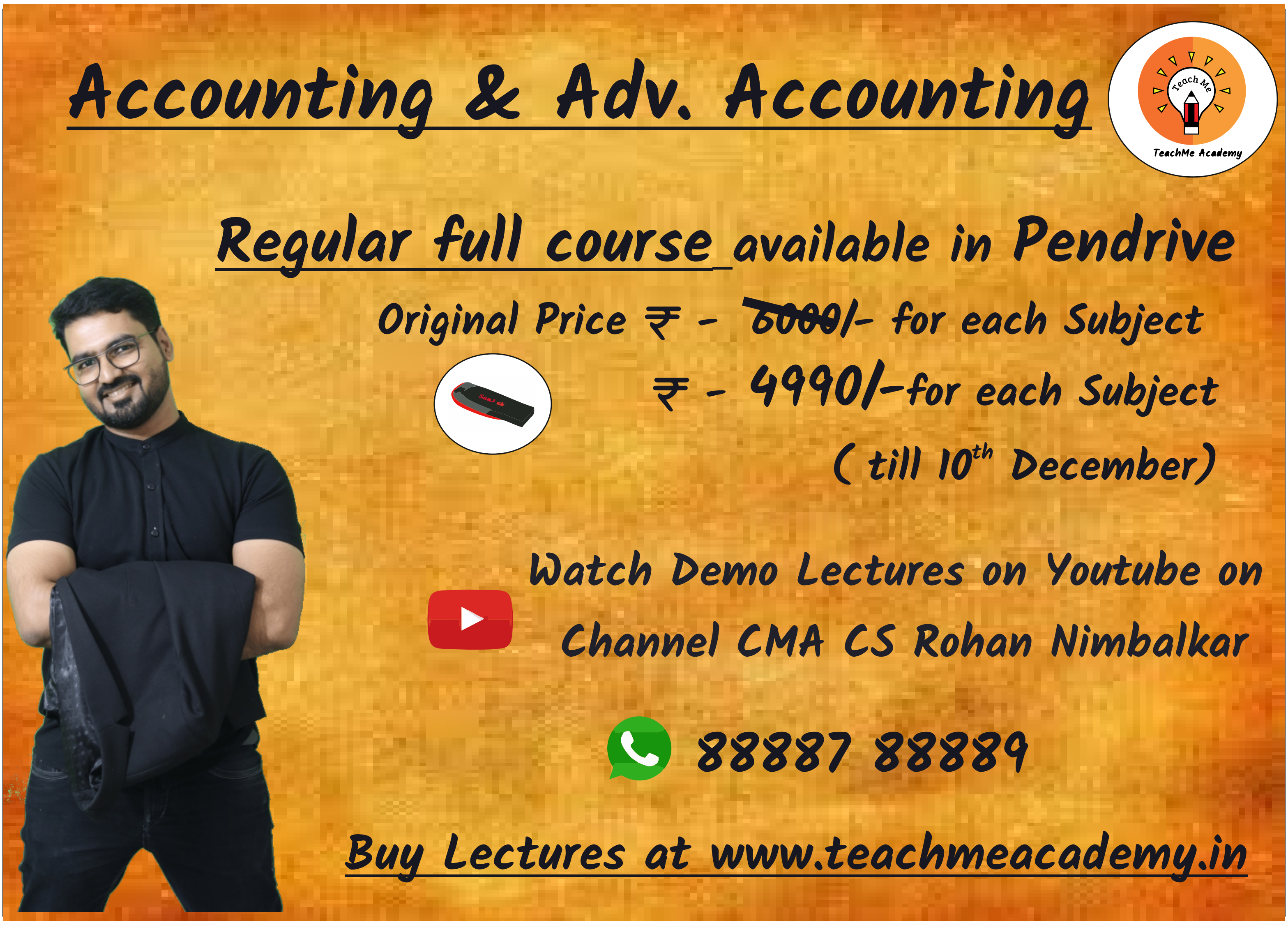
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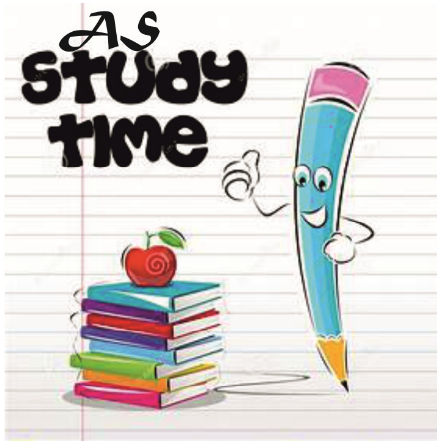


On YouTube CHANNEL – **CMA CS Rohan Nimbalkar**

(Lectures of Accounting standards already uploaded)

Concept No. 1 Objectives of AS –(PPE)

This standard discusses

1. Whether expenditure incurred should be capitalised as PPE or charged to P&L statement,
2. Depreciation
3. Retirement of PPE and
4. Disposal accounting.

Concept No. 2 Applicability Of AS - 10

PPE is not Applicable to

1. **Biological Assets: -** It means living animal or plant and man income producing asset of agricultural activity. **This standard applies to bearer plants but it does not apply to the produce on bearer plants**

   Bearer Plant is a plant that:

   1. is used in the production / supply of agricultural produce;
   2. is expected to bear produce for more than a period of twelve months (in a way the life of the plant is more than 12 months); and
   3. Has a remote likelihood of selling the bearer plant as an agricultural produce, except for incidental scrap sales. E.g.

Bearer Plant - Mango Tree → Agricultural Produce - Mango

2. Wasting Assets: - It Means Mine, (All Natural Recourses)

Wasting assets including mineral rights, expenditure on exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources.

Mine

3. Investment Property: Investment property is not PPE and it should be accounted for only in accordance with the cost model prescribed in this standard.

Concept No. 3 – Meaning and Definition of PPE

PPE

Tangible Assets

Expected to be used during more than a period of 12 months

Held for use in

- **Producing Goods**
- **Providing Services**
- **Rental to others**
- **For Administration Purpose**




E.g.

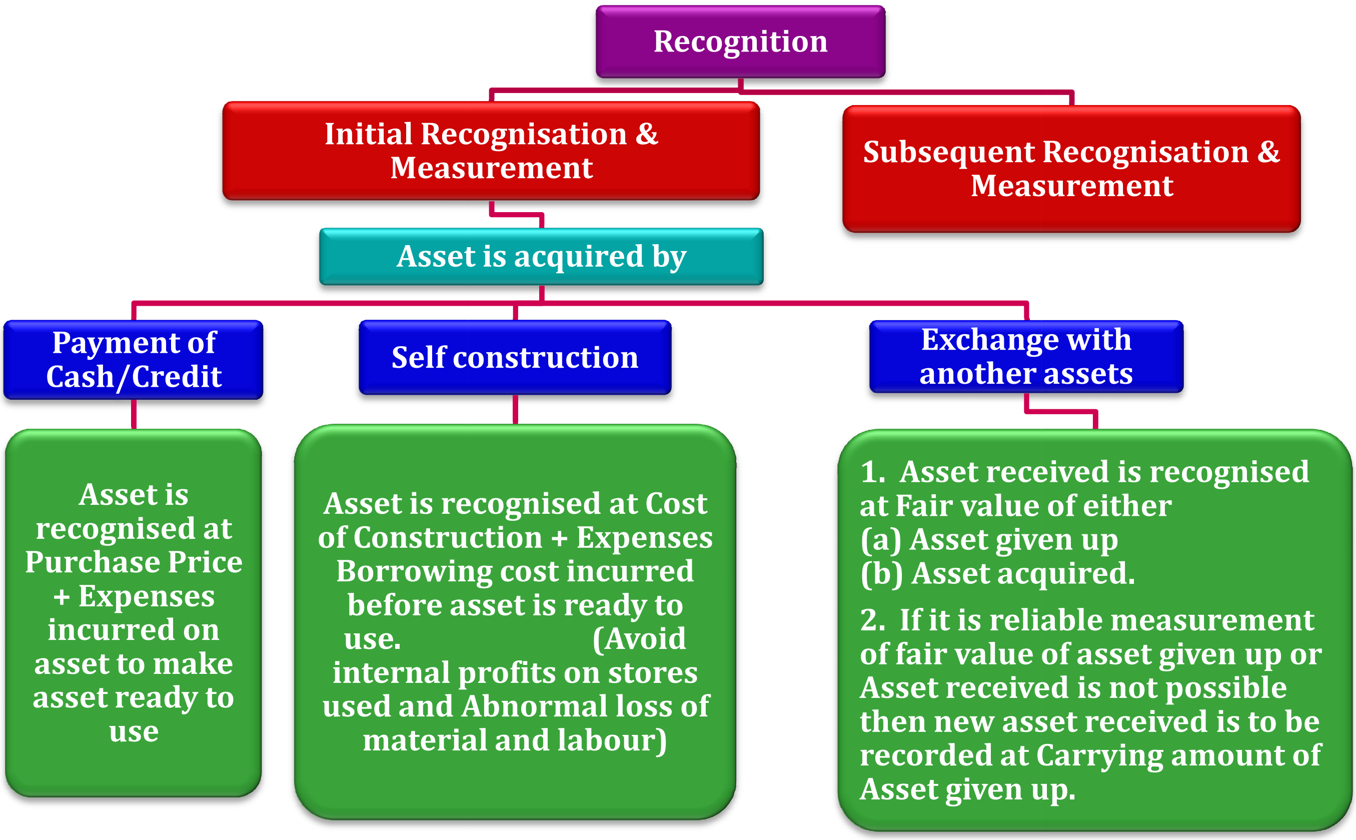
Asset	Tangible	Held for use in abovementioned Activity	Life more than 1 year	Conclusion
Machine, computer, camera	Yes	Yes	Yes	PPE
Land, Building, Furniture	Yes	Yes	Yes	PPE
Computer Software	No	Yes	Yes	Not PPE
Stock	Yes	No	Yes /No	Not PPE

