Accounting and Depreciation Treatment of Fixed Assets with reference IAS/IFRS.

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Introduction

The Indian economy has undergone a number of reforms in recent years. Particularly, after the Government of India took measures of positioning India in to global market by introducing liberalization and globalization of the economy. This resulted in a more market-oriented economy. Thus making the size of Indian corporate much bigger and thereby increasing the expectations of various stakeholders. Increasing expectations has led to the misinterpretations of the valuations of the Company, specifically the treatment of depreciation on fixed asset of the company as per the Indian Accounting Standards or Indian Financial Reporting System.

In India accounting standards are inadequate due to which the disclosure is ineffective. With this context, an attempt is made here to examine the accounting standards with reference to the treatment of Depreciation on Fixed asset of the Company and their practices in India, with a view to strengthen the accounting standards and improve their practices so that the disclosures made in the financial statements stands true by all sense.

Many issues and questions arise during the process of accounting for items of property, plant and equipment, including determining an asset's useful life, which depreciation method to employ and how to account for impairment of long-term assets. Among the most important of these issues is deciding at which amount to value such items - at their historical cost, which is the price originally paid, or at fair value, which could be one of several metrics that reflect the current value of the asset. The question about the "cost" of items of property, plant and equipment continues to be debated among accounting practitioners and standard setters.

The purpose of this paper is to help readers gain insight into the complexities of the revaluation approach, both at a conceptual level and in the technical, application of the method and to know the user about the basic difference between treatment of fixed assets with reference of IAS and IFRS.

Findings and recommendations of the report are important to regulators, investors, academics and others who are contend, that correct practices of accounting standards is important for increasing investor confidence and market liquidity.

INTERPRETATION OF IAS 16

INTRODUCTION

International Accounting Standard 16 deals with Property, Plant and Equipment commonly known as PPE which are tangible assets that are held

- for use in the production of goods or delivery of services, or
- for an administrative purpose

And are expected to be used for more than one accounting period i.e. are ‘non-current’ in nature.

The term property, plant and equipment is used to describe tangible assets that are long-term in nature and are acquired for use in operations. These assets generally include such items as buildings, machinery, furniture, land and vehicles. Other terms for this category of assets include plant assets and fixed assets. Items of property, plant and equipment are generally distinguished from current assets because fixed assets are not easily converted into cash.

Property, plant and equipment is presented in the financial statements on the balance sheet as a noncurrent asset. Additionally, amounts spent to acquire fixed assets and amounts received from the disposition of fixed assets are included on the income statement as gains or losses and on the statement of cash flows as investing inflows or outflows.

Many issues and questions arise during the process of accounting for items of property, plant and equipment, including determining an asset's useful life, which depreciation method to employ and how to account for impairment of long-term assets. Among the most important of these issues is deciding at which amount to value such items - at their historical cost, which is the price originally paid, or at fair value, which could be one of several metrics that reflect the

Current value of the asset. The question about the "cost" of items of property, plant and equipment continues to be debated among accounting practitioners and standard setters.

The subject matter of this standard is:

- Owned property as against a leasehold property which is covered by another standard IAS 17 Leases

- Owner occupied property as against property held for the purpose of which is covered by IAS 40 Investment Property

OBJECTIVE

The objective of this standard is to prescribe the accounting treatment for PROPERTY, PLANT AND EQUIPMENT (PPE)

The aim to prescribe such accounting treatment is to provide the users of the financial statements with the information relating:

- The investment in PPE and
- The changes therein in the current accounting period.

Main concerning issues in such accounting treatment are:

- Recognition of PPE
- Determination of value of PPE
- Depreciation to be charged
- Recognising impairment relating to PPE

SCOPE

This standard has to be applied generally to all non-current tangible assets except when it is specifically covered by some other standard.

Exceptions:

- **Scope Exclusions –**
    a. PPE classified for held for sale and covered by IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations
    b. Biological Assets covered by IAS 41 – Agriculture

c. Recognition and measurement of exploration and evaluation assets covered by IFRS 6 - Exploration for and Evaluation of Mineral Resources

d. Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this standard applies to items of PPE used to develop or maintain the assets described in (b) and (d).

- **Limited Scope Exclusions –**

a. In certain cases where the recognition criteria of certain PPE are laid in another standard, all matters covered by this standard is applicable except the recognition criteria. For example, IAS 17 Leases where the transfer of the risk and rewards of ownership is the base for the evaluation and recognition of a leased asset.

b. In case of a property under construction or development and which is intended to be used as investment property in future, this standard shall be applied till it meets the recognition criteria under IAS 40 Investment Property. An entity that uses the cost model for investment property in accordance with IAS – 40, should use cost model to implement this standard.

DEFINITIONS

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

Cost is the amount of cash or cash equivalents to cash paid or the fair value of the consideration given to buy an asset at the time of its acquisition, construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRS, for example, IFRS 2 Share-based payment.

Depreciable amount is the cost of an asset or the amount that has replaced it, less its residual value.

Amount is the amount at which an asset is recognized, less accumulated depreciation and impairment losses on the accumulated value.

Recoverable amount is the largest among the net sales price of an asset and its value in use.

Tangible assets are tangible assets that:

- Has an entity for use in the production or supply of goods and services, for lease to third parties or for administrative purposes, and
- Are expected to use for more than a year.

The impairment loss is the amount that exceeds the amount of an asset to its recoverable amount.

Specific value for the entity is the present value of the cash flows that the entity expects to receive by the continued use of an asset and the sale or other disposition by the same route at the end of its useful life. In the case of a liability, it is the present value of the cash flows that are expected to incur to cancel.

Fair value is the amount for which an asset could be exchanged, cancelled or a liability, among stakeholders and duly informed in a transaction conducted at arm's length.

The residual value of an asset is the estimated amount that the entity could now get on disposal or disposition of assets by another means, after deducting the estimated costs of such sale or disposition, if the assets had already reached the age and other conditions expected at the end of its useful life.

