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The Institute of
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FACILITATOR

CA. Amit Garg

Fellow Chartered Accountant
Audit & Assurance • RNBP & Co.

98185 88733



PROFESSIONAL PROFILE

- ▶ Amit Garg is a Fellow Chartered accountant and leads the Audit and Assurance practice in his firm RNBP & Co. .
- ▶ 20+ years of professional experience in Assurance & Advisory Services; previously with **S.R. Batliboi & Co. LLP** (EY member firm) for over 12 years in Audit & Assurance.
- ▶ Extensive experience in **IFRS, Ind AS, IGAAP**, Ind AS implementation, ICFR, SOX Testing, Business Process re-engineering, statutory audits, tax audits, Capital Market transactions and due diligence.
- ▶ Faculty for IFRS / Ind AS courses at **ICAI, Indian Corporate Law Service Academy (MCA) and Delhi University**. Corporate trainer on Ind AS and IFRS.
- ▶ **Developed and launched FinSoEasy360** — financial reporting software that generates Schedule III compliant Ind AS / AS standalone and consolidated financial statements along with related-party auto-elimination entries, lease accounting and dashboard reports. (www.finsensor.ai)

REFRESHER COURSE ON ACCOUNTING STANDARDS

AS 10 (Revised 2016)

Property, Plant and Equipment

A deep-dive workshop for Chartered Accountants — scope, recognition, component accounting, depreciation, revaluation, and contentious judgement areas

BY AMIT GARG

What we will cover

- 1 Scope & regulatory context
- 2 Definition and 4 recognition conditions
- 3 Measurement at recognition — Cost components
- 4 Subsequent expenditure — repair vs improvement
- 5 Component accounting — the 2016 game-changer
- 6 Depreciation — amount, useful life, residual value
- 7 Depreciation methods & Schedule II interplay
- 8 Revaluation model — surplus & deficit
- 9 De-recognition — gains, losses & exchanges
- 10 Nuance: Spares — capital or revenue?
- 11 Nuance: Bearer plants & decommissioning costs
- 12 Audit pitfalls & disclosure requirements
- Q & A

Scope, regulatory context & who must apply



Notified under Companies (AS) Rules, 2021

AS 10 (Revised 2016) substituted the earlier 'AS 10 — Accounting for Fixed Assets' and simultaneously withdrew AS 6 (Depreciation Accounting). Notified via MCA Amendment Rules dated 30-Mar-2016, effective for accounting periods commencing on or after 1-Apr-2017. Applies to enterprises following Indian GAAP — Ind AS 16 applies instead to Ind AS entities.



What qualifies as PPE?

Tangible items that are (a) held for use in production / supply of goods or services, for rental, or for administrative purposes, AND (b) expected to be used for more than one period. Excludes inventory, biological assets other than bearer plants, and mineral rights.



Interplay with other standards

Works in parallel with AS 19 (Leases), AS 28 (Impairment of Assets), AS 16 (Borrowing Costs — interest capitalisation), and Schedule II to the Companies Act, 2013 (useful life presumptions).

The 2016 Shake-up

AS 10 (revised) was ICAI's most consequential amendment of the last decade. Four things changed:

- Component-level depreciation became mandatory
- Bearer plants (e.g., tea bushes, rubber trees) moved from AS 2 to AS 10
- Decommissioning costs were formalised as part of asset cost
- The revaluation model was properly codified

RECOGNITION

When to recognise an item as PPE

Para 7 — An item of PPE should be recognised only when BOTH conditions are met. Recognition is an accounting event, not merely a purchase-order event.



Condition 1 — Probable future economic benefits

It is probable that the future economic benefits associated with the item will flow to the enterprise. This is a commercial-judgement test informed by the asset's intended use, business plan, and consumption pattern.

PRACTICAL EXAMPLE

Test case: A dedicated effluent-treatment plant installed only to comply with pollution-control regulations. No revenue attached — but it enables revenue-generating production to continue. → Qualifies.



Condition 2 — Cost measurable reliably

The cost of the item can be measured reliably. Normally satisfied through the purchase invoice or internally through a costing system. Informal guesstimates don't qualify.