Concept No. 4 Recognition and Measurement of PPE

PPE Should recognised (recorded in the books of account) in financial statements if following conditions are satisfied.

1. Future economic benefits should flow to entity.
2. Cost can be reliably measured.

Chart Presentation of Recognition and Measurement of PPE



(A) ASSET IS ACQUIRED BY PAYMENT OF CASH /FOR CREDIT

Cost of Assets Includes following:-

Particulars	Rs.
Net Purchase price (Basic price after deduction of discount)	XXX
(+) Non refundable taxes & duties	XXX
(+) Delivery and handling costs	XXX
(+) Site preparation cost &Installation costs& Trial Run Cost.	XXX
(+) Professional fees (e.g. fees of architects and engineers)	XXX
(+) PRESENT VALUE of Decommissioning, restoration costs.	XXX
(+) Any directly attributable cost to bring the asset to the location & condition necessary to operate for its intended purpose	XXX
(-) Trade discounts and rebates (if included in above items)	XXX
(-) Government grants (As per AS 12)	
Cost of PPE to be capitalised	

Note:

1. General administration and other overhead expenses are usually excluded from the cost as of asset.
2. **Subsequent Addition or increase is to be recognised in same way as above.**

Cost of Decommissioning.

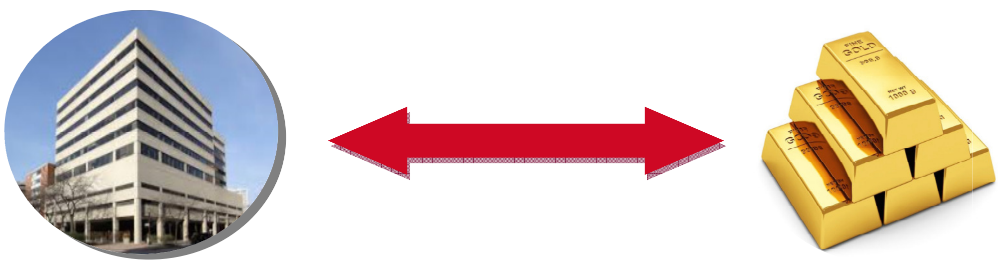
The elements of cost to be incorporated in the initial recognition of an asset are to include the estimated costs of its eventual dismentalment .

This is, the cost of the asset is grossed up for these estimated costs, with the offsetting credit being posted to a liability account.

C. PPE IS ACQUIRED BY EXCHANGE OF ASSETS:

Rules are given in above Diagram. Please refer recognition Tree Diagram.

Example of PPE acquired by exchange of assets



Concept No. 5 Other Important Terms

Deferred credit period

- PPE should be recognised at **CASH PRICE equivalent on the date of recognition** (Present value).
- Deferred credit period means excess period than the normal credit period.
- The difference between the cash price and the total payment should be recognised as interest..
- **In general, the interest should be charged to P&L as an expense.**
- **But if the asset is a qualifying asset as per AS 16 where asset takes substantial period of time to get ready for intended use then interest should be capitalised with the PPE.**

Machinery spares

1. If such spares do not satisfy the PPE definition, it should be classified as inventory and charged to P&L statement when it is issued for usage;
2. If these are recognised as PPE, the total cost incurred should be depreciated in a systematic basis over the useful life;
3. When the principal PPE is either discarded or sold, the net carrying amount of spares should be written off to P&L.

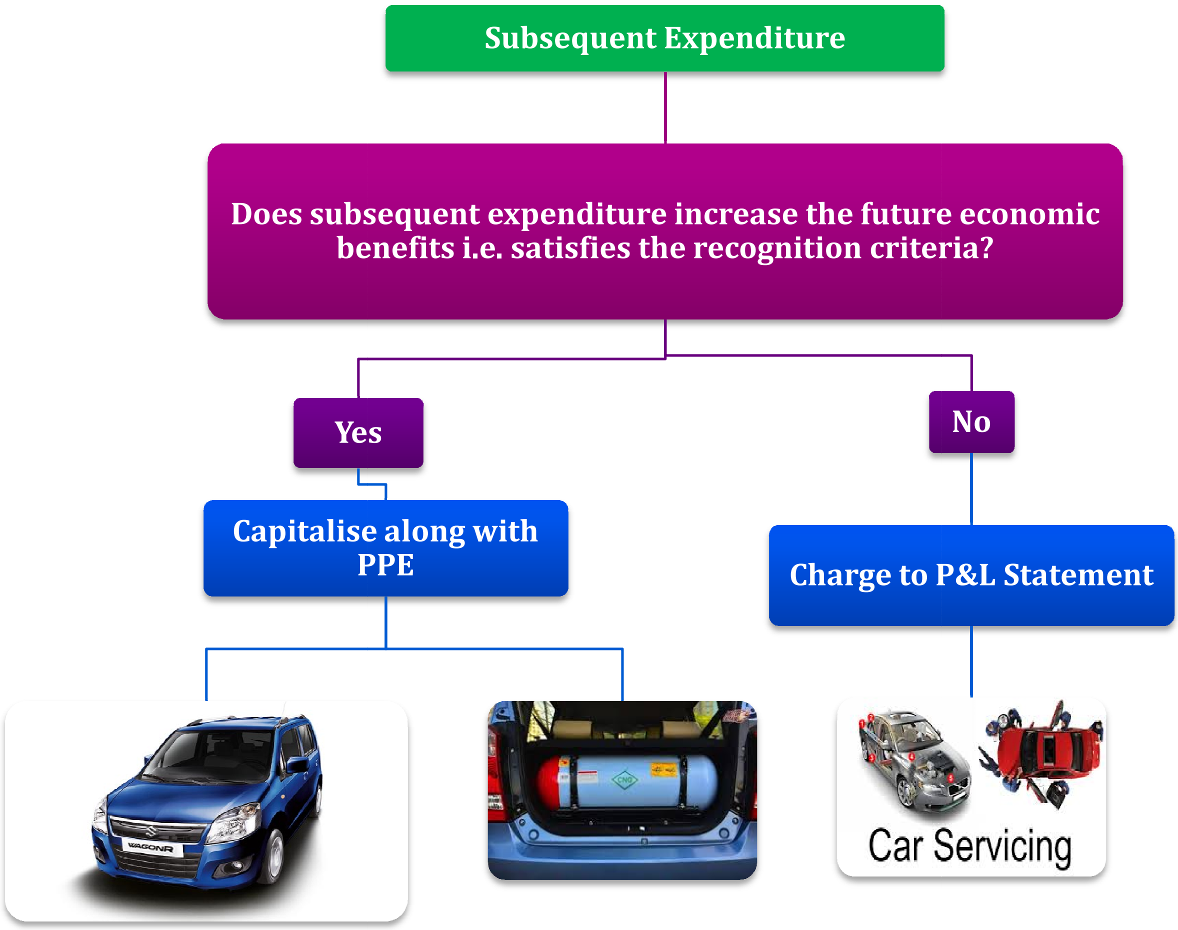
Concept No. 6 Subsequent expenditure on PPE.

