounting Principles:

- 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.

If an asset's carrying amount is decreased as a result of revaluation, the decrease shall be recognised in profit and loss statement.



2. Property '3'

Definition and applicability:

As per Ind AS 40, Investment property is property held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production of goods or services or for administrative purposes; or
- Sale in the ordinary course of business.

Therefore, property 3 is an investment property and company shall follow cost model for its subsequent measurement.

Accounting Principles:

- An entity shall adopt as its accounting policy the cost model to all of its investment property; and (Refer paragraph 30 of Ind AS 40)
- requires that an entity shall disclose the fair value of investment property. (Refer paragraph 79 (e) of Ind AS 40)

Further, paragraph 54 (2) of Ind AS 1 'Presentation of Financial Statements' requires that as a minimum, the balance sheet shall include line items that present the following amounts:

- Property, Plant and Equipment
- Investment Property.

Analysis:

As per the facts given in the question, Special Ltd. has

- Presented all three properties in balance sheet as 'property, plant and equipment';
- Not charged depreciation to Property '1' and '3';
- Upward revaluation is recognised in the statement of profit and loss as profit; and
- Applied revaluation model to Property '3' being classified as Investment

Property.

The above accounting treatment is neither correct nor in accordance with provision of Ind AS 1, Ind AS 16 and Ind AS 40.

Accordingly, Special Ltd. shall depreciate Property 1 irrespective of the fact that, their fair value exceeds the carrying amount. The revaluation gain shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

There is no alternative of revaluation model in respect to property '3' being classified as Investment Property and only cost model is permitted for subsequent measurement. However, Special Ltd. is required to disclose the fair value of the property in the Notes to Accounts. Further, Property '3' shall be presented as separate line item as Investment Property and depreciation should be charged on it as well. Therefore, as per the provisions of Ind AS 1, Ind AS 16 and Ind AS 40, the presentation of these three properties in the balance sheet will be as follows:

Balance Sheet (extracts) as at 31st March, 2021

Assets		Rs.
Non-Current Assets		
Property, Plant and Equipment		
Property '1'	8,00,000	



Property '2'	9,50,000	17,50,000
Investment Properties		
Property '3' (1,200,000 - 80,000)		11,20,000
Equity and Liabilities		
Other Equity		
Revaluation Reserve		
Property '1'	[8,00,000 - (7,50,000 - 75,000)]	1,25,000

The revaluation reserve should be routed through Other Comprehensive Income (subsequently not reclassified to Profit and Loss) and shown in a separate column under Statement of Changes in Equity.

Working Notes:

Particulars	Property 1	Property 2	Property 3
Purchase Price	Rs. 7,50,000	Rs. 10,50,000	Rs. 12,00,000
Estimated Life	10 years	15 years	15 years
Depreciation for the year	Rs. 75,000	Rs. 70,000	Rs. 80,000
Carrying Value as on 31st March, 2021	Rs. 6,75,000	Rs. 9,80,000	Rs. 11,20,000
Fair Value as on 31st March, 2021	Rs. 8,00,000	Rs. 9,50,000	Rs. 13,00,000
Subsequent Measurement Revaluation Surplus / (Deficit)	Fair Value Rs. 1,25,000	Fair Value (Rs. 30,000)	Cost