Useful life is:

- the period during which it is expected to use the depreciable assets by the entity, or
- the number of production or similar units that are expected of it by the entity.

RECOGNITION

Basic Conditions

Two basic conditions to be fulfilled for an item to be recognised as a PPE are:

- It is probable that there a flow of future economic benefits associated with the asset
- The cost of the asset to the entity can be measured reliably.

Spare parts and auxiliary equipment recognition

Recognised as Inventory

In usual circumstances, spare parts and auxiliary equipment are treated as inventory and charges to Profit and Loss account as and when consumed.

Recognised as PPE

Spare parts and auxiliary equipment are treated as PPE when:

- they are for major maintenance and expected to be used for more than one accounting period, or
- they can only be used in relation to an item of PPE

Unit of measurement as PPE

No unit of measurement has been prescribed. Judgement has to be made on how to apply the criteria for recognition to the specific circumstances of the entity. It might be appropriate to add items that are individually insignificant, such as moulds, tools and dies, and applying the relevant criteria to the totals of the same.

Components of Cost

The cost of PPE includes:

- Start-up Cost/Initial Cost which are incurred to acquire or construct a PPE. This includes cost of asset acquired for safety or environmental reasons.
- Subsequent Cost which includes cost incurred to add to, replace a part of it, or service it.

  Here, replacement cost is included only if the cost incurred meets the recognition criteria.

  Here servicing cost doesn't include the repairs and maintenance cost.

  Cost on major inspection is included if the periodical major inspection for faults is a precondition for the continued use of the assets, provided it meets the recognition criteria.

MESUREMENT AT RECOGNITION

Once every element of PPE meets the conditions to be recognized as an asset, it shall initially be valued at cost.

These costs include:

- Purchase Price

  Plus: import duties and non-refundable purchase taxes

  Minus: trade discounts and rebates

- Costs which are directly attributable in bringing the recognised asset in its present condition and location for its present use.

- Cost of removing and dismantling the asset and resorting the site necessary to enable it to operate as could initially be estimated for the purposes other than the production of stock during such period.

Costs that are not part of PPE are:

- the costs of opening a new production facility
- cost of introducing a new product or service
- costs of opening business in a new location or to a new segment of customers
- administration and other general indirect overheads costs
- costs incurred in using or deploying the asset- For instances:
  - costs incurred while an item is capable of operating in the manner intended by management has yet to be brought into use or is operating at less than full capacity
  - initial operating losses, such as those incurred while demand for the item's output builds up
  - costs of relocating or reorganising part or all of an entity's operations

Cost of Self-constructed Assets

- The principles of ascertaining the cost will be same as for those elements of tangible fixed assets acquired
- Any internal profit is eliminated in arriving at costs
- Cost of abnormal waste in not included in the cost
- The borrowing cost if any are to be included if they are permitted by IAS 23 Borrowing Costs

Valuation of the cost

When item of PPE is purchased

- The cost of an item of PPE will be the equivalent of the spot price on the date of recognition

  In case where the payment is deferred:

  - The difference between the cash price equivalent and the total payment is recognised as interest over the credit period
  - If permitted by IAS 23 Borrowing Costs, this will be included in the cost

When item of PPE is acquired in exchange of a non-monetary asset or assets or a combination cash and non-monetary asset or assets

- The cost is valued at fair value, unless,
  - The exchange transaction lacks commercial substance, or
  - The fair value of neither the asset received nor the asset given up is reliably measurable

    Here, the cost is assessed by the amount of the asset surrendered.

When item of PPE is acquired under finance lease

- Cost is determined as per IAS 17 Leases

When item of PPE is acquired using government subsidies

- According to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, the cost of such a item of PPE can be reduced by the amount of government subsidies received

MEASUREMENT AFTER RECOGNITION

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.

- **Cost Model**

  Carrying amount of PPE is at cost less accumulated depreciation and the cumulative amount of losses from the impairment of value

- **Revaluation Model**

    - PPE whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

    - Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

    - 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 a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

    - Revaluation to be applied, must be applied to the entire class of assets

    - The impact of the revaluation of PPE on taxes on the profits, if any, are accounted for and disclosed in accordance with IAS 12 Income Taxes

Depreciation

Guiding Points:

- The component approach of depreciation is introduced by this standard
- Each item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately
- Depreciation is applied in an independent manner on each part of significant cost of an item of PPE rather than whole the item itself

- Different significant parts of a PPE having the same useful life and depreciation method may be grouped together
- The remaining all insignificant items are grouped together and depreciated separately. However, the entity has the option to depreciate an item of PPE separately even though its cost may not be significant compare to the total cost of the asset

Scheme of charging Depreciation

- The depreciation charged shall be treated as expenditure of the relevant period and recognised in Profit and Loss, unless it has been included in the carrying amount of another asset. This is in cases where the future economic benefits of the asset are absorbed in the production of other assets. For example:
    - Depreciation of a manufacturing facility and equipment will be included in processing costs of inventory as per IAS 2
    - Depreciation of PPE used for development activities may be included in the cost of an intangible asset recognized in accordance with IAS 38 Intangible Assets

Depreciable amount

- The depreciable amount of an asset will be distributed in a systematic manner throughout his life
- The residual value and useful life of an asset is reviewed at least at the end of each financial year and, if expectations differ from previous estimates, the changes are counted as a change in an accounting estimate in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors
- Depreciation is recognised even if:
    - the fair value exceeds its carrying amount and as long as the residual value of the asset does not exceed the amount of the same or carrying amount
    - there are repair and maintenance
- The depreciable amount of an asset is determined after deducting its residual value if the value is considered relevant

- Depreciation of an asset is charged when the asset is available for use
- Depreciation of an asset ceases when the asset is classified as:
    - held for sale, or
    - derecognised
- Depreciation of an asset doesn't ceases when the asset becomes idle or retire from active use

Depreciation period

Factors that determining the useful life of PPE are as follows:

