Indian Government Financial Reporting Standard (IGFRS) 2

Property, Plant and Equipment

Government Accounting Standards Advisory Board

About IGFRS

Government Accounting in India follows cash basis of accounting. Government Accounting Standards Advisory Board (GASAB) constituted by Comptroller and Auditor General of India, with the support of Government of India, has been working on migration to accrual basis accounting in Union and States. As per constitutional provisions, any change in basis of accounting (from cash to accrual) would essentially be based on a decision of President of India on the advice of Comptroller and Auditor General of India. However, there is a felt need for an accounting framework and accounting standards on accrual basis to facilitate pilot studies and research efforts on migration to accrual accounting at Union and State level. To facilitate such pilot studies and also for scale up of activities, GASAB decided to develop accrual basis accounting standards alongside cash basis standards. This is based on the need expressed by many stakeholders. The accrual basis standards will be issued under the title ***'Indian Government Financial Reporting Standards (IGFRS)'***

These standards will initially be recommendatory for the pilot studies on accrual accounting and will become mandatory, with effect from the date of notification as such, by Government of India.

Bases for Conclusions (BC)

The IGFRS is an adaptation of International Public Sector Accounting Standard (IPSAS) 17 dealing with Property, Plant and Equipment aligned to Indian requirements. This section summarizes the bases for conclusions on key issues deliberated while finalising the Standard:

BC 1: Exchange Transactions – conceptual distinction vis-a-vis non exchange transactions

IPSAS 17 'Property, Plant and Equipment', issued by IPSAS Board defines a transaction as an exchange transaction, in which one entity receives assets or services, or has liabilities extinguished and directly gives approximately equal value to the other party in exchange. Approximate equal value basically requires the determination of the fair value of consideration given or received. If approximately equal value is not exchanged, it will not be treated as an exchange transaction.

It is felt that Governments in India would find it difficult to calculate the fair value in case of each transaction to determine whether the transaction is an exchange transaction. On the other hand, it is also felt that if incomparable values are exchanged, it should not be treated as an exchange transaction. In this background, AED uses the term 'approximately comparable value' instead of 'equal value' with the intention that the accounting authority could take a subjective decision, where necessary, without recourse to assessing the value of the transaction in monetary terms.

Another option for definition of exchange transactions that could be considered is that any transaction where 'some value' exists be treated as an exchange transaction. In this model, all transactions where some value or some amount is exchanged will be considered as exchange transactions. While this may be completely a deviation from IPSAS, it would serve practical considerations.

Responses were sought on the preferred option for inclusion in IGFRS – viz., (i) approximately equal value, (ii) approximately comparable value or (iii) some value for exchange transactions. Most of the respondents were of the view that 'approximately comparable value' included in the ED is acceptable. Fewer responses suggested that 'some value' should be the basis for definition of exchange transactions. There was no preference to using the IPSAS terminology of 'approximately equal value'. From a conceptual stand point, GASAB Secretariat is of the opinion that 'some value' is not appropriate for the reason that even ₹ 1 consideration against the transaction value of ₹ 1 Crore (say) would make the transaction an exchange transaction, while the intention of the standard is to exchange. The IGFRS, therefore, takes as the basis transactions with 'approximately comparable value' given or received as consideration for distinguishing between exchange and non exchange transactions.

BC 2: Option to value assets at ₹ 1/-

The recognition criterion for Property, Plant and equipment (PPE) under IPSAS requires the cost or fair value to be necessarily identified. Since the feasibility of cost or fair value identification for each Government asset is not only difficult, but in many cases not economical when compared to the benefits derived from such determination, a third recognition criterion that cost or fair value be otherwise determinable, though such values be not actually available, is included in the standard. This gives an option to Governments to place a nominal value of ₹1 on assets at the time of migration to accrual basis accounting.

Comments were sought on whether this treatment of placing ₹ 1 as value of PPE incorporated specifically to facilitate migration to accrual basis accounting is acceptable. The majority of respondents were in agreement, though there were serious objections from significant number of respondents. Primarily, those who opposed the treatment felt that it would not reflect true and fair value. There were suggestions for including '₹ 1 or some other value' as value of asset. After considering the pros and cons of the various options, GASAB Secretariat feels that the proposed treatment is the most feasible option as, otherwise, accrual accounting would not take off merely because of the enormity of work involved in valuing assets. In any case, this is only a transitory provision to be used while preparing the first Balance Sheet. All assets acquired subsequently would be accounted for as per generally accepted valuation methods. Further, this is applicable only in a situation where values are otherwise not available. Hence the IGFRS incorporates the accounting treatment of valuing assets at₹ 1 at the time of preparation of first Balance Sheet.

