

Treatise on Ind AS

Explained with Practical Examples and MCQs



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Updated with
Companies (Indian
Accounting Standards)
Amendment Rules,
2020 notified
by MCA on
July 24, 2020

Key Features

- Comprehensive commentary on Ind AS with conceptual explanations, practical case studies and examples.
- Question Bank of around 1,000 MCQs with detailed analysis covering all Ind AS.
- Overview and applicability/ roadmap for implementation of Ind AS in the form of FAQs.
- Includes commentary on Ind AS 115 on Revenue and Ind AS 116 on Leases along-with practical examples and case studies.
- Complex Ind AS such as Financial Instruments, Business Combination, Consolidation, Revenue, Leases, etc. explained in a lucid language with practical examples and case studies.
- Covering practical issues based on ITFG bulletins and education material.
- Detailed comparison of Ind AS, Indian GAAP, IFRS and ICDS.

B L O O M S B U R Y

For Ind AS compliant Annual reports of NIFTY
50 Companies for FY 2019-20 refer:
<https://bit.ly/AmReplMfy50>

Bloomsbury Professional India

Ind AS 16: Property, Plant and Equipment and Ind AS 40: Investment Property

Organized by-
Association of Professionals (AOP)
CA. Sangam Aggarwal

Wednesday, September 09, 2020
@6PM

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Contributed in comprehensive book *“Treatise on Ind AS”*

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Define- PPE





Define- Investment Property



Rather than for

- Use in the production or supply or for admin purposes, or
- Sale in the ordinary course of business



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Examples - Investment Property

Land held for long-term capital appreciation.

Land held for a currently undetermined future use.
(Owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

A building leased out under one or more operating leases.

A building that is vacant but is held to be leased out under one or more operating leases.

Property that is being constructed or developed for future use as investment property.

Examples – Not Investment Property

Property held for sale
in the ordinary
course of business
(Ind AS 2)

Property that is
leased to another
entity under a
finance lease

Owner-occupied
property (Ind AS 16)

Applicable Guidance

PPE

- AS 10: Property, Plant and Equipment
- Ind AS 16 : Property, Plant and Equipment
- Schedule II of the Companies Act, 2013

Investment Property

- AS 13: Accounting for Investments
- Ind AS 40: Investment Property
- Schedule II of the Companies Act, 2013

Land and/or Building: PPE or Investment Property?

A property comprise a portion of PPE and another portion of Investment Property:

Separate Recognition possible: If the portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately.

Separate Recognition not possible: If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Ancillary Services to the occupants of a property:

If the services are insignificant: Investment Property (e.g. security services to lessees to occupy the property)

If the services are significant: PPE (e.g. owner of a hotel managing and provides services to the guests)

Out of Scope:

1. Held for Sale-105
2. Biological assets except bearer plants-41
3. Exploration and evaluation assets-106
4. Mineral rights and mineral reserves

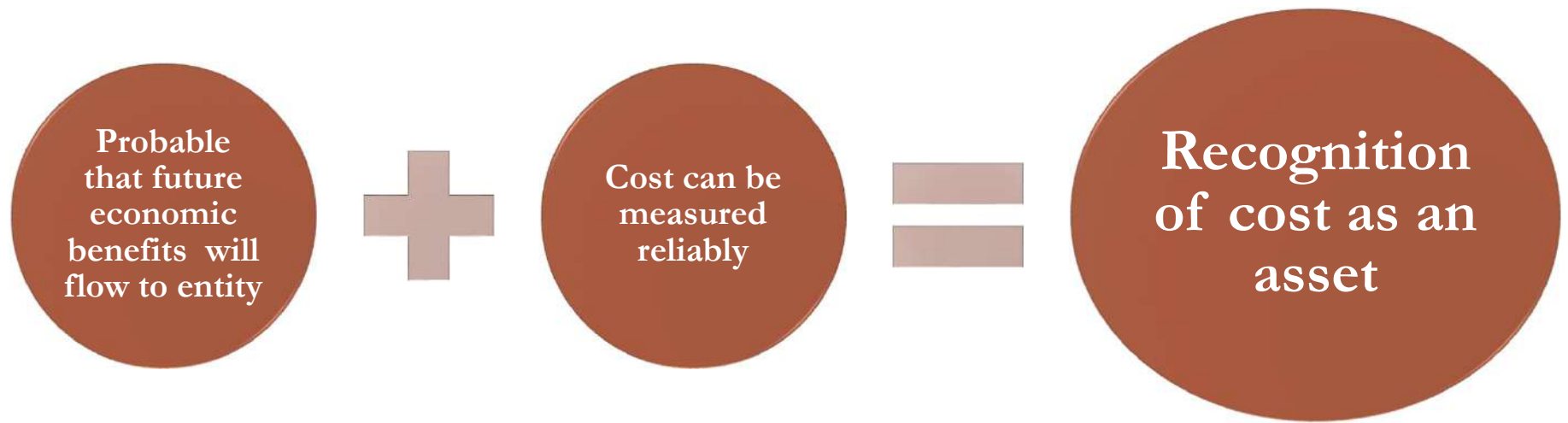
Ind AS 16 will be applicable to PPE which are used to develop or maintain the above assets.