PRACTICAL EXAMPLE

Test case: Land received as gift from state government for setting up a project. No consideration paid — measure at fair value and recognise as grant per AS 12.

What goes into 'Cost'?

INCLUDED IN COST (Para 16-22)

- **Purchase price** (after trade discounts, rebates)
- **Non-refundable duties & taxes**
- **Directly attributable costs** — freight, handling, site prep, installation, commissioning, initial test runs net of saleable output
- **Borrowing costs** capitalised under AS 16 (qualifying asset)
- **Professional fees** (architects, engineers, project consultants)
- **Decommissioning obligations** (PV of estimated dismantlement cost — booked against AS 29 provision)

EXCLUDED FROM COST (Para 19-23)

- **Administration & general overheads**
- **Training costs** for operating the asset
- **Costs incurred after asset is ready for use** but not yet put to use
- **Relocation / reorganisation** of operations
- **Opening losses / normal wastage** during production build-up after commissioning
- **Abnormal** wastage of materials, labour, or other resources

SUBSEQUENT EXPENDITURE

Repair vs Improvement — the recognition fork

Para 12-14: Subsequent cost is added to the carrying amount *ONLY* if it meets the recognition criteria (probable benefits + reliable measurement). Otherwise — expense it.

CAPITALISE

Enhances benefits beyond original

- **Major overhaul** extending useful life significantly
- **Upgrade** to higher production capacity or efficiency
- **Safety / environmental upgrades** enabling benefits to continue to flow
- **Replacement of a component** (derecognise old, capitalise new — see Slide 9)

EXPENSE

Day-to-day servicing / restoration

- **Routine maintenance** — lubrication, cleaning, calibration
- **Minor repairs** restoring to normal working condition
- **Consumables replacement** (filters, belts, gaskets)
- **Repainting**, touch-up work for aesthetic upkeep

TEST Ask: *Does this expenditure enhance future benefits compared to the originally assessed performance?* Yes → Capitalise. No → Expense.

Component accounting — mandatory, not optional

CORE PRINCIPLE (Para 45)

Each part of an item of PPE with a cost that is significant in relation to the total cost, and that has a useful life different from the item as a whole, **MUST** be depreciated separately. This is not a choice — it is a recognition and measurement requirement. Schedule II aligns.

ILLUSTRATIVE — AIRCRAFT FLEET AT AN INDIAN CARRIER

Component	Allocated Cost (₹ cr)	Useful life (yrs)	Dep'n p.a. (SLM, ₹ cr)
Airframe	180	25	7.20
Engines	120	10	12.00
Landing gear	40	8	5.00
Cabin interiors	30	5	6.00
Avionics	30	7	4.28
TOTAL	400	—	34.48



Why it matters — single-life depreciation on the ₹400 cr aircraft would have been ₹16 cr p.a. Component approach yields ₹34.48 cr p.a. — more than double. Understating depreciation = overstating PAT. This was the single largest P&L impact of the 2016 amendment.

DEPRECIATION

Depreciable amount, useful life, residual value

Para 50-53: 'The depreciable amount of an asset should be allocated on a systematic basis over its useful life.' Three variables drive the equation — each is an accounting estimate requiring annual review.



Depreciable Value

Cost of the asset (or revalued amount) LESS its residual value. Component-wise where applicable. Not identical to carrying amount — residual value is backed out BEFORE computing depreciation.

REFERENCE

Para 6 & 50. Aligns with Schedule II.



Useful Life

The period over which the asset is expected to be available for use by the enterprise — not the technical life. May be expressed in time (years) OR units produced (units-of-production method).

REFERENCE

Schedule II sets indicative useful lives; shorter/longer life allowed if justified + disclosed.



Residual Value

Estimated amount the enterprise would currently obtain from disposal, net of disposal costs, as if the asset were already at the end of its useful life and in the condition expected at end of life.

REFERENCE

Schedule II — not more than 5% of original cost unless justified.



Annual Review

At each balance sheet date, review (a) residual value, (b) useful life, and (c) depreciation method. Any change is a CHANGE IN ACCOUNTING ESTIMATE — applied prospectively.

REFERENCE

AS 5 treatment. Past periods not restated.

Depreciation is recognised even if fair value exceeds carrying amount — provided residual value doesn't exceed carrying amount.