- Use of the asset based on the expected ability or physical performance of it
- The expected natural wear and tear depending on operational factors such as
    - the number of shifts in the asset to be used
    - the program of repairs and maintenance
    - the degree of care and maintenance at idle times
- Technical or commercial obsolescence arising from changes or improvements in production, or from changes in market demand for products or services
- The legal limits or similar restrictions on the use of assets, such as expiry dates of service contracts related to the asset

The useful life is a matter of judgement based on:

- The entity's experience with similar assets
- The policy of asset management conducted by the entity involving the sale or other disposition of assets after a specific period of use, or after having consumed a certain proportion of the economic benefits

Land and Building

- Land and buildings assets are independent and are counted separately, even if they have been acquired together
- The land has unlimited useful life and hence not depreciated except in special cases such as quarries and landfills
- The buildings have a limited life and, therefore, are depreciable assets
- The appreciation in the value of land would not affect the depreciable value of the building
- If the cost of land includes the costs of dismantling, removal and rehabilitation that portion of the land is to be depreciated over the period of benefits derived by incurred these costs.

Depreciation Method

- The depreciation method used should reflect the pattern under which the future economic benefits of the asset are expected to be consumed by the entity
- The depreciation method applied to an asset is reviewed at least at the end of each financial year. If there is any significant change in the expected pattern of consumption, then the method of depreciation must reflect a new pattern. This change will be recorded as a change in an accounting estimate as per IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The method of depreciation include:
    - Straight line method
    - Diminishing balance method
    - Units of production method

  The entity should select the method which closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

- The method of depreciation selected should be applied consistently from period to period unless there is a change in the expected pattern of consumption of the future economic benefits embodied in the asset

Impairment

IAS 36 Impairment of Assets shall be applied to PPE in:

- determining whether the asset is impaired
- asserting how the carrying amount of its assets is to be reviewed
- determining the recoverable amount of an asset
- recognising, if any, reversing the losses from the impairment of asset

The following are treated as separate economic event and hence separate proceeding is followed.

Impairments	**Related Claims or Payments of Compensation**	**Subsequent Rehabilitation Purchase or Construction of Replacement Assets**
Applicable as per IAS 36 Impairment of Assets	Recognised in the Profit and Loss when it become receivable or payable respectively	Determination is done in accordance to this standard

DERECOGNITION

The carrying amount of an item of PPE is derecognised in either of the following two situations:

- sale or disposal, or
- when no future economic benefits are expected from its use, sale or disposal

Gain or Loss arising from the De-recognition

- Gain or loss is the difference between the net disposal proceeds, if any and the carrying amount of the item
- This gain or loss is accounted in the Profit and Loss. In the event of a sale and lease back, IAS 17 Leases will be applicable.
- Benefits are not classified as ordinary income
- The disposal by other means of a piece of PPE can be carried out in various ways. For example, through the sale, finance lease or by donation. To determine the date of the sale or disposal by way of another element, the entity shall apply the criteria set out in IAS 18 Revenue for the recognition of revenue from sales of property.

INFORMATION DISCLOSURE

General Disclosure

- the basis of valuation used to determine the gross carrying amount
- the depreciation methods used
- the useful lives or the depreciation rates used
- the gross carrying amount and accumulated depreciation (together with the cumulative amount of losses from the impairment of value), at the beginning and end of each period
- reconciliation of the carrying amount at the beginning and end of the period showing:
    - additions
    - the assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals
    - purchases made through business combinations
    - increases or decreases resulting from revaluations and impairment of value as per IAS 36 Impairment of Assets
    - losses from the impairment of value recognized in profit or loss, applying IAS 36 Impairment of Assets
    - losses for impairment of value that have reversed, and have been recognized in profit or loss, applying IAS 36 Impairment of Assets
    - depreciation

- the net exchange differences arising on the conversion of financial statements from functional currency to a currency different presentation (including the differences in conversion of a foreign currency to the filing of the reporting entity)
- other changes

Additional Disclosure

- the existence and amounts relating to restrictions on ownership and PPE assigned as security to the fulfilment of obligations
- the amount of expenditure recognized in the carrying amount, in the cases of an item of PPE in course of construction
- the amount of commitments for acquisition of PPE
- if it has not been disclosed separately in the income statement, the amount of compensation from third parties on account of impairment, lost or given up that is included in Profit and loss

Disclosure in case of Revaluation

- the effective date of the revaluation
- whether an independent expert was involved
- the method and significant assumptions applied in estimating the fair value
- the carrying amount of PPE as recognised under the cost model
- the revaluation surplus, indicating the change for the period and any restriction on the distribution of the balance to shareholders

Desirable Disclosure

- the gross carrying amount of PPE that are fully depreciated but are still in use
- when using the cost model, the fair value of PPE when it is significantly different from its carrying amount

Illustration of IAS 16

Example 1

The price paid for a machine is Rs110000 (Rs1,00,000 plus VAT of Rs.10,000). The entity gets a credit of Rs10,000 while calculating the tax payable on the finished goods sold. Additional cost are freight Rs.2000, import duty Rs5000, installation expenses Rs1000. The initial estimate of dismantling and removing the item is Rs3000. After the machine was put to use Rs1500 was spent for maintenance. Calculate the initial cost of the asset and justify your reason as per IAS-16.

Solution:

The cost should be computed as:-

	Rs
Purchase price	100000
Freight	2000
Import duty	5000
Installation Expenses	1000
Initial estimate of dismantling and removing the item	3000
Total Initial Cost	**111000**

Note:-
Maintenance charges of Rs.1500 are to be shown as an expenses in the statement of comprehensive income and not as an asset.

Example 2

Paul Boyle incurs the following costs in relation to the construction of a new factory and the introduction of its products to the local market.

	Rs'000
Site preparation costs	240
Materials used	1,500

Labour costs, including Rs 90,000 incurred during an industrial dispute.
No construction occurred during the period of the dispute.