BC 3: Treatment of heritage assets in financial reporting:

IPSAS does not prescribe accounting for Heritage assets that do not satisfy the definition of PPE. It is left to the country to decide whether to bring heritage assets that do not satisfy the definition and recognition criterion of PPE into the financial statements. AED prescribes all heritage assets including those that do not satisfy the definitional requirements and recognition criterion of PPE to be brought into financial statements. The latter kind of heritage assets may be taken at a nominal value of ₹ 1 with no depreciation.

Comments were sought on the accounting treatment proposed for heritage assets. Most of the respondents agreed that heritage assets be recognised in financial statements. The accounting treatment proposed in the exposure draft for such heritage assets is therefore incorporated in the standard.

Property, Plant and Equipment

The standards, which have been set in bold italic type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type. The Indian Government Financial Reporting Standards are not intended to apply to immaterial items.

Objective

1. The objective of the Standard is to prescribe the accounting treatment for property, plant and equipment (PPE) so that users of financial statements can obtain information regarding an entity's investment in its property, plant and equipment and any changes in such investment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

2. The existing cash basis accounting in Government recognises PPE in terms of capital expenditure in the Finance Accounts. The detailed statement of capital expenditure provides information about the current year's capital expenditure as also the cumulative expenditure over a period of time. Assets are classified based not on their nature, but on the basis of Major heads. There is no concept of depreciation. Heritage assets are not recognised in accounts.

3. This standard aims at categorising assets according to their nature and also aims to provide for depreciation of assets, taking into account their usage over the life of the assets This Accounting Standard is applicable to Governments at Union and States and also their sub-entities like departments or offices where the latter are treated as reporting entities for financial statements. The Accounting Standard is applicable to all such entities following accrual basis accounting.

4. The Accounting Standard is essentially an adaptation to Indian requirements of International Public Sector Accounting Standard (IPSAS 17) issued by IFAC on Property, Plant and Equipment.

5. As India is in the process of migration to accrual basis accounting, many pilot studies are being undertaken at Union and States. Government Accounting Standards Advisory Board (GASAB) issues Indian Government Financial Reporting Standards (IGFRS) on accrual basis to facilitate migration to accrual accounting.

6. The Standard is envisaged to provide guidance to pilot studies and the eventual development of a common reporting framework under accrual basis for the Union and the States. The IGFRS are subject to revision by GASAB based on experiences with pilot studies.

SCOPE

7. ***An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for property, plant and equipment, except when a different accounting treatment has been adopted in accordance with another IGFRS***

   This Standard does not apply to:
   (i) Biological assets related to agricultural activity; and
   (ii) Mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

   However, this Standard does apply to property, plant and equipment used to develop or maintain the activities or assets stated above but which are separable from those activities or assets. This Standard also does not apply where other Indian Government Financial Reporting Standards permit the initial recognition of the carrying amount of property, plant and equipment to be determined using an approach different from that prescribed in this Standard.

8. This Standard does not apply to Government Business Enterprises (GBE) ie., Public Sector Enterprises like Indian Oil Corporation, BHEL etc. GBEs are required to comply with Accounting Standards issued by the Institute of Chartered Accountants of India and notified by Government of India as per Companies Act.

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

   Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

   Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity's operations, which is shown as a single item for the purpose of disclosure in the financial statements.

   Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

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

   Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

   Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately comparable value in exchange, or gives value to another entity without directly receiving approximately comparable value in exchange.

Property, plant and equipment are tangible assets that:
(a) Are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) Are expected to be used during more than one reporting period.

Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:
(a) The period of time over which an asset is expected to be used by the entity; or
(b) The number of production or similar units expected to be obtained from the asset by the entity.

Heritage assets are assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture and this purpose is central to the objectives of the entity holding them. As well as museum collections such as those of art, antiquities and books the term 'heritage assets' includes assets such as landscape and coastline, historic buildings and archaeological sites.

RECOGNITION

10. The cost of an item of property, plant and equipment should be recognised as an asset when:

(i) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

(ii) The cost or fair value of the asset to the entity can be measured reliably;

11. Spare parts and servicing equipment are usually carried as inventory and recognized in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

12. This standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

13. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

14. Specialist military equipment will normally meet the definition of property, plant and equipment and should be recognized as an asset in accordance with this Standard.

INFRASTRUCTURE ASSETS

15. Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard.

16. Some assets are commonly described as "infrastructure assets". While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

(i) they are part of a system or network;

(ii) they are specialised in nature and do not have alternative uses;

(iii) they are immovable; and

(iv) they may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to entities in the Government sector, significant infrastructure assets are frequently found in the public sector. Examples of infrastructure assets include road networks, railway lines, airports, sewer systems, water and power supply systems and communication networks.

INITIAL COSTS

17. Items of property, plant and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because without them the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment.

SUBSEQUENT COSTS

18. Under the recognition principle in paragraph 11, an entity does not recognize in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of property, plant and equipment.

19. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 11, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard.