Spare parts, Standby Equipments and Servicing equipment

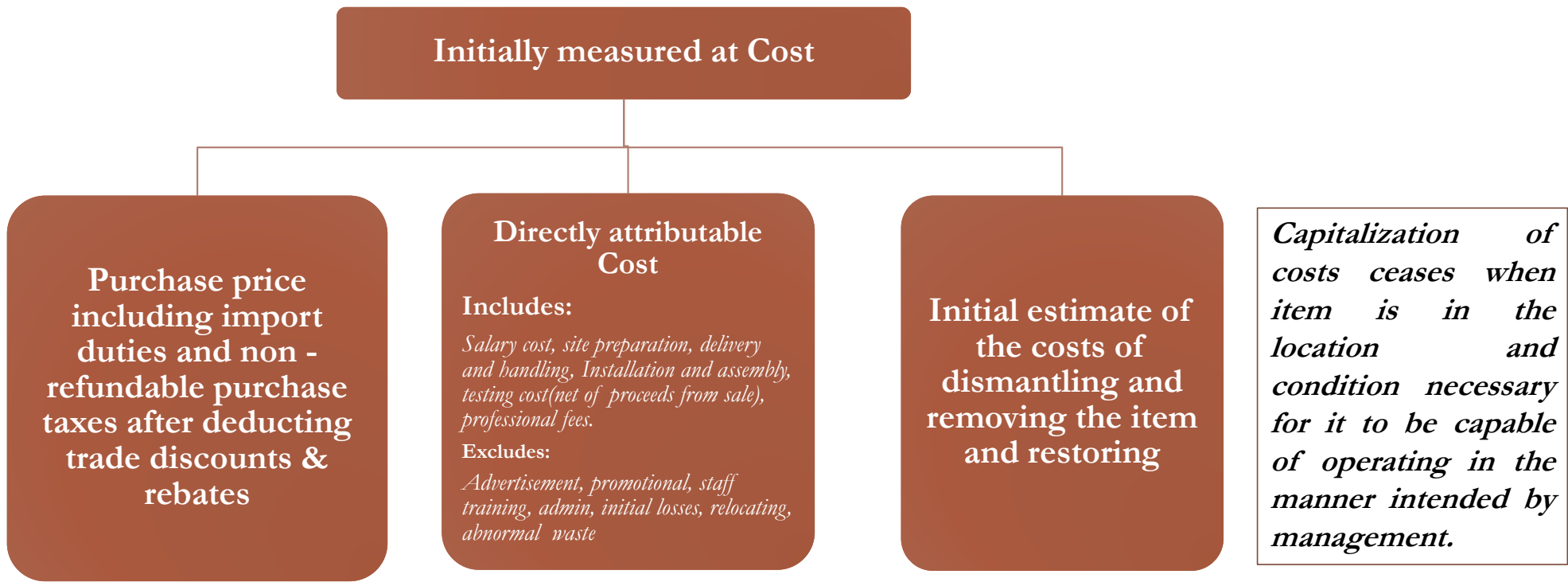
Recognition
criteria met/
PPE -Ind AS 16

Otherwise
Inventory
Ind AS 2

Recognition criteria



Initial measurement at Cost



Subsequent Costs

Repair and Maintenance Cost:

Day to day servicing cost which includes labour and consumables needs to be expensed off

It can be in the form of Replacement Cost, Major Inspections, Overhauls etc.

Subsequent Costs -Replacement of Parts/Major Inspection/Overhaul

The carrying amount of an item recognises the cost of replacing a part/ major inspection if the recognition criteria are satisfied

The remaining carrying amount of replaced parts/previous inspection is derecognised.

Deferred Payment credit

Cost of an item of PPE/IP is the cash price equivalent at the recognition date.