	3,190
Testing of various processes in factory	150
Consultancy fees re installation of equipment	220
Relocation of staff to new factory	110
General overheads	500
Costs to dismantle the factory at end of its useful life in 10 year time	100

Question: How much of the costs should be capitalised?
Solution

	Rs'000
Site preparation costs	240
Materials used	1,500
Labour costs (Rs 3,190 - Rs90)	3,100
Testing of various processes in factory	150
Consultancy fees re installation of equipment	220
Relocation of staff to new factory	-
General overheads	-
Costs to dismantle the factory at end of its useful life in 10 year time	100
	5,310

There are a number of costs which arise subsequent to acquisition which may be capitalised throughout the life of the asset.
Enhancement costs which significantly enhance the economic benefits by increasing the capacity, improving the quality of output, extending the economic life of the asset or by reducing the operating costs of the assets can be capitalised.
The **Replacement costs** of major components and overhaul costs which improve the economic benefit that can be generated can also be capitalised.

Where PPE consists of a number of assets of different economic lives, it may be appropriate to recognise and account for each component separately for depreciation and inclusion of subsequent expenses. The component approach is also applied where regular major inspections of an asset are a condition of continuing to use it. The cost of each inspection is treated as a separate item (replacement) of PPE, provided recognition criteria are satisfied. Any remaining carrying amount in respect of the previous inspection is derecognised.

Example 3

(a) A company buys an aircraft for Rs 9,000,000. Under civil aviation rules, the aircraft requires a major inspection every three years at a cost of Rs 200,000. Three years after the purchase of the aircraft it undergoes its first major inspection. The costs in relation to the inspection amounted to Rs220,000.

(b) On 1 June 2009, a company spent Rs100,000 to replace the wall lining of one of its two furnaces. The furnace had been acquired six years previously and had a carrying value, at 1 June 2009, amounting to Rs 420,000. Of this amount, Rs 20,000 related to the original wall lining.

Question: Explain how each of these matters should be accounted for in accordance with the requirements of IAS 16.

Solution

(a)

The original carrying value would have been allocated as follows:

	Rs
Aircraft	8,800,000
Costs of inspection	200,000
	9,000,000

The original cost of inspection will be derecognised and the new inspection costs will be recognised in the carrying amount of the asset. Therefore, the new inspection costs are accounted for as an asset addition and the original inspection costs as an asset disposal.

	Rs
Aircraft	8,800,000
Original costs of inspection	(200,000)
New costs of inspection	220,000
	8,820,000

(b)
The cost of replacement wall lining should be recognised as an asset and the carrying amount of the original lining should be derecognised. The carrying amount of the furnace becomes Rs 500,000 (Rs420,000 + Rs100,000 - Rs20,000). The gain or loss on the disposal of the old lining is included in the calculation of the company's statement of comprehensive income (SCI) for the accounting period in which derecognition occurs. This will be the amount received on disposal less the carrying amount of Rs20,000.

Accounting for revaluations

If the carrying amount of an item of PPE is increased as a result of a revaluation, the increase must normally be credited to a revaluation reserve and shown as 'other comprehensive income' in the entity's SCI (statement of comprehensive income). Revaluation losses are recognised as an expense in determining the profit or loss unless they relate to an earlier revaluation surplus. A revaluation increase must be recognised as income when calculating the entity's profit or loss to the extent that it reverses any revaluation decrease in respect of the same item that was recognised as an expense.

Example 4

(a) Asset X was bought for Rs 500,000 five years ago and has been depreciated at 10% on cost per annum. It is now revalued at Rs 800,000. There is no change to the useful life.

(b) An item of land originally cost Rs 30,000. Two years ago it was revalued to Rs 35,000. The value of the land has now fallen to Rs29,000. Assume the profit for the year before adjusting for the fall in value of the land was Rs60,000.

Question: Show how the above items should be treated in the financial statements.

Solution

(a)

	Rs
Debit Asset X – cost/valuation (Rs800,000 - Rs500,000)	300,000

Debit Asset X – accumulated depreciation (Rs500,000 x 5 x10%)	250,000
Credit Revaluation surplus	550,000

Statement of financial position (extract)

	Rs
Property, plant and equipment	800,000
Revaluation surplus	550,000

The revaluation increase should be shown as other comprehensive income in the entity's SCI.

Note: You could also increase the carrying value to Rs 800,000 by debiting Rs 550,000 and crediting revaluation surplus with same.

(b)

When the land was revalued two years ago, the revaluation surplus of Rs 5,000 would have been recognised as other comprehensive income and credited to the revaluation surplus as part of equity. The asset has fallen by Rs 6,000, of which Rs 5,000 should reverse the previous revaluation surplus via other comprehensive income and the remaining Rs1,000 should be recognised in profit or loss.

	Rs
Debit Revaluation surplus	5,000
Debit SCI	1,000
Credit Asset value	6,000

Statement of comprehensive income (extract)

Profit for year (Rs 60,000 - Rs1,000)	59,000
Other comprehensive income:	
Loss on land revaluation	(5,000)

Total comprehensive income for the year	54,000

Statement of changes in equity	Rs
Retained Earning	59000
Revaluation Surplus	(5000)
Total income for the year	54000

Where an asset has been revalued, the deprecation charge is based on the revalued amount, less any residual value, from the date of revaluation. The whole of the depreciation charge is recognised in profit or loss via the SCI. None is recognised in other comprehensive income and consequently set against the revaluation surplus.

However, IAS 16 **permits,** and it is considered best practice to make, a transfer between reserves, of the 'excess' depreciation arising as a result of the revaluation. The effect is that SCI shows the economic benefit consumed, but distributable profits are not affected by extra depreciation on revalued assets. The amount of transfer is actual depreciation charged less equivalent charge based on original historical cost of assets (Debit revaluation surplus, Credit retained earnings). The transfer is shown in the statement of changes in equity.

Example 5

An item of PPE was purchased for Rs 900,000 on 1 January 2007. It is estimated to have a useful life of 10 years and is depreciated on a straight line basis. On 1 January 2009, the asset is revalued to Rs960,000. The useful life remains unchanged at ten years.

