AS-10 Property, Plant and Equipment

Question 1: What are "Special Fixed Assets" (or special categories of items) recognized under AS 10, and how are they accounted for?

Answer:

As per AS 10 (Property, Plant and Equipment), certain unique assets have specific criteria for recognition and accounting. The key categories are:

1. Bearer Plants

- **Definition**: A living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than 12 months, and has a remote likelihood of being sold as agricultural produce (except for incidental scrap sales).
- Examples: Tea bushes, grapevines, rubber trees, and oil palms.
- **Accounting Treatment**: They are treated **exactly like self-constructed items of PPE** under AS 10. They are accumulated at cost until they reach maturity, after which they are depreciated over their useful lives. *(Note: The agricultural produce growing on bearer plants is governed by separate inventory/agricultural guidelines, not AS 10)*.

2. Spare Parts, Stand-by Equipment, and Servicing Equipment

- **Accounting Treatment**: These items are capitalized as PPE if they meet the general definition of PPE (i.e., held for use in production/administration and expected to be used for more than 12 months).
- **Expense Rule**: If they do not meet these criteria, they are classified as inventory under AS 2 and charged to the Profit & Loss statement upon consumption.

3. Significant Components (Component Accounting)

- **Accounting Treatment**: If an item of PPE has components with significantly different useful lives or cost patterns, each major part must be treated as a separate asset.
- Example: An aircraft fuselage and its jet engines must be separated and depreciated independently over their respective useful lives.

Question 2: Explain the core objective, scope, and recognition criteria of Accounting Standard 10 (Property, Plant and Equipment).

Answer:

1. Core Objective

The primary objective of **AS 10** is to prescribe the accounting treatment for Property, Plant, and Equipment (PPE) so that financial statement users can get information about an enterprise's investment in its physical assets and the changes in such investments.

2. Recognition Criteria

An item must be recognized as an asset under AS 10 if and only if it satisfies **both** of the following conditions:

- It is probable that **future economic benefits** associated with the item will flow to the enterprise.
- The **cost** of the item can be measured reliably.

3. Scope Exclusions (What AS 10 does NOT cover)

Students must remember that AS 10 applies to all PPE except:

- **Biological Assets** (other than bearer plants) related to agricultural activity (e.g., livestock, growing crops).
- **Wasting Assets** including mineral rights and the exploration/extraction of minerals, oil, natural gas, and similar non-regenerative resources.

Question 3: What are the mandatory disclosure requirements for an enterprise under AS-10?

Answer:

As per AS 10, the financial statements must explicitly disclose the following details for each distinct class of Property, Plant, and Equipment:

1. Measurement and Depreciation Policies

- **Measurement Bases**: Whether the asset class is carried using the **Cost Model** or the **Revaluation Model**.
- **Depreciation Methods**: The mathematical method used to allocate depreciation (e.g., Straight-Line Method [SLM] or Written Down Value [WDV]).
- **Useful Lives / Rates**: The specific useful lifespan or the depreciation rates applied to those asset groups.

2. Gross Book Value and Quantitative Reconciliation

A tabular reconciliation connecting the **Opening Gross Balance** to the **Closing Gross Balance** showing:

- **Additions** (New acquisitions or expansions).
- **Disposals / Retirements** (Assets sold or taken out of service).
- **Acquisitions** obtained through business combinations/mergers.
- **Impairment Losses** recognized or reversed during the financial period.

3. Restrictions and Commitments

- **Restricted Titles**: The existence and quantitative carrying amounts of assets whose ownership titles are restricted.
- **Pledged Assets**: PPE explicitly pledged as collateral/security against corporate borrowings.

- **Capital Commitments**: The value of outstanding contractual commitments made for the future acquisition of PPE.

Question 4: State the accounting rules and treatment for the Revaluation of Fixed Assets as per AS 10.

Answer:

When an enterprise opts to revalue its assets under the Revaluation Model, it must strictly comply with the following framework mandated by **AS 10**:

1. Rules

- An enterprise cannot selectively revalue individual items of equipment or buildings.
- If a single asset is revalued, the **entire class of PPE** to which that asset belongs must be revalued simultaneously to prevent arbitrary cherry-picking of highly valued assets.

2. Revaluation of Assets(Increase in Value)

- **General Rule**: The net increase must be credited directly to owners' equity under the specific account head **Revaluation Surplus** (part of Reserves & Surplus).
- **The Exception (P&L Reversal)**: If this upward movement directly reverses a previous revaluation decrease *of the same asset* that was historically charged as an expense to the P&L, then this increase must be credited directly to the **Profit & Loss Statement** to the extent of that historical loss.

3. Revaluation of Assets (Decrease in Value)

- **General Rule**: The net decrease in value must be debited and recognized as an immediate expense in the **Profit & Loss Statement**.
- **The Exception (Surplus Reversal)**: If a **Revaluation Surplus** balance already exists *for that specific asset* from a prior valuation, the current decrease must be debited to that Revaluation Surplus account to wipe out the old reserve first. Any remaining loss exceeding that specific asset's reserve is then charged to the P&L.