IMP Point: Subsequent recognised in the same way as initial recognition.

Subsequent expenditure is the expenditure, which is incurred after the initial recognition i.e. after the asset is ready to use or being used.

If the subsequent expenditure increases the future economic benefits i.e. it satisfies the recognition criteria of an asset and PPE - such expenditure should be recognised as a separate component and depreciated over its useful life.

Here Future economic benefits includes :- increase in number of goods produced, reduction in cost, improvement efficiency of PPE



Replacement of some parts of PPE

Parts of some items of PPE may require replacement at regular intervals.

Under the recognition criteria given in the Standard, an entity should capitalise the cost of replacement as a component of PPE and depreciate such cost over its useful life.

The carrying amount of those parts that are replaced (old component) should be derecognised.

Major inspections parts of the PPE(Not for minor inspections)

A condition of continuing to operate an item of PPE (For example, an aircraft or a ship) may be performing regular major inspections for faults regardless of whether parts of the item are replaced.

When each major inspection is performed, its cost is capitalised as a part of PPE 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.




Accounting treatment for Major Component of Assets

If assets consists of

- **a. Two or more significant components,**
- **b. With major difference in useful life of each components.**

Then such components are to be recognised separately and Depreciation is charged on component basis.

IF any component is replaced then old component is removed from books of accounts making its value Nil and cost of new components is to be capitalised.

Concept No. 7 Subsequent expenditure on PPE.

An entity may select anyone of the two models and follow the same consistently.

Accounting Models

Cost Model

If this model is chosen - PPE should be measured every year at

Cost	xxx
(-) Accumulated depreciation	xx
(-) Accumulated Impaired loss	xx
Net carrying amount	xxx

Revaluation Model

If this model is chosen by this model should be chosen to the PPE, where FAIR VALUE can be measured reliably.

PPE should be measured at

Fair Value of PPE	xxx
(-) Subsequent accumulated depreciation	xx
(-) Subsequent accumulated impairment loss	xx
Net carrying amount	xxx

Concept No. 8 Revaluation of PPE

Revaluation Model of Accounting policy is an option given to the entity (NOT mandatory).

It is the management who takes decision about model to be adopted for measurement.

1. Frequency of Revaluation

Revaluation should be performed whenever there is a material difference between

(a) The carrying amount and

(b) Its fair value as on the balance sheet date.

It should be checked regularly & shall be performed by a professionally qualified valuer. If there is no material difference in carrying amount and fair value on balance sheet date, then fair value calculation is to be ignored.

2. Method of Revaluation

Usually fair value is determined from market-based evidence by appraisal method.

If market based evidence for fair value is not available, an entity may need to estimate fair value using:

1. An income approach e.g. based on discounted cash flow projections Or
2. A depreciated replacement cost approach i.e. If the same potential PPE is acquired/constructed what would be the cost i.e. replacement cost.

3. Revaluation model for ALL or only SELECTED PPE?

It is not compulsory to revaluate all PPE's at on time but if revaluation of any class of PPE is adopted then revaluation shall be done for ENTIRE CLASS of PPE. i.e. if the entity is willing to revalue its Machinery then it should revalue ALL machinery of the entity.

In other words Revaluation of selective assets within same class is NOT permitted.

Conclusion: Entity can follow revaluation model for selective CLASS of PPE and for remaining PPE, it can follow cost model.

4. Limit on revalued amount

The revalued amount should not be more than recoverable amount i.e. recoverable from sale or its usage over the life.

Concept No. 9 Revaluation Accounting

A. First Time Revaluation:

1. Upward revaluation is transferred to Revaluation Reserve

PPE A/C ....Dr.
To Revaluation Profit/ Reserve
(Being asset Revalued)

2. Downward revaluation is charged to P&L

P&L A/c ....Dr.
To PPE Asset A/c
(Being asset downward Revalued)

B. **Subsequent revaluation of existing PPE**

The following accounting treatment is based on the first time revaluation (upward/downward):

1. If first time is upward revaluation

a) Next time also upward revaluation - Further increase should be transferred to revaluation surplus. Journal Entry is same as upward revaluation.
b) Next time downward revaluation - Utilise the revaluation surplus to the extent available in the balance sheet and the remaining balance should be charged to P&L alc.

Revaluation surplus a/c.................... Dr

P&L a/c ....Dr (balancing fig)

To PPE a/c

2. If first time is downward revaluation

a) Next time also downward revaluation- Further decrease should be transferred to P&L statement. JE is same as downward revaluation.

b) Next time upward revaluation- Credit the P&L statement to the extent it was charged to P&L in earlier revaluation and remaining balance should be credited to revaluation surplus.

PPE a/c …………..Dr

To P&L a/c (to the extent charged earlier)

To Revaluation surplus (balancing figure)

Concept No. 10 Retirement of PPE

PPE is retired from active use and it is held for disposal - such PPE should be stated in balance sheet at

Carrying amount (Net book value); or Net realisable value (NRV)

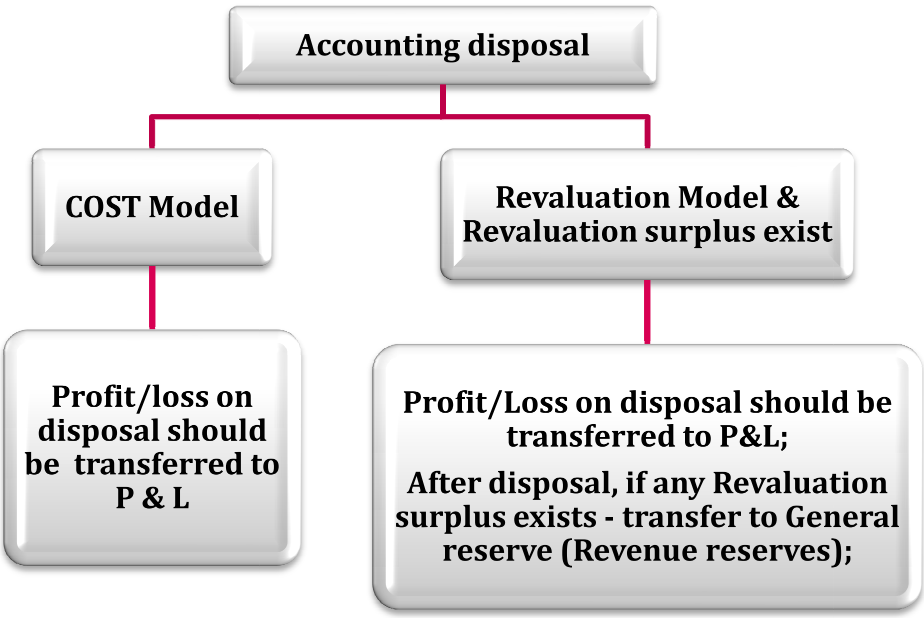
Whichever is LOWER

Disclose such items separately in the financial statements. Any expected loss should be recognised immediately in the profit and loss statement.

Concept no. 11 (Disposal) of PPE

The following diagram helps to understand the accounting treatment of disposal of PPE.

Profit /Loss on disposal should be transferred to P&L



In case of Revaluation Model, Transfers from revaluation surplus to the general reserves should not be made through the statement of P&L. It means, the entity can record the following entry only

Revaluation surplus a/c ..... Dr
To General reserves a/c

After disposal of a PPE, it should be completely eliminated from the financial statements i.e. gross value and accumulated depreciation related to the asset:

Depreciation on PPE

Meaning

- Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount

- Historical cost OR revalued amount XXX
  Less: Estimated residual value- XX
  Depreciable amount XXX

Useful life of the asset

- The period over which a depreciable asset is expected to be used by the entity i.e. time/number of years; or
- The number of unit's production or similar units expected to be obtained from its use.
- Determination of the useful life is a matter of estimation and is normally based on various factors including experience with similar types of assets.

Depreciation of an addition/ extension to an existing asset

- If the addition/extension is an integral part of the existing asset - Depreciate the cost of integral part over the remaining life of existing asset.

Methods of Depreciation

- It Should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the entity
- It Should be reviewed at least at each financial year-end
- AS - 10 Does not prescribe any specific method of depriciation to be followed by orgnisation.
- If there is change in future consumption or future benefit pattern then method should be changed and such change in method shall be accounted as change in Accounting estimates. (Prospective effect)
- If depreciable asset is immaterial then such assets shall be debited to P & L Account (Means it can be fully depreciated at once).