	Rs
Actual depreciation for 2009 based on revalued amount (960,000/8)	120,000
Depreciation for 2009 based on historical cost (900,000/10)	(90,000)
Difference	30,000

In the SCI for 2009, a depreciation expense of Rs 120,000 will be charged. A reserve transfer, which will be shown in the statement of changes in equity, may be undertaken as follows:

Debit revaluation surplus	30,000	
Credit retained earnings		30,000

The closing balance on the revaluation surplus on 31 December 2009 will therefore be as follows:

Balance arising on revaluation (Rs 960,000 – Rs 720,000)	240,000
Transfer to retained earnings	(30,000)
Closing balance	210,000

IFRS (International Financial Reporting Standards)

The term IFRS refers to the International Financial Reporting Standards issued by International Accounting Standard Board (IASB). IFRS is a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements.

International Financial Reporting Standards (IFRS) are the globally accepted accounting standards adopted by International Accounting Standard Board (IASB) earlier known International Accounting Standard Committee (IASC).

IFRSs being principle-based standards have distinct advantage that the transactions cannot be manipulated easily to achieve a particular accounting.

The basic objective of IFRS are as follows:

- To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;
- To promote the use and rigorous application of those standards.

It also encompasses the International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). Interpretations of IASs and IFRSs are developed by the International Financial Reporting Interpretations Committee (IFRIC). IFRIC is the new name for the Standing Interpretations Committee (SIC) approved by the IASC Foundation Trustees in March 2002. IFRS includes these interpretations also.

Convergence of Accounting Standards with IFRS

In general, convergence of Accounting Standards (AS) with International Financial Reporting Standards (IFRS) means to achieve harmony with IFRS. The term convergence can be considered as

"to design and maintain national accounting standards in a way that financial statements prepared in accordance with rational AS are in convergence with IFRS". IAS I require financial statements to comply with all requirements of IFRS. This does not mean that IFRS should be adopted word by word. The local standard setters can add disclosure requirements or can remove some requirements which do not create noncompliance with IFRS. Thus, convergence with IFRS means adoption of IFRS with exceptions wherever necessary. Thus, as today IFRS is being used in over 100 countries and it is expected that by 2014, all major countries will have adopted IFRS to some extent, so it was imperative for India also to adopt IFRS to ensure harmony in preparation and presentation of Financial Statements.

Need For IFRS

Indian Accounting Standards and Generally Accepted Accounting Principles (GAAP) are sufficient, relevant and clear when compared to global standards. But with the globalization of business requiring foreign capital and investors, there is need for financial reporting standards to be acceptable to most of the countries including India. IFRS are recognised in many parts of the world including the European Union, Hong Kong, Australia, Russia, South Africa, Singapore and Pakistan. US is also taking steps to converge its GAAPs with IFRS.

It has also been recognised that the use of the IFRS concepts can considerable improve the quality of financial reporting and boost international investors' confidence.

Differences between IFRS, US GAAP and AS (applicable in India) with respect to Fixed Assets:-

When we calculate the carrying amount acc. to AS, acc. to IFRS acc. to USGAAPs there is a difference in some points. The difference are as follows:-

Fixed Assets

	IFRS	US GAAPs	AS
Definition	Tangible Items that are held for use in the production or supply of goods or service, for rentals to others, or for administrative purpose; and are expected to be used to be used more than one year.	Fixed assets are carried at historical cost. Only downward revaluation is permitted for impairment. Exchange fluctuations on loans taken for purchase of fixed assets are expensed when incurred.	Fixed Asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the ordinary course of business.
Initial Measurement of cost	Initial measurement of cost also includes:- a) Fair value gains or losses on qualifying cash flow hedges relating to the purchase of Property, Plant and Equipment (PPE) in a foreign currency b) Cost of dismantling and removing the item or restoring the site on which PPE is located.	Similar to IFRS except hedge gains or losses on qualifying cash flow hedges are not included.	No specific guideline on the Measurement of gains/losses on qualifying cash flow hedges and capitalization of dismantling and site restoration cost
Capitalization	It mandates component Accounting. Each major part of the plant to be depreciated separately	Does not require a component approach for depreciation	AS 10 does not require full adoption of component Accounting. It is stated that accounting of asset may be improved through allocation of cost to various parts of the asset

Determination of Depreciation	The depreciation amount of an item of PPE is allocated on a systematic basis over its useful life.	Similar to IFRS.	Higher of the following: a) Depreciation as per the rate specified in the Schedule XIV of the Companies Act. b) Depreciation as determined based on estimated useful life of the assets
Depreciation methods	A variety of depreciation methods can be used to allocate the depreciable amount on systematic basis over its useful life.	Similar to IFRS.	Either SLM or WDV can be followed.
Changes in the Depreciation method	Change in depreciation method are considered as change in accounting estimate. Prospective effect in current period is made.	Similar to IFRS.	Changes in the depreciation method are considered as change in accounting. Policies and effects to be quantified and disclosed. Retrospective effect in computation of depreciation is given.
Review of Useful Life and Residual Value	Re-assessment of useful life and residual value is required at least at each financial year end.	Similar to IFRS.	AS 10 does not specify any such requirement
Subsequent Costs	Cost of replacement is to be capitalized. The carrying amounts of those parts that are replaced is to be derecognized.	Similar to IFRS.	Replacement cost is expensed. No requirement for Decapitalizing the carrying amount of replaced items

Major inspection cost and overhaul expenditure	The cost of major Inspection and overhaul expenses are to be capitalized.	Similar to IFRS.	The expenditure that increases the benefit over previously assessed capacity is capitalized. The inspection cost and overhaul expenses are expensed.
Revaluation	If an entity adopts the revaluation model, revaluation is required to be made with regular period to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.	Similar to IFRS	No specific requirement on frequency of revaluation.
Group Revaluation	If an item of PPE is revalued, then the entire class of PPE to which that asset belongs to be revalued.	Similar to IFRS.	Revaluation Approach is adhoc in nature.
Depreciation on revaluation	Depreciation on revalued portion cannot be recouped out of revaluation reserve.		Depreciation on revalued portion can be recouped out of revaluation reserve.

