

B.Com (Semester VI)
FRFSA

IND AS 16 – PROPERTY PLANT AND EQUIPMENT (PPE)

OBJECTIVE

- 1) Treatment to be followed in respect of Property Plant and Equipment (PPE).
- 2) It gives the required information about the entity's investment in PPE.
- 3) This standard gives the guidance about the recognition of the assets, carrying amount, depreciation to be charged and the impairment losses.

SCOPE

This standard does not apply to :

- PPE held for sale (Ind AS 105)
- Biological Assets relating to agricultural activity except bearer plant (Ind AS 41).
- Exploration and Evaluation Assets (Ind AS 106).
- Minerals Rights and Mineral Resources.

DEFINITIONS

- 1) **PPE**: tangible assets held for:

- use in the production or supply of goods and services.
- rental to others.
- administrative purposes.

- 2) **BEARER PLANT**:

- a living plant.
- use in the production and supply of agricultural produce.
- expected to bear produced more than one period .
- remote likelihood of being sold as agricultural produce except scrap sale.

- 3) **CARRYING AMOUNT**:

Amount at which an asset is recognised – accumulated depreciation – accumulated impairment losses.

- 4) **DEPRECIATION AMOUNT**

Cost of Asset – Residual Value

- 5) **DEPRICIATION**

Allocation over useful life

- 6) **ENTITY SPECIFIC VALUE**

Present Value of Cash flow from continuous use of an asset and its disposal at the end of its useful life.

- 7) **FAIR VALUE**

Price of the asset to be received during sale between market participants

8) IMPAIRMENT LOSS

Carrying Amount – Recoverable Amount

9) RESIDUAL VALUE

Amount that an entity would currently obtain from disposal of the asset.

10) USEFUL LIFE

Period over which an asset is expected to be available for use.

RECOGNITION

Cost of PPE can be recognised if:

- a) It is probable that future economic benefits associated will flow to the entity.
- b) Cost can be measured reliably.

Items such as spare parts, standby equipments are recognised when they meet the definition of PPE, otherwise classified as inventory.

MEASUREMENT OF PPE

At cost (for all items of PPE)

ELEMENT OF COST

- a) Purchase Price including import duty and non-refundable Purchase tax.
- b) Cost directly attributable to bring the asset to the present location and condition.
- c) Cost of dismantling, removing and restoring.

MEASUREMENT AFTER RECOGNITION (TWO ALTERNATIVES)

1) COST MODEL:

- After recognition, PPE shall be carried at cost less any accumulated depreciation and any accumulated impairment losses.

2) REVALUATION MODEL:

- An item of PPE may be carried at a revalued amount i.e FV at the date of revaluation (-) subsequent accumulated depreciation (-) subsequent accumulated impairment losses.
- Fair Value should be measured reliably.

Example 1

ABC installed a new plant for production. The following costs are incurred:

	Rs.
Cost of Plant	5,00,000
Installation charges	50,000
Initial delivery charges	10,000
Fees paid for consultancy	20,000
Interest on loan taken for acquiring the plant	1,00,000
Cost of dismantling after 10 years	30,000

Solution

	Rs.
Cost of plant	5,00,000
Installation charges	50,000
Initial delivery charges	10,000
Fees paid for consultancy	20,000
Interest on loan taken for acquiring the plant	1,00,000
Cost of dismantling after 10 years	<u>30,000</u>
Qualifies to be capitalised	<u>7,10,000</u>

Example 2

On 1st April 2016, P Ltd. purchased an asset for Rs. 40,00,000. Estimated life is 8 years and depreciation is charged on Straight Line Method. On 1st April 2019 the asset is revalued to Rs. 36,00,000. The useful life of the asset remain unchanged at 8 years. Show the treatment under Ind AS 16.

Solution

	Rs.	Rs.
Revalued amount		36,00,000
<u>Carrying amount on 1.4.2019:</u>		
Original amount	40,00,000	
<u>Less: Accumulated depreciation</u> (Rs.40,00,000 x 3/ 8)	<u>15,00,00</u>	<u>25,00,000</u>
Reserve & Surplus		<u>11,00,000</u>

Additional Depreciation

	Rs
Actual depreciation for 19-20 on revalued amount (Rs.36,00,000/5)	7,20,000
Depreciation for 19-20 on historical cost (Rs.40,00,000/8)	<u>5,00,000</u>
Additional depreciation	<u>2,20,000</u>

During the year 19-20, depreciation of Rs. 2,72,000 shall be charged to P/L A/c. The Reserve & Surplus to the extent of Rs. 2,20,000 transferred to Retained Earnings.(in the statement of changes in equity).

- | | | |
|-----------------------------|----|-------------|
| 1) Asset A/c | Dr | Rs 2,20,000 |
| To Reserve & Surplus | | Rs 2,20,000 |
| 2) Profit & Loss A/C | Dr | Rs 7,20,000 |
| To Accumulated depreciation | | Rs 7,20,000 |
| 3) Reserve & Surplus A/C | Dr | Rs 2,20,000 |
| To Retained Earning | | Rs 2,20,000 |

Example 3

A Ltd acquired a Machine on 1st April 2017 for Rs. 4,00,000 and installed in 1st August 2017. In 19-20 the company decided to change the method of depreciation from SLM to DBM @ 20%. Calculate the depreciation for the year 19-20, 20-21 assuming the life of the machine is 10 years.