Estimated residual value

- It is an estimated amount, which can be recovered from the asset at the end of its useful life .
- Initially, the estimation is made by the entity's management at the time of acquisition/installation;
- If estimated residual value is insignificant (immaterial) - Normally considered as NIL.

Concept No. 12 Disclosure Requirements

1. PPE Should Disclosed
   - Gross Book Value cost
   - Accumulated Depreciation
   - Addition of PPE
   - Deletion of PPE
2. Depreciation Method
3. Useful life of asset should be disclosed.
4. If company is following revaluation model, fact should be disclosed.

Chart - AS 10 – PROPERTY, PLANT AND EQUIPMENT (PPE)

1. ***Let us see "What is PPE"***

It is Tangible Assets

Expected to be used during more than a period of 12 months

Held for use in

Producing Goods

Providing Services

Rental to others

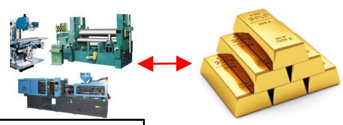
For Administration Purpose

Recognition of Plant, Property and Equipments

2. ***How entity should do "Recognition of PPE" i.e. (Recording of PPE in the books of account)***

Initial Recognisation & Measurement

Asset is acquired by



Payment of Cash/Credit

Asset is recognised at Purchase Price + Expenses incurred on asset to make asset ready to use

Purchase price	xx
+Freight	xx
+Non refundable taxes	xx
+PV of restoration	xx
+All direct exp Inc till ready to use	xx
+ 16- Borrowing cost	xx
-Discount	xx
-Govt. Grants	xx
	xx

Self construction

Asset is recognised at Cost of Construction + Expenses Borrowing cost incurred before asset is ready to use. (Avoid internal profits on stores used and abnormal loss of material and labour)

Exchange with another assets & by issue of securities

1. Asset received is recognised at Fair value of either
(a) Asset given up
(b) Asset acquired.

2. If it is reliable measurement of fair value of asset given up or Asset received is not possible then new asset received is to be recorded at Carrying amount of Asset given up.

Subsequent Recognisation & Measurement

Does subsequent expenditure (including spare parts) increase the future economic benefits? In other words it is PPE if it satisfies the recognition criteria

Yes → Capitalise along with PPE

&

No → Charge to P&L Statement

It is recognised as PPE if it is expected to generate Future economic benefit to Entity

3. Important Points

1. *Major assets replacement & overhauling should be capitalised and depreciated over its useful life, if it satisfies PPE recognition criteria.*
2. *If deferred credit terms are involved, it should be recognised at present value and it would be unwinded over the period. PPE should be recognised at cash price (Present Value) on the date of Recognisation.* ***Interest = Total Payment – Cash Price should be debited to P& L unless asset is qualifying asset as per AS -16***
3. *Useful life, Residual value & depreciation method should be reviewed every year end.*
4. *Any change in price. Life, Realisable Value & method of depreciation - Account prospectively.*
5. *Select Cost or revaluation model for the entire class of items. Select and apply consistently.*
6. *If any major components is replaced then component to be recognised separately by*

4. Retirement of PPE

1. ***PPE is retired from active use and it is held for disposal - such PPE should be stated in balance sheet Carrying amount (Net book value); or Net realisable value (NRV) Whichever is LOWER***

Replaced By →

2. ***Disclose such items separately in the financial statements. Any expected loss should be recognised immediately in the profit and loss statement.***

5. Accounting disposal

COST Model

Profit/loss on disposal should be transferred to P & L

Revaluation Model & Revaluation surplus exist

Profit/Loss on disposal should be transferred to P&L;
After disposal, if any Revaluation surplus exists - transfer to General reserve (Revenue reserves)

After disposal of a PPE, it should be completely eliminated from the financial statements i.e. gross value and accumulated depreciation related to the asset:

Question 1

Obtained PPE fair value is 5,00,000 through exchange of gold. (Book value of gold is ₹ 4,00,000) journalise.

Question - 2 **(PM) (Nov 2012, Nov 2013, May 2015)(Modified)**

PQR Ltd. constructed a fixed asset and incurred the following expenses on its construction:

Particulars	₹
Materials (including excise duty of ₹ 50,000, CENVAT credit is available for 50% of the duty paid)	16,00,000
Direct Expenses	3,00,000
Total Labour charges (200 out of the total of 600 men hours worked, on installation work)	6,00,000
Spare parts and tools consumed in installation	60,000
Total salary of supervisor (time spent for installation was 25 % of the total time worked.)	24,000
Test run and experimental production expenses	23,000
Consultancy changes to architect for plant set up	9,000
Total Office & Administrative Expenses (4 % is chargeable to the construction)	9,00,000
Depreciation on other assets used for the construction of this asset	15,000

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹ 19,000 were incurred. Calculate the value at which the plant should be capitalized.

Question 3

During the current year 2014-15, X Limited made the following expenditure relating to its plant building:

Particulars	₹ in lakhs
Routine Repairs	.4
Major Overhaul expenses incurred once in 3 years	1
Partial replacement of roof tiles (useful life is 4 years)	2.5
Substantial improvements to the electrical wiring system which will increase efficiency	10

What amount should be capitalized?

Question :- 4

Indigo Airline purchase one aircraft for ₹ 600 Cr. Components are - Engine ₹ 400 Cr., Aircraft Body ₹ 200Cr. Life of Engine is 10 years And of body 20 years Show accounting treatment for recognition and Depreciation.

Question 5

A computer costing ₹ 60,000 is depreciated on straight line basis, assuming 10 years working life and 2000 residual value, for three years The estimate of remaining useful life after third year was reassessed at 5 years Calculate depreciation as per the provisions of Accounting Standard 10 "Depreciation Accounting".

Question 6 **(PM) (May 2014, 4 Marks)**

(a) Explain the "Accounting of Revaluation of Assets" with reference to AS 10.

(b) Explain the disclosure requirement for fixed assets as per AS 10.

Question 7 **(May 2008) (4 Marks)**

What is the accounting entry to be passed as per AS 10 for following situation?

a) Increase in value of Fixed assets by ₹ 50,00,000 on account of revaluation

b) Decrease in value Fixed assets by ₹ 30,00,000 on account of revaluation

Question 8 **(PM)**

During the year 2014-15, P Limited incurred the following expenses on machinery: ₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part. ₹ 7 lacs on replacement of part of a machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

Question 9 **(PM)**

During the year M/s Progressive Company Limited made additions to its factory by using its own workforce, at a cost of ₹ 4,50,000 as wages and materials. The lowest estimate from an outside contractor to carry out the same work was ₹ 6,00,000. The directors contend that, since they are fully entitled to employ an outside contractor, it is reasonable to debit the Factory Building Account with ₹ 6,00,000. Comment whether the directors' contention is right in view of the provisions of Accounting Standard 10 "PPE"?

Question 10 **(PM) (Nov 2012, 4 Marks)**

PQR Ltd. constructed a fixed asset and incurred the following expenses on its construction:

Particulars	**₹**
Materials	16,00,000
Direct Expenses	3,00,000
Total Direct Labour (1/15th of the total labour time was chargeable to the construction)	6,00,000
Total Office & Administrative Expenses (4% of office and administrative expenses are specifically attributable to construction of a fixed asset)	9,00,000
Depreciation on assets used for the construction of this asset	15,000

Calculate the cost of the fixed asset.

Question 11 **(PM) (Nov. 2013, 5 Marks)**

Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were ₹ 47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at ₹ 16,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 52,78,000. Sales Tax was charged at 4% on the invoice ₹ 18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of ₹ 10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in 2nd month. The company operates on Bank Overdraft@ 11%.

Ascertain the amount at which the asset should be capitalized under AS 10.

Question No. 12 **(May 2016)**

Argon Ltd. purchased a shop on 1st January, 2001 at a cost of ₹ 8,50,000. The useful life of the shop is estimated as 30 years with residual value of ₹ 25,000 and depreciation is provided on a straight line basis. The shop was revalued on 30th June, 2015 for ₹ 19,50,000 and the revaluation was incorporated in the accounts.

Calculate:

(i) The surplus on revaluation;

(ii) Depreciation to be charged in the Profit and Loss account for the year ended on 31st December, 2015.