Case Study on Fixed Assets of TCS Balance Sheet of 2011-12

Balance sheet as acc. to AS

	AS(Accounting Standard)
	IFRS

Consolidated Balance Sheet as at March 31, 2012

(₹ crores)

		Note	As at March 31, 2012	As at March 31, 2011
I.	**EQUITY AND LIABILITIES**			
	Shareholders' funds			
(a)	Share capital	3	**295.72**	295.72
(b)	Reserves and surplus	4	**29283.51**	24209.09
			29579.23	24504.81
	Minority interest		**558.77**	458.17
	Non-current liabilities			
(a)	Long-term borrowings	5	**115.37**	37.70
(b)	Deferred tax liabilities (net)	6 (a)	**173.45**	109.49
(c)	Other long-term liabilities	7	**285.01**	185.61
(d)	Long-term provisions	8	**217.65**	139.23
			791.48	472.03
	Current liabilities			
(a)	Short-term borrowings	9	**0.89**	31.57
(b)	Trade payables		**3247.87**	2572.33
(c)	Other current liabilities	10	**2422.20**	1923.20
(d)	Short-term provisions	11	**4794.05**	2718.93
			10465.01	7246.03
	TOTAL		**41394.49**	32681.04
II.	**ASSETS**			
	Non-current assets			
(a)	Fixed assets	12		
	(i) Tangible assets		**4820.73**	3935.33
	(ii) Intangible assets		**297.87**	311.76
	(iii) Capital work-in-progress		**1446.37**	1193.89
			6564.97	5440.98
(b)	Non-current investments	13	**577.65**	1078.68
(c)	Deferred tax assets (net)	6 (b)	**256.04**	160.18
(d)	Long-term loans and advances	14	**4517.63**	2953.44
(e)	Other non-current assets	15	**2659.65**	2779.35
(f)	Goodwill (on Consolidation)		**3543.46**	3232.00
			18119.40	15644.63
	Current assets			
(a)	Current investments	16	**772.68**	683.99
(b)	Inventories	17	**17.77**	22.82
(c)	Unbilled revenue	18	**2247.76**	1348.85
(d)	Trade receivables	19	**11520.35**	8194.97
(e)	Cash and bank balances	20	**6003.47**	4700.85
(f)	Short-term loans and advances	21	**2255.19**	1966.64
(g)	Other current assets	22	**457.87**	118.29
			23275.09	17036.41
	TOTAL		**41394.49**	32681.04
III.	**NOTES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS**	1-47		

12) FIXED ASSETS

Fixed assets consist of the following:

(₹ crores)

Description	Gross Block as at April 1, 2011	Additions	Deletions/ Adjustments	Translation exchange difference	Gross Block as at March 31, 2012	Accumulated depreciation / Amortisation as at April 1, 2011	Depreciation / Amortisation for the year	Deletions/ Adjustments	Translation exchange difference	Accumulated Depreciation / Amortisation as at March 31, 2012	Net book value as at March 31, 2012	Net book value as at March 31, 2011
(i) Tangible assets												
Freehold land	329.55	-	-	1.93	**331.48**	-	-	-	-	-	**331.48**	329.55
Leasehold land	97.72	1.98	-	-	**99.70**	(11.55)	(1.74)	-	-	(13.29)	**86.41**	86.17
Freehold buildings	1721.38	438.40	-	6.26	**2166.04**	(290.79)	(77.49)	-	(0.57)	(368.85)	**1797.19**	1430.59
Factory buildings	1.51	1.26	-	-	**2.77**	(0.83)	(0.20)	-	-	(1.03)	**1.74**	0.68
Leasehold buildings	91.08	3.34	(79.26)	0.94	**16.10**	(41.50)	(2.23)	33.27	(0.43)	(10.89)	**5.21**	49.58
Leasehold improvements	610.50	226.35	89.41	13.96	**940.22**	(304.02)	(96.74)	(37.97)	(4.93)	(443.66)	**496.56**	306.48
Plant and machinery	32.24	0.12	(24.60)	2.89	**10.65**	(27.37)	(0.05)	19.06	(2.19)	(10.55)	**0.10**	4.87
Computer equipment	2440.95	543.30	(108.57)	27.82	**2903.50**	(1592.64)	(422.50)	92.17	(14.66)	(1937.63)	**965.87**	848.31
Vehicles	28.06	1.80	(3.56)	(0.11)	**26.19**	(15.64)	(3.80)	2.71	0.12	(16.61)	**9.58**	12.42
Office equipment	777.19	248.56	16.38	7.11	**1049.24**	(337.51)	(98.74)	(0.83)	(3.48)	(440.56)	**608.68**	439.68
Electrical installations	584.53	133.85	(2.42)	5.57	**721.53**	(263.82)	(65.83)	2.02	(2.79)	(330.42)	**391.11**	320.71
Furniture and fixtures	484.04	124.93	(38.25)	5.81	**576.53**	(377.75)	(91.57)	20.25	(0.66)	(449.73)	**126.80**	106.29
Total	7198.75	1723.89	(150.87)	72.18	**8843.95**	(3263.42)	(860.89)	130.68	(29.59)	(4023.22)	**4820.73**	3935.33
Previous year	5928.50	1418.78	(171.31)	22.78	7198.75	(2675.11)	(686.21)	112.30	(14.40)	(3263.42)	3935.33	
(ii) Intangible assets												
Goodwill on acquisition	235.56	-	-	31.71	**267.27**	(98.54)	(20.99)	-	(14.55)	(134.08)	**133.19**	137.02
Acquired contract rights	181.51	-	-	24.43	**205.94**	(75.96)	(16.17)	-	(11.21)	(103.34)	**102.60**	105.55
Intellectual property / distribution rights	12.92	-	-	0.01	**12.93**	(11.06)	(0.38)	-	-	(11.44)	**1.49**	1.86
Software licenses	104.50	11.97	(63.93)	6.20	**58.74**	(94.00)	(12.95)	64.06	(5.53)	(48.42)	**10.32**	10.50
Rights under licensing agreement	59.00	-	-	-	**59.00**	(2.17)	(6.56)	-	-	(8.73)	**50.27**	56.83
Total	593.49	11.97	(63.93)	62.35	**603.88**	(281.73)	(57.05)	64.06	(31.29)	(306.01)	**297.87**	311.76
Previous year	491.01	75.01	3.33	24.14	593.49	(222.36)	(49.05)	(1.35)	(8.97)	(281.73)	311.76	
(iii) Capital work- in-progress											**1446.37**	1193.89
Grand total	7792.24	1735.86	(214.80)	134.53	**9447.83**	(3545.15)	(917.94)	194.74	(60.88)	(4329.23)	**6564.97**	5440.98