20. A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) 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 recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction

in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at Recognition

21. An item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost.

22. Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

23. Where determination of cost or fair value of such an asset is difficult due to first time recognition under migration to accrual accounting, at a nominal value of ₹ 1.

24. An asset may not have a determinable cost because of inadequate or nonexistent records. For example, an historic building of national significance may have been acquired several hundred years ago and no record of its acquisition cost may be available. Similarly, an entity may have only recently adopted accrual accounting, prior to which it did not maintain any records of assets. Where an asset does not have a determinable cost, its fair value should be established as at the first reporting date that it is recognised in the financial statements as an asset. If the fair value is difficult to determine, a nominal value of ₹ 1 may be taken for financial statements purposes.

25. An item of property, plant and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to a local government by a developer at no or nominal consideration, to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. Gifted assets also constitute assets acquired under non-exchange transactions. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

26. For the purposes of this Standard, the measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraphs 23 or 24, does not constitute a revaluation. Accordingly, the revaluation requirements apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

ELEMENTS OF COST

27. The cost of an item of property, plant and equipment comprises:
    - (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
    - (b) Any costs 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.
    - (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

28. Examples of directly attributable costs are:
    a. Costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;
    b. Costs of site preparation;
    c. Initial delivery and handling costs;
    d. Installation and assembly costs;
    e. Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
    f. Professional fees.

29. Examples of costs that are not costs of an item of property, plant and equipment are:
    a. Costs of opening a new facility;
    b. Costs of introducing a new product or service (including costs of advertising and promotional activities);
    c. Costs of conducting business in a new location or with a new class of customers (including costs of staff training); and
    d. Administration and other general overhead costs.

30. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

    a. Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
    b. Initial operating losses, such as those incurred while demand for the item's output builds up; and
    c. Costs of relocating or reorganizing part or all of the entity's operations.

31. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site

as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.

32. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale. Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. "Borrowing Costs" that satisfies the criteria for the recognition of interest are recognised as component of the carrying amount of a self-constructed item of property, plant and equipment.

MEASUREMENT OF COST

33. The cost of an item of property, plant and equipment is the cash price equivalent or, for an item referred to in paragraph 23, its fair value at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is recognized in the carrying amount of the item in accordance applicable Accounting Standard.

34. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

35. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:
    a. The configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or
    b. The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and
    c. The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

    For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

36. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

MEASUREMENT AFTER RECOGNITION

37. **An entity shall measure PPE using the cost model described in paragraph 39.**

COST MODEL

38. **After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.**

DEPRECIATION

39. **Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.**

40. An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

41. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

42. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

43. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

44. The depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset.

45. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories. Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with the relevant international or national accounting standard dealing with intangible assets.

DEPRECIATION AMOUNT AND DEPRECIATION PERIOD

46. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

47. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate.

48. Depreciation is recognized even if the fair value of the assets exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.

49. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

50. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

51. Depreciation of an asset begins when it is available for use i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

52. The future economic benefits or service potential embodied in an item of property, plant and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

   a. Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

b. Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle.
c. Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
d. Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

53. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

54. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

55. If the cost of land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

DEPRECIATION METHOD

56. The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.

57. The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate.

58. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected Pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

Impairment

59. To determine whether an item of property, plant and equipment is impaired, an entity applies the applicable standard on 'Impairment of Assets'. Till such an IGFRS on Impairment of Assets is developed, the entity need not test the assets for impairment. However if an entity seeks to test PPE for impairment, the relevant IPSAS may be used.

Compensation for Impairment

60. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

61. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

   a. Impairments of items of property, plant and equipment are recognized in accordance with applicable IGFRS;
   b. Derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;
   c. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable; and
   d. The cost of items of property, plant and equipment restored, purchased or constructed as replacement is determined in accordance with this Standard.

Derecognition

62. The carrying amount of an item of property, plant and equipment shall be derecognized:

   a. On disposal; or
   b. When no future economic benefits or service potential is expected from its use or disposal.

63. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognized. Gains shall not be classified as revenue.

64. The disposal of an item of property, plant and equipment may occur in a variety ways (e.g., by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IGFRS 3, "Revenue from Exchange Transactions" for recognizing revenue from the sale of goods.

65. If, under the recognition principle in paragraph 11, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

66. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

67. The consideration receivable on disposal of an item of property, plant and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IGFRS 3.

HERITAGE ASSETS

68. Some assets are described as "heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves and works of art. Certain characteristics are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

   a. their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

   b. legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

   c. they are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and

   d. it may be difficult to estimate their useful lives, which in some cases could be several hundred years.

69. Governments may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. Many heritage assets exist in the country and the Government at Union or the State may have control over them. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

70. All heritage assets that meet the definition of property, plant and equipment and the recognition criteria in Paragraph 11 should be accounted for in accordance with the standard. Heritage assets where historical cost details are available would be valued at historical cost.