Question No. 13 **(Nov 2016)**

Hema Ltd. purchased a machinery on 1.04.2008 for ₹ 15,00,000. The company charged straight line depreciation based on 15 years working life estimate and residual value ₹3,00,000. At the beginning of the 4th year, the company by way of systematic evaluation revalued the machinery upward by 20% of net book value as on date and also re-estimated the useful life as 7 years and scrap value as nil. The increase in net book value was credited directly to revaluation reserves. Deprecation (on SLM basis) later on was charged to Profit & Loss Account. At the beginning of 8th year the company decided to dispose off the machinery and estimated the realizable value to ₹ 2,00,000.

You are required to ascertain the amount to be charged to Profit & Loss Account at the beginning of 8th year with reference to AS-10.

Additional Questions with Answers

Question No. 1 **RTP Nov 2012**

A newly set up Lion Private Ltd. manufacturing company has incurred following expenditures for the acquisition of plant & Machinery:

(i) Foreign tour expenses of directors for purchasing Plant & Machinery.
(ii) Technical staff's salary for erection of Plant & Machinery.
(iii) Non-technical staff's salary during the period of installation of Plant & Machinery
(iv) Other sundry expenses such as stationery, printing, postage, telegram and telephone and local conveyance charge etc.

The company intends to capitalize the above expenses. Is the company justified? State with reasons.

Answer

(i) Yes, as foreign tour expenses of directors for purchase of Plant and Machinery is for the acquisition of the asset, therefore it should be capitalised.
(ii) Yes, salary of technical staff for erection of Plant and Machinery is the cost directly attributable for bringing the asset to its working conditions for its intended use. Therefore, it should be capitalised.
(iii) No, as per AS 10 only salary of technical staff can be said to as directly attributable to bring the asset to its working conditions for its intended use. Therefore, salary of non-technical staff cannot be capitalised.
(iv) No, as per of AS 10, 'administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset.' Hence the same should not be capitalized.

Question No. 2 **RTP May 2013**

A Company is in the process of setting up a production line for manufacturing a new product. Based on trial runs conducted by the company, it was noticed that the production lines output was not of the desired quality. However, company has taken a decision to manufacture and sell the sub-standard product over the next one year due to the huge investment involved.
In the background of the relevant accounting standard, advise the company on the cut-off date for capitalization of the project cost.

Answer

As per of AS 10 'Property Plant And Equipment (PPE)', expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalized as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production *i.e.*, production intended for sale or captive consumption, is not capitalized and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period. In the present case, the company did not stop production even if the output was not of the desired quality, and continued the sub-standard production due to huge investment involved in the project. Capitalization should cease at the end of the trial run, since the cut-off date would be the date when the trial run was completed.

Question No. 3 **RTP May 2014**

During the year 2013-14, P Limited incurred ₹ 2,50,000 as routine repairs and ₹ 75,000 on partial replacement of a part. ₹ 5,00,000 on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

Answer

As per AS 10 'Property Plant and Equipment (PPE)' expenditure that increases the future benefits from the existing assets, is included in the gross book value.
Hence, in the given case, repairs of ₹ 2,50,000 as routine repairs and ₹ 75,000 on partial replacement of the part of the machinery should be charged to Profit and Loss Account. ₹ 5,00,000 incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

Question No. 4 — RTP Nov 2014

A Company is in the process of setting up a production line for manufacturing a new product. Based on trial runs conducted by the company, it was noticed that the production lines output was not of the desired quality. However, company has taken a decision to manufacture and sell the sub-standard product over the next one year due to the huge investment involved.
In the background of the relevant accounting standard, advise the company on the cut-off date for capitalization of the project cost.

Answer

As per provisions of AS 10 'Property Plant and Equipment (PPE)', expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalized as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production *i.e.*, production intended for sale or captive consumption, is
not capitalized and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period. In the present case, the company did not stop production even when the output was not of the desired quality, and continued the sub-standard production due to huge investment involved in the project.
Capitalization should cease at the end of the trial run, since the cut-off date would be the date when the trial run was completed.

Question No. 5 — RTP May 2015

On March 01, 2014, X Ltd. purchased ₹ 5 lakhs worth of land for a factory site. Company demolished an old building on the property and sold the material for ₹10,000. Company incurred additional cost and realized salvaged proceeds during the March 2014 as follows:

Legal fees for purchase contract and recording ownership	₹ 25,000
Title guarantee insurance	₹ 10,000
Cost for demolition of building	₹ 50,000

Compute the balance to be shown in the land account in balance sheet on March 31, 2014.

Answer

Calculation of the cost for Purchase of Land	(₹ in lakhs)	(₹ in lakhs)
Cost of Land		5,00,000
Legal Fees		25,000
Title Insurance		10,000
Cost of Demolition	50,000	
Less: Salvage value of Material	(10,000)	40,000
Cost of the Asset		5,75,000

Question No. 6 **RTP Nov 2015**

Fire Ltd. purchased equipment for its power plant from Urja Ltd. during the year 2013-14 at a cost of ₹ 100 lacs. Fire Ltd. they paid only 90% and balance 10% was to be paid after one year on satisfactory performance of the equipment.
During the Financial year 2014-15, Urja Ltd. waived off the balance 10% amount which was credited to Profit and Loss account by Fire Ltd. as discount received. Is this accounting treatment correct? State in line with Accounting Standards.

Answer

According to AS 10 on 'Property Plant and Equipment (PPE)', the cost of an asset may undergo changes subsequent to its acquisition on account of exchange fluctuation, price adjustment, changes in duty or similar factors. Such changes in price/cost need to be adjusted with the cost of the asset.

In the give case, Fire Ltd., initially accounted for 100% amount i.e., ₹ 100 lacs as cost of fixed asset although they paid only ₹ 90 lacs and kept ₹ 10 lacs as payable to the credit of Urja Ltd. Now since the supplier has waived off the balance amount of ₹ 10 lacs, this should be treated as change in price and needs to be adjusted with the cost of asset as per AS 10. Therefore, the treatment given by Fire Ltd., in crediting ₹ 10 lacs as discount to Profit & Loss Account is completely wrong and needs to be corrected.

Question No. 7 **RTP May 2016**

XYZ Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	₹
Materials	10,00,000
Direct Labour (1/6th of the total labour time was chargeable to the construction)	3,00,000
Direct Expenses	2,00,000
Office & Administrative Expenses (5% is specifically attributable to construction)	7,50,000
Depreciation on assets used for the construction of this asset	10,000

Calculate the cost of the fixed asset.

Answer

Particulars	₹
Materials	10,00,000
Direct labour (1/6th of ! 3,00,000)	50,000
Direct expenses	2,00,000
Office and administrative expenses (5% Z 7,50,000)	37,500
Depreciation on assets	10,000
Total Cost of fixed asset	**12 97 500**

Question No. 8 **RTP Nov 2016**

Alex Ltd. intends to set up a sollar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7,500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired.

Answer

Computation of value of land acquired

Particulars	₹ in lakhs	₹ in lakhs
Purchase price @ ₹ 70,000 per acre for 7,500 acres		5,250.00
Stamp duty & registration charges @ 5%		262.5
Legal fees		5.00
Title guarantee insurance		2.00
Demolition expenses	50.00	
Less: Sale of salvaged materials (net of tax) (43,57,500 x 100/105)	(41.5)	8.5
Value of land		**5,528**

Question No. 9 **RTP May 2017**

A property costing ₹ 10,00,000 is bought in 2016. Its estimated total physical life is 50 years. However, the company considers it likely that it will sell the property after 20 years.
The estimated residual value in 20 years' time, based on 2016 prices, is:
Case (a) ₹ 10,00,000
Case (b) ₹ 9,00,000
You are required to compute the amount of depreciation charged for the year 2016.

Answer

Case (a)
The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.
There is, therefore, no depreciable amount and depreciation is zero.
Case (b)
The company considers that the residual value, based on prices prevailing at the balance sheet date, will be ₹ 9,00,000 and the depreciable amount is, therefore, ₹ 1,00,000.
Annual depreciation (on a straight line basis) will be ₹ 5,000 [{10,00,000 - 9,00,000} ÷ 20].

Question No. 10 **RTP May 2017, Nov 2017**

Entity Hello has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.
The following incremental costs will be incurred:
Setup costs of ₹ 5,00,000 to install machinery in the new location.
Rent of ₹ 15,00,000 Removal costs of ₹ 3,00,000 to transport the machinery from the old location to the temporary location.
You are required to advise can these costs be capitalised into the cost of the new building?

Answer

Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not 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.

Conclusion: The costs to be incurred by the company do not meet that requirement of AS 10 and cannot, therefore, be capitalised.