Solution

<u>Particulars</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
Carrying amount at the beginning	4,00,000	3,73,333	3,33,333	2,66,666
Less: Depreciation for the year	<u>26,667</u>	<u>40,000</u>	<u>66,667</u>	<u>53,333</u>
Carrying amount at the end of the year	<u>3,73,333</u>	<u>3,33,333</u>	<u>2,66,666</u>	<u>2,13,333</u>

WN

$$\begin{aligned} \text{Annual depreciation} &= \frac{\text{Rs. } 4,00,000}{10 \text{ yrs.}} \\ &= \text{Rs. } 40,000 \end{aligned}$$

But the asset put to use on August 2017, hence depreciation for 2017-18 will be charged for 8 months ($\frac{\text{Rs. } 40,000 \times 8}{12}$) = Rs.26,667.

12

De recognition of PPE:

- 1) An item of PPE is derecognised i.e, eliminated from the balance sheet when such asset is disposed of and no further economic benefit is expected to flow to the entity.
- 2) Gain or Loss on disposal of an asset is calculated with respect to carrying amount.
- 3) Gain or Loss from de recognition of an asset is not included in the Revenue but in the P/L statement.

Disclosures:

- 1) Gross carrying amount should be used as measurement base.
- 2) Method of depreciation.
- 3) Useful life of depreciable asset and depreciation rate.
- 4) Whether the asset is pledged.
- 5) Carrying amount of any item of PPE remain idle.

Ind AS-33 EARNING PER SHARE

Meaning :

Earning per share is the ratio of earning available to Equity shareholders to total number of equity shares. Therefore it indicates the earning per equity share.

Objective:

- Prescribes the principle for determining the method and presentation of EPS.
- Helps in comparing between different companies with regard to performance.
- Helps in the comparison of performance of the same company in different reporting periods.

Definitions

- 1) **Anti dilution:** Anti dilution refers to an increase in the earning per share or a reduction in loss per share resulting from the assumption that the convertible instruments are converted, options or warrants are exercised or the ordinary shares are issued upon fulfilment of specified condition.
- 2) **Dilution:** Dilution is the reduction in the earning per share or increase in loss per share resulting from the assumption that the convertible instruments are converted, options or warrants are exercised or the ordinary shares are issued upon fulfilment of specified conditions.
- 3) **Potential Ordinary Shares:** It refers to a potential ordinary shares in a financial instrument or other contract that may allow its holders to ordinary shares.
- 4) **Basic Earning per share:**

$$\frac{\text{Profit or Loss attributable to Equity Shareholders}}{\text{Weighted Average Number of Equity Shares}}$$

Example 1

From the following information given by S Ltd, calculate Basic EPS and Diluted EPS as per Ind AS 33.

Net Profit for the current year	Rs. 5,00,00,000
No. of Equity shares outstanding	100,00,000
No. Of 12 % Convertible Debentures of Rs 100 each	1,00,000
Each Debenture of converted into 8 Equity shares	
Interest Expense for the Current year	Rs. 12,00,000
Tax savings relating to interest expense	Rs.3,60,000

Solution:

Calculation of Basic EPS and Diluted EPS:

<u>Particulars</u>	<u>Basic EPS</u>	<u>Diluted EPS</u>
Net Profit for the Current year	Rs. 500,00,000	Rs.500,00,000
Adjustment after tax interest expense on conversion of Debenture (Rs.1200000-Rs.3,60,000)	-	Rs. 8,40,000
(A)	Rs. 500,00,000	Rs. 508,40,000
No. Of Equity Shares outstanding	1,00,00,000	1,00,00,000
No. Of Potential Equity Shares (1,00,000 x8)	-	8,00,000
Weighted Average no. Of Equity Shares (B)	1,00,00,000	1,08,00,000
EPS (A/B)	Rs.5.00	Rs.4.71

Example 2

Y Ltd has the following capital Structure as on 31.3.2019:

20 Lakh equity shares @ Rs.10 each	Rs. 200.00 lakh
1Lakh 10 % Cumulative Redeemable Pref. Shares@ Rs.10 each	Rs.10 lakh
Dividend Distribution Tax	17 %
Profit Before Tax before charging Pref Dividend	Rs.400 lakh

Current Tax
Deferred Tax

Rs.2 lakh
Rs. 1 lakh

Assuming Preference dividend has not been declared.

Find out Earnings Available to Equity Shareholders and Basic Earnings.

Solution:

Computation of Earnings Available to Equity Shareholders

<u>Particulars</u>	<u>Rs.(Lakh)</u>
Profit before Tax	400,00,000
Less: Adjustment of Pref. Shares	1,00,000
Less: Dividend Distribution Tax	<u>17,000</u>
Adjusted Profit before Tax	3 9 8,83,000
Less: Current Tax	2,00,000
Less: Deferred Tax	<u>1,00,000</u>
Earnings Available to Equity Shareholders	<u>395,83,000</u>

Basic Earning per share = $\frac{\text{Rs. } 395,83,000}{20,00,000}$

= Rs. 19.80