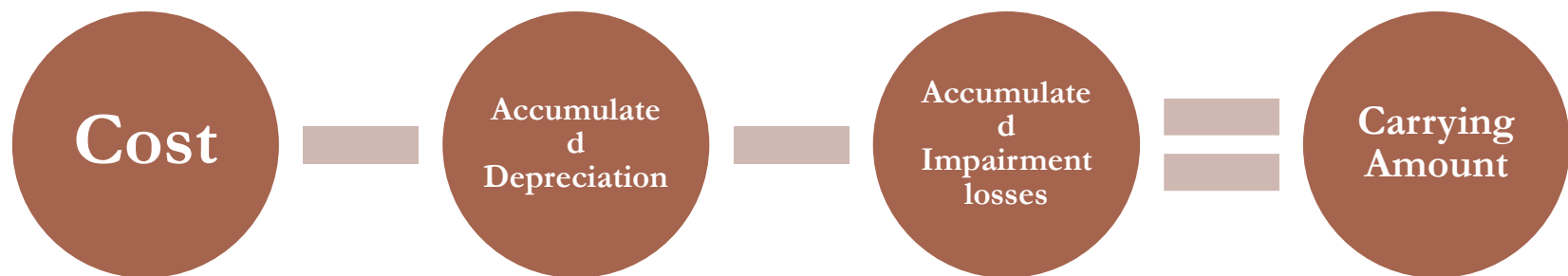
In case payment is deferred beyond normal credit terms:

Difference between the cash price equivalent and total payment is recognised as interest over the period of credit unless such interest is capitalized as per Ind AS 23.

Subsequent Measurement

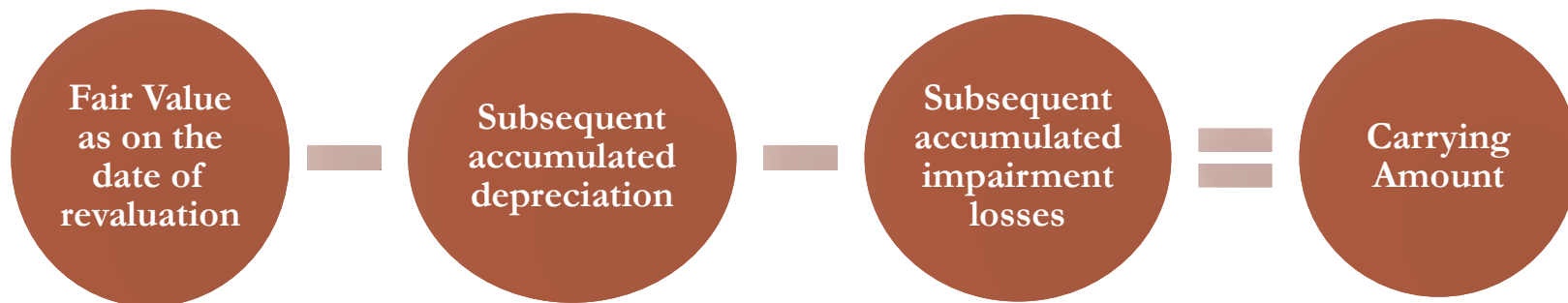
Ind AS 16: PPE	Ind AS 40: Investment Property
<p>Choose either Cost model or Revaluation model.</p> <p>Accounting policy should be applied to the whole of a class of PPE and not merely to individual assets within a class.</p>	<p>Only Cost model</p> <p>Fair value model for investment property is not permitted but the fair value is required to be disclosed.</p> <p>(Carve out/ Removal of option in Ind AS 40)</p>

Cost model



Revaluation Model

✓ After initial recognition, PPE to carried at revalued amount, being its **fair value** at the revaluation date.



✓ If a **single item** of PPE is revalued, then the **entire class** of PPE to which that item belongs should be revalued.

✓ Class of assets : *a grouping of assets of a similar nature and use in an entity's operations*

Examples of different 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

Revaluation gains and losses

Particulars	Increase		Decrease	
First-time	Revaluation reserve (OCI)		P&L	
Subsequent	Increase	Decrease	Increase	Decrease
	Revaluation reserve (OCI)	First adjust from RR, then excess in P&L	First charged to P&L to the extent of earlier debit, then remaining to RR	P&L

Transfers from revaluation surplus to retained earnings are made in following circumstances and are not made through profit or loss:

1. When the asset is derecognized, and
2. When the asset is used: Diff between depreciation based on revalued carrying amount and asset's original cost

Depreciation

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

Depreciation charges should be recognised as an expense unless they are included in the carrying amount of another asset.