Question No. 11 — RTP Nov. 2017

ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

Cost of the plant (cost per supplier's invoice plus taxes)	₹ 25,00,000
Initial delivery and handling costs	₹ 2,00,000
Cost of site preparation	₹ 6,00,000
Consultants used for advice on the acquisition of the plant	₹ 7,00,000
Interest charges paid to supplier of plant for deferred credit	₹ 2,00,000
Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
Operating losses before commercial production	₹ 4,00,000

Please advise ABC Ltd. on the costs that can be capitalised in accordance with AS 10.

Answer

According to AS 10 these costs can be capitalized:

Cost of the plant	₹ 25,00,000
Initial delivery and handling costs	₹ 2,00,000
Cost of site preparation	₹ 6,00,000
Consultants' fees	₹ 7,00,000
Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
	₹ 43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 2,00,000 and operating losses before commercial production amounting to ₹ 4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Question No. 12 — RTP May 2018

In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000
Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	₹ 50,00,000
		₹ 90,00,000

Calculate depreciation for the year 2016-17 as per componentization method.

Answer

Statement showing amount of depreciation as per Componentization Method

Component	Depreciation (Per annum) (₹)
Land	Nil
Roof	40,000
Lifts	25,000
Fixtures	50,000
Remainder of Building	1,00,000
	2,15,000

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognised as a new component.

Question No. 13 RTP May 2018

Entity A, a supermarket chain, is renovating one of its major stores. The store will have more available space for in store promotion outlets after the renovation and will include a restaurant. Management is preparing the budgets for the year after the store reopens, which include the cost of remodeling and the expectation of a 15% increase in sales resulting from the store renovations, which will attract new customers. Decide whether the remodeling cost will be capitalized or not.

Answer

The expenditure in remodelling the store will create future economic benefits (in the form of 15% of increase in sales). Moreover, the cost of remodelling can be measured reliably, therefore, it should be capitalized in line with AS 10 PPE.

Question No. 14 RTP Nov. 2018

ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

	₹
Cost of the plant (cost as per supplier's invoice)	31,25,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Initial Operating losses before commercial production	3,75,000
Initial delivery and handling costs	1,85,000

Cost of site preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

You are required to compute the costs that can be capitalised for plant by ABC Ltd., in accordance with AS 10: Property, Plant and Equipment.

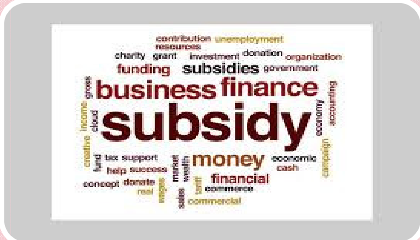
Answer

According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	₹
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	**46,60,000**

Note: Operating losses before commercial production amounting to ₹ 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

Concept No. 1 -Meaning of Government grants



Government grants are assistance by the Government in the form of cash or kind to an enterprise in return for past or future compliance with certain conditions.

Government grants are also called subsidies, cash incentives, duty drawbacks, etc.

Government means local, national or international government, government agencies and similar bodies.

Any government assistance, which cannot be reasonably valued, is excluded from this Standard.

Concept No. 2 - Scope of AS – 12

This standard is NOT applicable for the following:

(a) Government assistance other than in the form of government grants;

(b) Government participation in the ownership of the entity; (means Government is also the owner of entity)

Concept No. 3 - Criteria for Recognition of Grant :

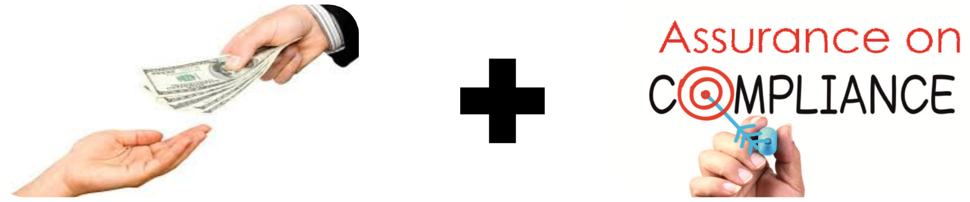
Two conditions must be satisfied for recognition of Government Grant :

1. There is reasonable assurance that the entity will comply with the conditions

2 .Ultimate collection is reasonably certain.

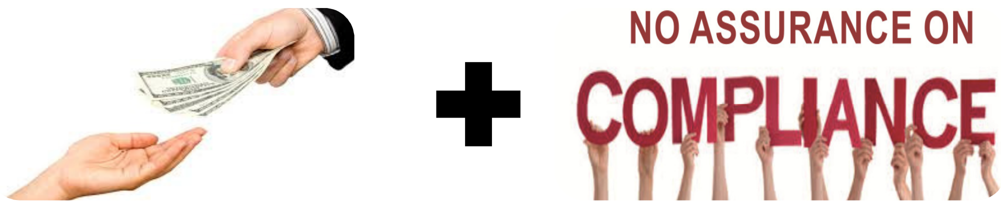
Mere receipt of grant money is NOT the conclusive evidence

<u>Situation A</u>: Money is received + Reasonable assurance on compliance of conditions.



Entity should recognise grant and it should transfer it to P& L A/c or Capital reserve depending criteria for recognition given below.	Bank A/c ……………………………….. Dr. To Capital Reserve A/c (If capital Approach is Adopted) Or, To Grant Income A/c (If Income Approach is Adopted) **(Capital Approach and Income Approach is explained in Next Discussion.)**

<u>Situation B:</u> Money is received + No reasonable assurance on compliance of conditions



Entity should NOT recognise grant but it should record the receipt as payable to government	1. Bank A/c …………………………………….. Dr. To Payable to Government A/c (Shown as Liability) 2. If Entity fulfils all conditions -Recognise it as Grant Payable to Government A/c………….. Dr. To Grant Income A/c (If treated as Income) 3. If Entity could not fulfill conditions and Grant is repaid: Payable to Government A/c………….. Dr. To Bank A/c

Concept No. 4 - Recognition & Accounting treatment

The accounting treatment should be based on the nature of the government grant.

Two Approaches for Accounting Government Grants

Capital approach

- Transferred to capital reserve
- When Grant is received or Becomes receivable

  Cash / Bank A/c .... Dr.

  Grant Receivable A/c......Dr.

  To Capital Reserve A/c
- If the grant is in the nature of the promoter's contribution

  If Government makes contribution towards the capital require-ments of the entity

  Generally received at the beginning stage of the business.
- Repayment is NOT expected in general and NO related costs to get these grants.
- These are NOT earned by the entity and received without relating costs, hence transferred to "capital reserve

Income approach

- Recognise in P&L statement over suitable period of time.

  (such items when received or becomes receivable shall be credited to Deferred Income A/c then it shall be Credited to P&L A/c over suitable period of time and remaining amount in Deferred Income account shall be disclosed separately in Reserves & Surplus A/c)
- When Grant is received or Becomes receivable

  Cash / Bank A/c .... Dr.

  Grant Receivable A/c......Dr.

  To Deferred Income A/c
- When Portion of grant transferred to P&L A/c on suitable basis

  Deferred Income A/c .... Dr.

  To Grant Income / P&L A/c
- 1. If the grant is not in the nature of the promoter's contribution

  2. These are received during the running stage and these grants are received only after compliance of conditions .

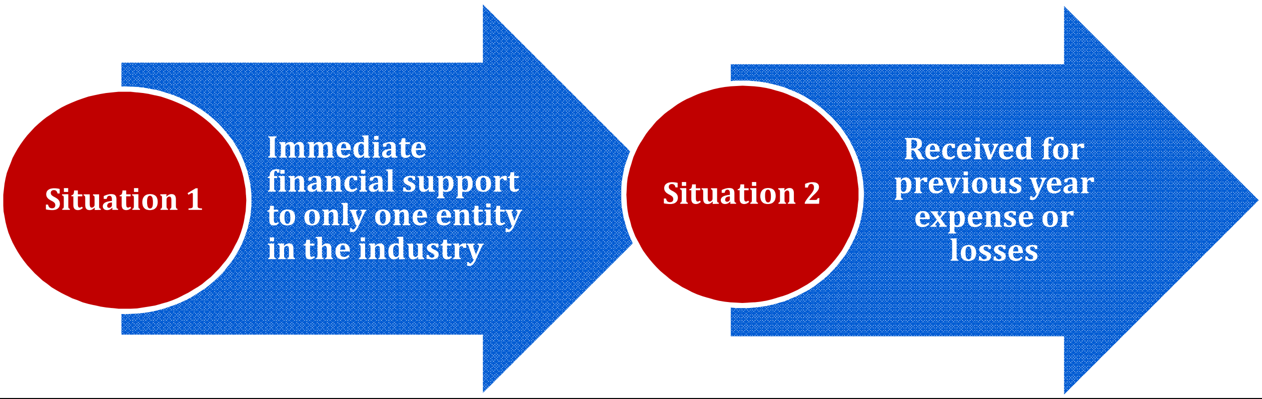
  3. Entity generally incurs expenditure to get these grants .