(a) Freehold buildings include ₹ 2.67 crores (March 31, 2011: ₹ 2.67 crores) being value of investment in shares of Co-operative Housing Societies and Limited Companies.

(b) Legal formalities relating to conveyance of freehold building having net book value ₹ 0.23 crore (March 31, 2011: ₹ 0.23 crore) are pending completion.

(c) Net book value of computer equipment of ₹20.89 crores (March 31, 2011 ₹1.82 crores), furniture and fixtures of ₹ Nil (March 31, 2011 ₹ 3.00 crores) and lease hold improvements of ₹ 92.57 crores (March 31, 2011: ₹ 30.70 crores) are under finance lease.

Treatment of Fixed Assets

Balance Sheet According to IFRS

Consolidated Statements of Financial Position
As of March 31, 2012, March 31, 2011 and April 1, 2010

	Note	As of March 31, 2012	As of March 31, 2011	As of April 1, 2010
			(In millions of USD)	
ASSETS:				
Current assets:				
Cash and cash equivalents	5	**$391.4**	$348.5	$228.2
Bank deposits		**789.3**	713.4	813.1
Trade receivables	6	**2,258.0**	1,837.8	1,306.4
Investments	7(a)	**157.2**	154.6	570.1
Other current financial assets	8(a)	**301.9**	164.0	155.2
Unbilled revenue		**441.3**	302.5	267.4
Current income tax assets		**-**	50.8	0.3
Other current assets	9(a)	**233.3**	255.5	199.8
Total current assets		**4,572.4**	3,827.1	3,540.5
Non-current assets:				
Bank deposits		**505.5**	605.9	1.0
Investments	7(b)	**133.0**	257.8	271.9
Other non-current financial assets	8(b)	**168.5**	128.6	108.9
Non-current income tax assets		**288.4**	201.6	145.6
Deferred income tax assets	16	**245.1**	264.7	295.7
Property, plant and equipment	10	**1,267.1**	1,166.1	921.1
Intangible assets	11	**34.1**	42.7	26.7
Goodwill	12	**652.5**	722.3	704.6
Other non-current assets	9(b)	**121.1**	101.2	42.2
Total non-current assets		**3,516.6**	3,490.9	2,517.7
TOTAL ASSETS		**$8,089.0**	$7,318.0	$6,058.2
LIABILITIES AND EQUITY:				
Liabilities:				
Current liabilities:				
Trade and other payables	13	**$637.7**	$579.0	$483.3
Borrowings		**2.2**	8.2	14.2
Mandatorily redeemable preference shares	17	**19.6**	22.4	22.3
Other current financial liabilities	14(a)	**171.9**	185.7	119.2
Unearned and deferred revenue		**161.6**	173.1	156.5
Employee benefit obligations	20	**125.9**	118.3	112.8
Current income tax liabilities		**92.1**	89.3	90.3
Other current liabilities	15	**147.1**	124.2	112.1
Total current liabilities		**1,358.1**	1,300.2	1,110.7
Non-current liabilities:				
Borrowings		**22.7**	8.5	8.8
Other non-current financial liabilities	14(b)	**52.1**	53.4	94.5
Employee benefit obligations	20	**42.7**	31.2	22.1
Deferred income tax liabilities	16	**85.0**	126.7	66.7
Other non-current liabilities		**36.2**	25.3	11.7
Total non-current liabilities		**238.7**	245.1	203.8
TOTAL LIABILITIES		**1,596.8**	1,545.3	1,314.5
Equity:				
Share capital	18	**43.6**	43.6	43.6
Share premium		**427.4**	427.4	427.4
Retained earnings		**6,515.1**	5,155.4	4,229.4
Accumulated other comprehensive (losses) / income		**(597.4)**	75.7	(5.8)
Equity attributable to TCS Limited		**6,388.7**	5,702.1	4,694.6
Non-controlling interests		**103.5**	70.6	49.1
TOTAL EQUITY		**6,492.2**	5,772.7	4,743.7
TOTAL LIABILITIES AND EQUITY		**$8,089.0**	$7,318.0	$6,058.2

See accompanying notes to consolidated financial statements

Treatment of Fixed Assets

10. Property, plant and equipment

Property, plant and equipment consist of the following:

Tangible Fixed Asset	Freehold land	Buildings	Leasehold improve-ments	Computer equipments	Auto-mobiles	Furniture, fixtures and office equipments	Total
	(In millions of USD)						
Gross block as of April 1, 2011	$73.9	$389.3	$167.8	$545.7	$6.3	$404.7	$1,587.7
Additions	-	92.5	46.4	115.0	0.4	104.6	358.9
Deletions	-	-	(2.9)	(21.8)	(0.7)	(2.8)	(28.2)
Translation exchange difference	(8.8)	(52.8)	(19.0)	(70.4)	(0.8)	(54.1)	(205.9)
Gross block as of March 31, 2012	65.1	429.0	192.3	568.5	5.2	452.4	1,712.5
Accumulated depreciation as of April 1, 2011	-	(67.5)	(83.2)	(355.5)	(3.5)	(214.8)	(724.5)
Deletions	-	-	2.9	18.9	0.6	2.8	25.2
Depreciation for the period	-	(16.7)	(21.4)	(88.1)	(0.8)	(52.1)	(179.1)
Translation exchange difference	-	9.3	9.9	45.7	0.5	29.9	95.3
Accumulated depreciation as of March 31, 2012	-	(74.9)	(91.8)	(379.0)	(3.2)	(234.2)	(783.1)
Net carrying amount as of March 31, 2012	65.1	354.1	100.5	189.5	2.0	218.2	929.4
Capital work-in-progress							337.7
Total							$1,267.1