Depreciation

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 is charged till point, residual value is greater than and equal to carrying amount.

Depreciation ceases when an asset is **derecognized** or **held for sale under Ind AS 105**.

Depreciation **does not stop** automatically **when an asset is idle or is retired from active use**.

However, under Unit of production method depreciation may be zero when there is no production. (For example in Covid-19 lockdown period)

Depreciation Method

SLM – Constant charge
WDV – Diminishing charge
Units of Production– Charge based on expected outputs

Depreciation method shall be reviewed at each year end and change in method is accounted for as a change in an accounting estimate. (Ind AS 8)

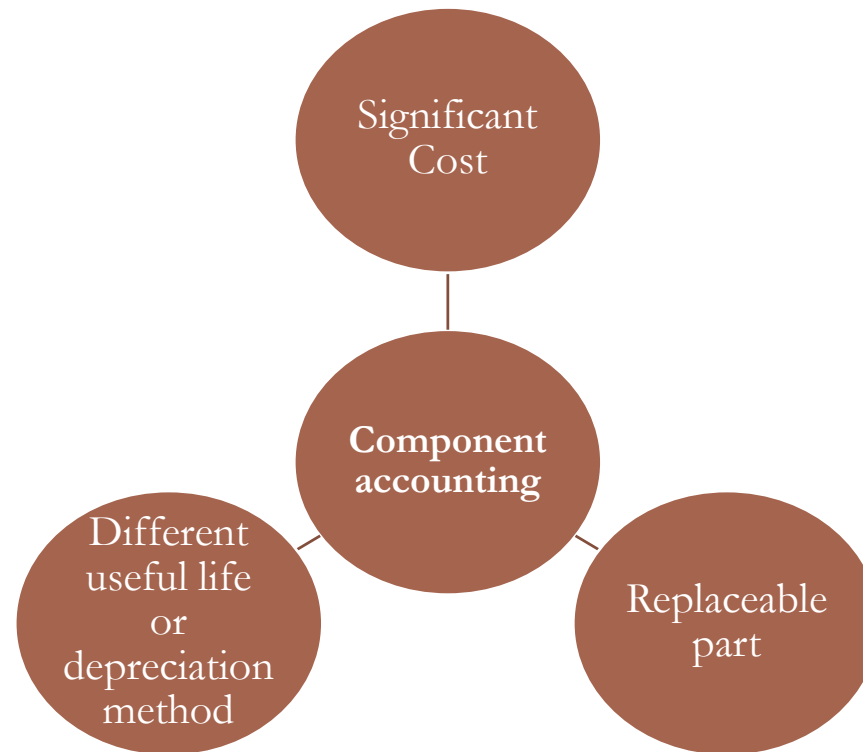
Depreciation method is asset specific and is applied consistently from period to period unless there is a change in expected pattern of consumption of the future economic benefits

Component Approach – Key Consideration

- Each major part of an item of PPE with cost being significant in relation to total cost of the item – should be depreciated separately.
- If different significant parts have same useful life and depreciation method: such parts may be grouped for determining depreciation charge.

Component Approach – Key Consideration

Separately recognised and depreciated separately



Change in estimate of useful life and RV

Useful life and residual value are to be reviewed at every year end.

If there is any change in Useful life/ RV, the same is treated as changes in estimates and accounting will be done prospectively.

Future annual depreciation will be revised basis the new useful life.

Land and Building

Accounted for separately,
even when acquired
together

Land has unlimited useful
life and hence is not
depreciated.

Buildings have limited
useful life and hence is
depreciated.

If the cost of land includes
costs of site
dismantlement, removal
and restoration- that part is
depreciated over the period
of benefits of that cost.

Investment Property <> PPE <> Inventory

Transfer From	Transfer to	Deemed Cost
Owner Occupied (Ind AS 16)	Investment Property	Carrying value
Inventory (Ind AS 2)	Investment Property	Carrying value
Investment Property	Owner Occupied (Ind AS 16)	Carrying value
Investment Property	Inventory (Ind AS 2)	Carrying value

Retirements and disposals

The carrying amount of an item of PPE/IP shall be derecognised:

- on disposal (by sale or by entering into a finance lease)
- when no future economic benefits are expected from its use or disposal.

Amount of Gain or Loss on dereognition:

- Difference between the net disposal proceeds and the carrying amount of the asset
- Recognised in P&L
- Not classified as Revenue.

Thank You!

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