  4. It is logical to recognise as income in P&L A/c to match it with expenditure.

  5. The income tax Act or other Acts treat these grants as 'income' in general.

Concept No. 5

As per AS 5, Grant received should be presented as EXTRAORDINARY ITEM in the P&L statement in following two situations



Immediate financial support to only one entity in the industry	**Received for previous year expense or losses**
• It is not received for any specific expenditure; • It is received only by one entity but not by the whole Industry, and • The entity recorded such grant as income in P&L based on the circumstances existing at that time.	• Grant is received in the current year as compensation for the previous year expenses or losses; & • It is recognised as income in Current Year P&L statement.

These two items shall be separately disclosed as extraordinary to make the financial statements comparable with other.

Concept No. 6 Non-monetary Government Grants

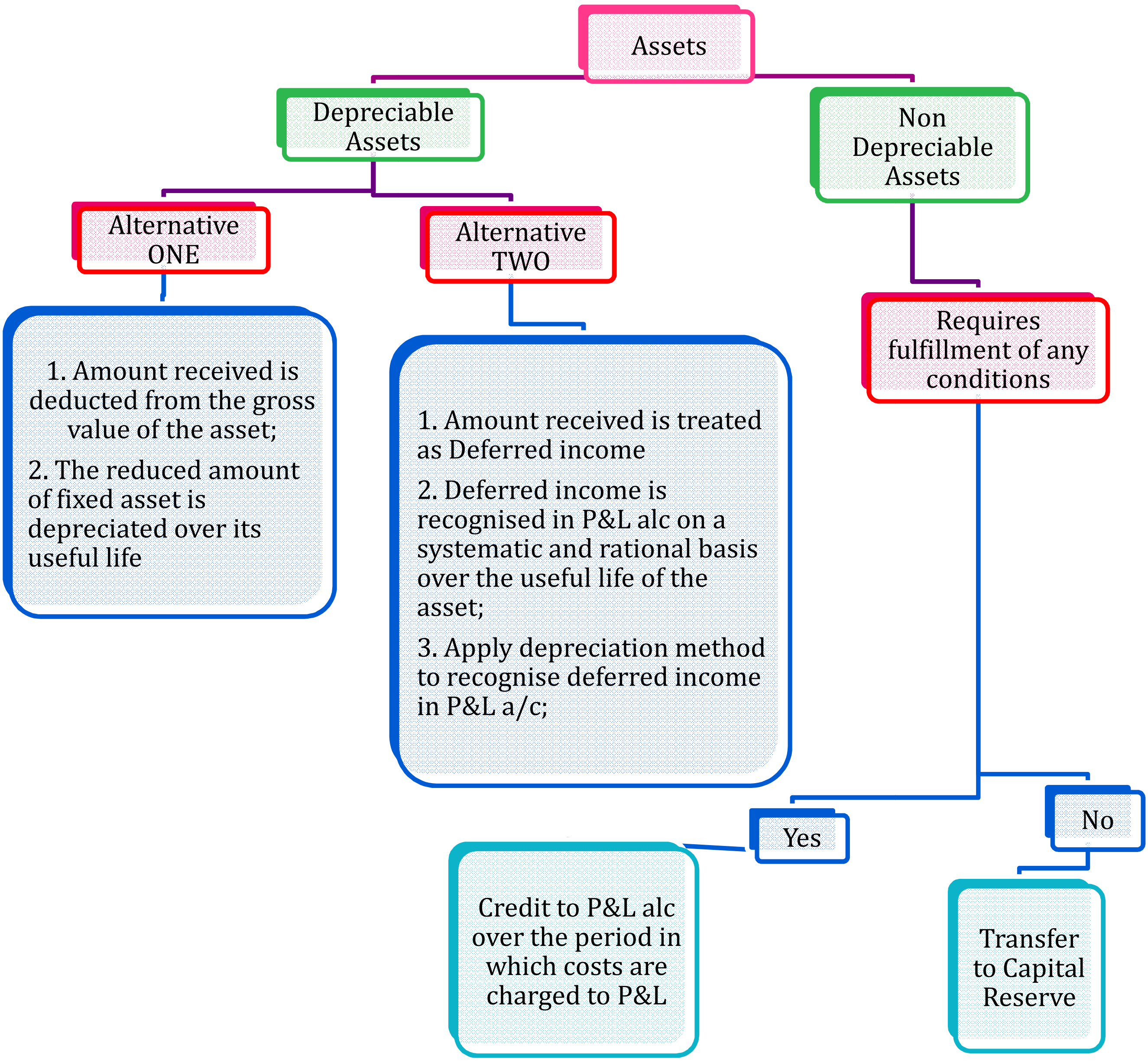
Grants may be received in the form of land, buildings or other resources (Known as non-monetary assets,)

Non-Monetary Asset received at Discounted / Concessional rate	**Non-Monetary Asset received Free of Cost**
In this case, such assets are recorded Acquisition Cost (Concessional price at which asset is acquired)	In this case, such assets are recorded Nominal Value (at negligible or immaterial value)

Concept No. 7 Grants Related to Specific Fixed Assets

Government may issue grant if entity purchases or constructs the asset as per the specifications made by government.

Accounting Treatment



If the asset is depreciable, two options are available. The entity can select anyone method and can apply the same consistently.

Concept No. 8 - Revenue grants presentation in P&L

1st Method	2odMethod
Present as income in the profit and loss statement as **OTHER INCOME.**	Grant received can be **deducted from the related expense** in P&L. .

Concept No. 9 Refund of Government grant

- Government grants are generally refundable when the entity does not fulfil certain conditions.
- Refund of grant is treated as an extraordinary item as per AS 5.
- Accounting for refund of grant is based on the initial recognition of government grant because the **previous treatments need to be REVERSED** at the time of refund.
- **To understand this point, REMEMBER THIS WORDS THAT "PREVIOUS TREATMENT NEED TO BE REVERSED".**

Grants	Initial Accounting	Refund Accounting Treatment
1. Revenue Grant	On receipt of grant, if it is initially transferred to Deferred government grant account and subsequently transferred to P&L in a systematic and rational basis over a period of time. (Matching concept)	**If balance is available in deferred government grant A/c :** • First reverse the existing balance in deferred government grant A/c. • Remaining amount should be charged to P&L. Deferred Govt. Grant A/c......Dr (to the extent of balance in A/c) P&L A/c……. Dr (balancing fig.) To Cash / Bank (Refunded amount) **If balance is not available in deferred government grant (i.e.it is fully transferred to P&L):** Charge total refunded amount to P&L alc. P&L A/c ………..Dr (Refunded amount) To Cash / Bank (Refunded amount) .
2. Capital grant (Capital approach):	Initially it is transferred to capital reserve A/c	Capital reserve balance should be reversed. Capital reserve A/c........ Dr To Cash /Bank A/c (Refunded Amt.)

Concept No. 10 - Refund of Grant related to specific fixed asset.

A. In case of Depreciable Assets

Method 1	Method 2
Initial Accounting • Deducted from the gross value	**Initial Accounting** • Grant received is credited to deferred Government Grant A/c and transferred to P&L A/c in systematic and rational basis over the useful life of asset
Accounting at the time of Refund: • Add the refunded amount to fixed asset carrying amount; and • Depreciate the increased carrying amount over the remaining useful life of the asset **prospectively.**	**Accounting at the time of Refund:** • First utilise the balance existing in deferred government grant A/c and if any balance charge to P&L A/c.
Journal Entry • Machinery A/c .... Dr. To Cash / Bank A/c (Refunded amount)	**Journal Entry** • Deferred Govt. Grant A/c........ Dr (Balance in BS) P&L A/c.................. Dr (Balancing fig.) To Cash / Bank A/c (Refunded amount)

<table>
<tr><th colspan="2">B. In case of Non-Depreciable Assets</th></tr>
<tr><td>A. If previously credited to capital reserve if no conditions need to be satisfied.

Reverse the capital reserve with refunded amount.