Depreciation method & Schedule II

Straight-line (SLM)	Written-down-value (WDV)	Units-of-production
Equal charge each period. Most appropriate when benefits are consumed uniformly.	Front-loaded. Appropriate for assets yielding higher economic output in early years.	Charge based on usage / output. Best for mining equipment, printing presses, etc.

SCHEDULE II — COMPANIES ACT, 2013 • THE INTERPLAY YOU MUST UNDERSTAND

Schedule II prescribes indicative **useful lives** for various asset classes — 60 years for buildings, 30 years for general plant & machinery, 15 years for office furniture, and so on.

Company may depart from Schedule II ONLY IF:

- a shorter / longer life is specifically justified on technical grounds, and
- disclosure is made of the life used and reasons for departure (Para 3(ii) of Schedule II).

Component principle applies equally to Schedule II. *E.g., a factory building (60 yrs) with a lift (15 yrs) and AC plant (15 yrs) — each component at its own life, not one blended life for the whole building.*

Revaluation model — optional but committing

Para 34-44: An enterprise may choose the cost model OR the revaluation model as its accounting policy — applied consistently to an entire class of PPE, not cherry-picked item-by-item.

UPWARD REVALUATION — SURPLUS

Route: Credit to **Revaluation Reserve** in Other Equity (not P&L).

Reversal of prior deficit:

If the asset had previously been revalued downward (deficit hit P&L), the current surplus goes first to P&L to reverse that impairment, then any excess to reserve.

Depreciation:

Charged on the revalued amount. Excess depreciation over original-cost basis may be transferred from reserve to general reserve (not to P&L).

DOWNWARD REVALUATION — DEFICIT

Route: Debit to **Profit & Loss** (as an expense).

Exception — prior surplus available:

If the same asset had a revaluation surplus in the reserve, the deficit is first debited to reserve (to the extent of surplus credit), balance to P&L.

Interplay with AS 28:

Where revaluation deficit exceeds impairment loss, the deficit rules apply. Don't double-account. Impairment under AS 28 flows through the cost model route.



Frequency and scope — Revaluations must be frequent enough that carrying amount is not materially different from fair value. For volatile items (land in urban markets) annually; for stable items, every 3-5 years acceptable. Once chosen, the **entire class** of PPE must be revalued — no picking favourites.

Disposal, exchange, and write-off

CORE PRINCIPLE (Para 73-80)

De-recognise PPE on disposal OR when no future economic benefits are expected. The gain or loss = net disposal proceeds MINUS carrying amount — recognised in P&L. Gains from disposal are NOT revenue (Para 75).



Sale for cash consideration

Gain / loss = (Proceeds net of selling costs) – (Carrying amount on date of disposal). Recognise on date control transfers (usually physical delivery + invoice issue).



Exchange of assets (non-monetary)

Measure new asset at fair value of asset given up, UNLESS (a) exchange lacks commercial substance, or (b) neither fair value is reliably measurable — in which case measure at carrying amount given up.



Abandonment / scrapping

When the asset is no longer capable of yielding future benefits, de-recognise. Any salvage value realised is recognised as disposal proceeds. Full loss in period.



PRACTICAL EXAMPLE — MACHINE SWAP AT A STEEL PLANT

A rolling mill (carrying amount ₹12 cr, fair value ₹15 cr) is exchanged for a newer reconditioned mill. Cash paid in addition: ₹3 cr. Commercial substance present. **New asset cost = FV of asset given up (₹15 cr) + cash paid (₹3 cr) = ₹18 cr. Gain on disposal of old mill = ₹15 cr – ₹12 cr = ₹3 cr (P&L).**

Spares — capital PPE or revenue inventory?

The 2016 amendment redrew this line. Was AS 2 → now AS 10 for standby equipment & major spares.

THE 3-WAY CLASSIFICATION

Consumable / routine spares

Expected life < 12 months

INVENTORY (AS 2)

EXAMPLE

Nuts, bolts, gaskets, filters, belts. Expense when consumed.

Standby equipment

Ready to use when primary asset fails

PPE (AS 10)

EXAMPLE

Backup transformer, standby DG set, spare turbine. Depreciate from date of availability.