Intangible Assets

	Customer-related intangibles	Technology-related intangibles	Acquired contract rights	Software licenses	Intellectual property rights and Others	Total
	(In millions of USD)					
Gross cost as of April 1, 2011:	$4.5	$2.8	$40.7	$23.5	$13.3	$84.8
Additions	-	-	-	2.4	-	2.4
Deletions	-	-	-	(12.8)	-	(12.8)
Translation exchange difference	-	(0.3)	(0.3)	(1.5)	(1.7)	(3.8)
Gross cost as of March 31, 2012:	4.5	2.5	40.4	11.6	11.6	70.6
Accumulated amortisation as of April 1, 2011	(1.0)	(2.5)	(17.0)	(21.1)	(0.5)	(42.1)
Amortisation for the year	(1.7)	(0.1)	(3.4)	(2.7)	(1.4)	(9.3)
Deletions	-	-	-	12.8	-	12.8
Translation exchange difference	-	0.3	0.1	1.5	0.2	2.1
Accumulated amortisation as of March 31, 2012:	(2.7)	(2.3)	(20.3)	(9.5)	(1.7)	(36.5)
Net carrying amount as of March 31, 2012	$1.8	$0.2	$20.1	$2.1	$9.9	$34.1

Comparitive Study of Depreciating Treatment of Fixed Assets by AS and by IFRS

Particulars	In million of Rs								
	Gross Block as of March 31,2012			Accumulated Depreciation as of March			Net carrying amount as of March		
	AS	IFRS	Difference	AS	IFRS	Difference	AS	IFRS	Difference
Tangible assets									
Freehold land	3314.8	3330.2556	15.4556	0	0	0	3314.8	3330	15.46
Leasehold land	997		-997	-132.9		-132.90	864.1		-864.10
Freehold Buildings	21660.4			-3688.5			17971.9		
Factory Building	27.7	21945.924	96.824	-10.3	-3831.5844	-23.8844	17.4	18114.3396	72.9396
Leasehold Buildings	161			-108.9			52.1		
Leasehold improvements	9402.2	9837.2988	435.0988	-4436.6	-4696.1208	-9132.7208	4965.6	5141.178	175.578
Plant and Machinery	106.5		-106.5	-105.5		-105.5	1		-1
Computer equipments	29035	29082.186	47.186	-19376.3	-19388.124	-38764.424	9658.7	9694.062	35.362
Automobiles	261.9	266.0112	4.1112	-166.1	-163.6992	-329.7992	95.8	102.312	6.512
office equipments	10492.4			-4405.6			6086.8		
Electrical	7215.3	23142.9744	-330.0256	-3304.2	-11980.7352	226.3648	3911.1	11162.2392	-103.6608
Furniture,fixtures	5765.3			-4497.3			1268		
Total (a)	**88439.5**	**87604.65**	**-834.85**	**-40232.2**	**-40060.2636**	**-80292.4636**	**48207.3**	**47544.3864**	**-662.9136**
Intangible Assets									
Customer related intangibles	0	230.202	230.202	0	-138.1212	-138.1212	0	92.0808	92.0808
Technology related intangibles	0	127.89	127.89		-117.6588	-117.6588	0	10.2312	10.2312
Goodwill on acquisition	0	0	0	0		0	0	0	0
Acquired contract rights	2059.4	2066.7024	7.3024	-1033.4	-1038.4668	-5.0668	1026	1028.2356	2.2356
Intellectual property / distribution rights	129.3	593.4096	464.1096	-114.4	-86.9652	27.4348	14.9	506.4444	491.5444
Software licenses	587.4	593.4096	6.0096	-484.2	-485.982	-1.782	103.2	107.4276	4.2276
Rights under licensing agreement	590	0	-590	-87.3	0	87.3	502.7	0	-502.7
Total (b)	**3366.1**	**3611.6136**	**245.5136**	**-1719.3**	**-1867.194**	**-147.894**	**1646.8**	**1744.4196**	**97.6196**
Capital work- in-progress (c)							**14463.7**	**17275.3812**	**2811.6812**
Grand Total (a)+(b)+(c)	**91805.6**	**91216.2636**	**-589.3364**	**-41951.5**	**-41927.4576**	**24.0424**	**64317.8**	**66564.1872**	**2246.3872**

Interpretation

- The Net Carrying value of fixed assets in case of Financial statement prepared as per AS is Rs 64317.8 mn and as per IFRs is Rs 66564.1872 mn Thereby having a difference of Rs 2246.3872 mn.

  The major component which makes the difference are:-

Particular	AS	IFRS	Difference
Leasehold improvements	4965.6	5141.17	175.57
office equipments, furniture, etc.	11265.9	11162.24	-103.66
Intellectual property / distribution rights	14.9	506.4444	491.54
Capital work- in-progress	14463.7	17275.38	2811.68

Note:- The comparison has not consider the Goodwill part.

Conclusion

I conclude that the Fixed Assets is very important part of the balance sheet. It is shown under the head Assets in the Balance sheet. In Accounting, there is proper way to do accounting of fixed assets and also for the treatment of depreciation of these fixed assets.

We can do treatment of Fixed Assets with ref. of AS, IFRS and USGAAPs. There are some point common in all the three but some are different as I explained above.

IF do depreciation treatment of fixed assets by AS and IFRS then we find that the carrying amount of fixed assets is more in case of IFRS than AS.

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