Capital reserve A/c..... Dr
To Cash / Bank A/c
(Refunded amount)</td><td>B. If conditions need to be satisfied, initially recognised as deferred govt. grant and transferred to P&L in systematic and rational basis so as to match the revenue with expenditure.

Same as Revenue grant refund as discussed above</td></tr>
</table>

Concept No. 11 - Disclosure under AS - 12

1. The accounting policy adopted for government grants
2. The nature and extent of government grants recognised in the financial statements

Chart AS 12 - Accounting for Government Grants

Government Grants are Govt. assistance in cash/kind for compliance of future/past conditions

Two conditions must be satisfied for recognition of Government Grant

1. There is reasonable assurance that the entity will comply with the conditions
2. Ultimate collection is reasonably certain.

Now Let us see "What will be the Accounting treatment for Grant Received"

Govt. Assistance /Grant in form of Cash

Grant Received - related to Specific Asset

- **Depreciable Assets**
  - **Alternative ONE**
    1. Amount received is deducted from the gross value of the asset;
    2. The reduced amount of fixed asset is depreciated over its useful life
  - **Alternative Two**
    1. Amount received is treated as deferred income
    2. Deferred income is recognised in P&L a/c on a systematic and rational basis over the useful life of the asset;
    3. Apply depreciation method to recognise deferred income in P&L a/c;
- **Non - Depreciable Assets**
  - No conditions to be fulfilled → **Credit to capital reserve**
  - Conditions to be fulfilled → **Credit to P & L in a systematic Manner**

Grant Received - related to Revenue Expenses

- **Option 1 – Deduct from related Expenses**
- **Option 2 – Credit to P & L A/c as other income in a systematic basis (Matching Concept)**

Govt. Assistance /Grant in form of kind

- Received at Free of cost Record at Nominal Value
- Received at Concessional Price. Record it at acquisition Rate

Refund of Government Grant

Government grants are generally refundable when the entity does not fulfil certain conditions. Refund of grant is treated as an extraordinary item as per AS 5

Related to Revenue

- Apply first against unamortized deferred GG.
- Balance (if any) - Debit P & L.

Relating to promoters Related to Fixed Asset

Debit Capital Reserve

Related to fixed Asset

- Debit to FA &
- Depreciate the Revised Book Value prospectively over the remaining useful life.
- Debit from Capital Reserve/ Deferred GG. (if any)

Disclosure under Accounting Standard - 12

- Accounting Policy followed by Entity.
- Nature & Extent of Government Grants recognized in Financial Statement.

Questions

Question 1
Supriya Ltd. received a grant of₹ 2,500 lakhs during the accounting year 2010-11 from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2011-12, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS-12.

Question 2
A Ltd. purchased machinery for ₹ 40 lakhs. (Useful life 4 years and residual value₹ 8 lakhs) Government grant received is₹ 16 lakhs. Show the Journal Entry to be passed at the time of refund of grant in the third year and the value of the fixed assets, if:
(1) the grant is credited to Fixed Assets A/c.
(2) the grant is credited to Deferred Grant A/c.

Question 3
Santosh Ltd. has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the company distributed ₹ 2 crores as dividend. Also, Santosh Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS 12 examine, whether the treatment of both the grants is correct.

Question 4
Viva Ltd. received a specific grant of₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2007-08 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2010-11, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2010-11 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2007-08 assuming plant account showed the balance of ₹ 84 lakhs as on 1.4.2010?

Question 5
M/s A Ltd. has set up its business in a designated backward area with an investment of ₹ 200 Lakhs. The Company is eligible for 25% subsidy and has received ₹ 50 Lakhs from the Government. Explain the treatment of the Capital Subsidy received from the Government in the Books of the Company.

Question No. 1 **RTP Nov. 2013**

Yogya Ltd. received a specific grant of ₹ 300 lakhs for acquiring the plant of ₹ 1,500 lakhs during 2009-10 having useful life of 10 years. The grant received was credited to deferred income and shown in the balance sheet. During 2012-13, due to non-compliance of conditions laid down for the grant the company had to refund the grant to the Government. Balance in the deferred income on that date was ₹ 210 lakhs and written down value of plant was ₹ 1,050 lakhs.

(i) What should be the treatment for the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2012-13 in profit and loss account? Assume that depreciation is charged on assets as per straight line method.

(ii) What should be the treatment of the refund if grant was deducted from the cost of the plant during 2009-10?

Answer

As per para 21 of AS 12, 'Accounting for Government Grants', amount refundable in respect of a grant related to revenue should be applied first against any unamortized deferred credit remaining in respect of the grant. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to the Statement of Profit and Loss.

(i) In this case, the grant refunded is ₹ 300 lakhs and balance in deferred income is ₹ 210 lakhs, therefore, ₹ 90 lakhs shall be charged to the Statement of Profit and Loss for the year 2012-13. There will be no effect on the cost of the fixed asset and depreciation charged will be same as charged in the earlier years.

(ii) As per para 21 of AS 12, the amount refundable in respect of grant which was related to specific fixed assets should be recorded by increasing the book value of the assets by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case the book value of the plant shall be increased by ₹ 300 lakhs. The increased cost of ₹ 300 lakhs of the plant should be amortised over 7 years (remaining useful life). Depreciation charged during the year 2012-13 shall be 1200/10 + 300/7 = 162.86 lakhs.

Question No. 2 **RTP Nov. 2014,2017**

S Ltd. received a grant of ₹ 5,000 lakhs during the last accounting year (2012-13) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2013-14, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the correct accounting treatment, with reference to the provisions of AS 12.

Answer

As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. In the present case, the amount of refund of government grant should be shown in the profit and loss account of the company as an extraordinary item during the year 2013-14.

Question No. 3 RTP May 2015

On 1.4.2011, ABC Ltd. received Government grant of ₹ 300 lakhs for acquisition of machinery costing ₹ 1,500 lakhs. The grant was credited to the cost of the asset. The life of the machinery is 5 years. The machinery is depreciated at 20% on WDV basis. The Company had to refund the grant in May 2014 due to non-fulfilment of certain conditions.
How you would deal with the refund of grant in the books of ABC Ltd.?

Answer

According to para 21 of AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing deferred income balance, as appropriate, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		₹ (in lakhs)
1st April, 2011 31st March, 2012 31st March, 2013 31st March, 2014 1st April, 2014 May, 2014	Acquisition cost of machinery (₹ 1,500 - ₹ 300) Less: Depreciation @ 20% Book value Less: Depreciation @ 20% Book value Less: Depreciation @ 20% Book value Add: Refund of grant	1,200.00 (240.00) 960.00 (192.00) 768.00 (153.60) 614.40 300.00 914.40

Depreciation @ 20% on the revised book value amounting ₹ 914.40 lakhs is to be provided prospectively over the remaining useful life of the asset i.e. years ended 31st March, 2015 and 31st March, 2016.

Question No. 4 RTP Nov 2015

White Ltd. A fixed asset is purchased for ₹ 25 lakhs. Government grant received towards it is ₹ 10 lakhs. Residual Value is ₹ 5 lakhs and useful life is 5 years. Assume depreciation on the basis of Straight Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of ₹ 6 lakhs due to non compliance with certain conditions. Pass journal entries for first two years.

Journal Entries

Year	Particulars	₹ in lakhs (Dr.)	₹ in lakhs (Cr.)
1	Fixed Asset Account Dr. To Bank Account (Being fixed asset purchased)	25	 25
	Bank Account Dr. To Fixed Asset Account (Being grant received from the government reduced the cost of fixed asset)	10	 10

	Depreciation Account (W.N.1) Dr. To Fixed Asset Account (Being depreciation charged on Straight Line method (SLM))	2	2
	Profit & Loss Account Dr. To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 1)	2	2
2	Fixed Asset Account Dr. To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	6	6
	Depreciation Account (W.N.2) Dr. To Fixed Asset Account (Being depreciation charged on SLM on revised value of fixed asset prospectively)	3.5	3.5
	Profit & Loss Account Dr. To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 2)	3.5	3.5

Working Notes:

Depreciation for Year 1

	₹ in lakhs
Cost of the Asset	25
Less: Government grant received	(10)
	15
Depreciation [15-5]/5	2

Depreciation for Year 2

	₹ in lakhs
Cost of the Asset	25
Less: Government grant received	(10)
	15
Less: Depreciation for the first year [15-5]/5	2
	13
Add: Government grant refundable	6
	19
Depreciation for the second year [19-5]/4	3.5