Major / insurance spares

Can only be used with specific asset, life > 12 months

PPE (AS 10)

EXAMPLE

Specific rotor for a single turbine, dedicated gearbox for one mill. Depreciate over the life of the parent asset.

Bearer plants & decommissioning costs



BEARER PLANTS

Moved INTO AS 10 by 2016 amendment

Definition (Para 8A): A living plant that —

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than one period; AND
- (c) has a remote likelihood of being sold as agricultural produce (except for incidental scrap sales).

Classical examples: tea bushes, rubber trees, coffee plants, apple orchards.

Accounting: Capitalise establishment costs (land prep, planting, nurturing to bearing-age). Depreciate over bearer-life. Agricultural PRODUCE (tea leaves, rubber latex) remains inventory — that's AS 2.



DECOMMISSIONING COSTS

Capitalised as part of cost of PPE

When? Where an enterprise has a present obligation (legal OR constructive) to dismantle, remove and restore the site on which an asset is located.

Initial measurement: Present value of expected future cost, discounted at a pre-tax rate reflecting current market assessment of time-value.

Journal entry:

Dr. Asset Cost / Cr. Decommissioning Provision (AS 29)

Classical example: an oil & gas E&P company must restore the well-site after depletion. Offshore oil rigs, nuclear plants, mining sites — all carry significant decommissioning obligations.

Changes in estimates — the AS 5 trap

Revised AS 10 clarifies: Changes in useful life, residual value, and depreciation method are changes in ACCOUNTING ESTIMATE — applied prospectively under AS 5. This is different from the pre-revision position where method changes were treated as policy changes.

Trigger event	Pre-2016 (old AS 10 / AS 6)	Revised AS 10 (current)
Change in useful life	Change in estimate — prospective	Change in estimate — prospective
Change in residual value	Limited treatment	Change in estimate — prospective
Change in depreciation method (e.g., SLM→WDV)	Change in policy — retrospective	Change in estimate — prospective
Recognising new components	Not contemplated	Applied retrospectively at transition; prospectively thereafter
Revision in decommissioning estimate	Not addressed	Adjust PPE cost; depreciate revised amount

Where things go wrong in practice



COMMON AUDIT FINDINGS

Top seven issues inspectors raise

- 1 Component accounting not applied** — blended useful life on a composite asset (building + lifts + HVAC).
- 2 CWIP sitting indefinitely** — asset ready for intended use but not transferred out of CWIP. Depreciation not yet started.
- 3 Decommissioning estimate not provided** — especially in O&G, mining, power plants with significant restoration obligations.
- 4 Abnormal trial-run losses capitalised** — cost of scrapped batches during initial commissioning incorrectly added to PPE.
- 5 Residual value > 5% of cost without justification** — to reduce depreciation charge; Schedule II violation.
- 6 Revaluation reserve transfer to P&L** — frequently attempted; should flow to general reserve, not P&L.
- 7 Insurance spares as inventory** — should be PPE if usable only with a specific asset & life > 12 months.



DISCLOSURE

Key disclosures required

- Measurement bases used (cost / revaluation)
- Depreciation methods & useful lives by class
- Gross carrying amount + accumulated depreciation at period-end
- Reconciliation of carrying amounts (beginning / additions / disposals / depreciation / other / end)
- Restrictions on title, assets pledged as security
- CWIP & contractual commitments for future acquisition
- Revaluation particulars — methods, effective date, classes revalued

Key Takeaways

01

Component accounting is mandatory — blended lives no longer acceptable where sub-parts have different useful lives.

02

Cost is NOT invoice value alone — includes directly attributable costs + decommissioning PV. Train, relocation, admin OUT.

03

Changes in useful life, residual value and method are all changes in ESTIMATE under revised AS 10 — prospective.

04

Revaluation model is a class-level policy choice, consistently applied. Never cherry-pick individual items.

05

Revaluation deficit hits P&L; surplus goes to reserves. Don't shortcut either direction.

06

Schedule II provides the floor — departures must be technically justified AND disclosed, not just assumed.

Discussion & Questions

Thank You

Presented by: Amit Garg
E-mail ID- amit.garg@finsensor.ai
Contract No. 98185 88733