71. Heritage assets that do not meet the definition of property, plant and equipment or the recognition criteria in Paragraph 11 should be accounted for at a nominal value of ₹ 1. There would be no depreciation in case of such assets.

DISCLOSURE

72. **The financial statements shall disclose, for each class of property, plant and equipment recognized in the financial statements:**
    a. **The measurement bases used for determining the gross carrying amount;**
    b. **The depreciation methods used;**
    c. **The useful lives or the depreciation rates used;**
    d. **The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**
    e. **A reconciliation of the carrying amount at the beginning and end of the period showing:**
        i. **Additions;**
        ii. **Disposals;**
        iii. **Acquisitions through entity combinations;**
        iv. **Increases or decreases resulting from revaluations and from impairment losses (if any) recognized or reversed directly in net assets/equity;**
        v. **Impairment losses recognized in surplus or deficit;**
        vi. **Impairment losses reversed in surplus or deficit;**
        vii. **Depreciation;**
        viii. **The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and**
        ix. **other changes.**

73. **The financial statements shall also disclose for each class of property, plant and equipment recognized in the financial statements:**
    a. **The existence and amounts of restrictions on title, and property, plant and equipment pledged as securities for liabilities;**
    b. **The amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction;**
    c. **The amount of contractual commitments for the acquisition of property, plant and equipment; and**
    d. **If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.**

74. Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:
    a. Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and
    b. Accumulated depreciation at the end of the period.

75. An entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:
    a. Residual values;
    b. The estimated costs of dismantling, removing or restoring items of property, plant and equipment;
    c. Useful lives; and
    d. Depreciation methods.

76. Users of financial statements may also find the following information relevant to their needs:
    a. The carrying amount of temporarily idle property, plant and equipment;
    b. The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
    c. The carrying amount of property, plant and equipment retired from active use and held for disposal; and
    d. When the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

    Therefore, entities are encouraged to disclose these amounts.

TRANSITIONAL PROVISIONS

77. **The cost of an item of property, plant and equipment should be recognised as an asset also if cost or fair value, which otherwise would be determinable are not available or is difficult to determine due to first time recognition under transition to accrual basis accounting.**

78. **The entity shall recognize the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant and equipment is initially recognized.**

79. For entities in transition to accrual basis accounting, the following is a suggested order of preference for valuation of PPE:
    a. Cost and Date of purchase/construction available/ascertainable, they may be used to ascertain the cost, depreciation and carrying value of assets.
    b. If Cost is not available/ascertainable but date of construction/purchase available/ascertainable.
        i. If asset has outlived its estimated useful life, value at ₹1/-. Estimation of useful life to be done by qualified Engineers.
        ii. Buildings:
            (a) If asset has not outlived its useful life, valuation of buildings may be done based on per sq.ft. or plinth area at depreciated value as on the date of change over.
            (b) If standard plinth area or per sq.ft. rate is not available, current replacement cost based on the recent plinth area rate or per sq.ft. rate as prescribed above. The value so arrived at to be deflated till the year of construction based on wholesale price index and then depreciated.

(c) Other Assets: If current replacement cost may be determined. That cost will be deflated till the year of construction/purchase based on wholesale price index and then depreciated.

c. If neither cost nor date of purchase/construction is available valuation the asset may be valued at ₹ 1.

80. In case of land where original documents are not available, valuation can be ascertained from the relevant records of the Land Revenue Department or transaction value of a similar plot in the similar area around the estimated year of transaction.

81. **Land acquired through purchase:** Land will be recorded at the purchase price paid/payable and other incidental costs such as registration charges incurred to bring the asset to its present location and condition.

82. **Land acquired through compulsory acquisition:** Land will be recorded at the total compensation paid/payable for the acquisition of the land. If the amount of compensation is in dispute, amount that would be recorded would be based on documentary proof. The extra amount, if determinable, that might become payable on resolution of the dispute will be disclosed as a contingent liability in the notes to Accounts. If ultimately the extra amount is paid, it will be added to the cost of Land.

83. **Land acquired free of cost or donated land**: Land may be recorded at nominal value of ₹1 and cost of any developmental work done to be capitalized.

Effective Date

84. This Indian Government Financial Reporting Standard shall be recommendatory in nature. It has been duly approved by the Comptroller and Auditor General of India and is effective from 9 September, 2010. It shall be mandatory for financial reports covering periods subsequent to the date of notification by Government.

Appendix

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning in a number of situations. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors which might influence the accounting treatment of Property, Plant and Equipment. The examples do not modify or override the standards.

Illustrative Disclosures Examples

Central Public Works Department (CPWD) is a Government department that controls a wide range of property, plant and equipment and is responsible for replacement and maintenance of the property. The following are hypothetical extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. **Land**
    a. Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the __________ the official valuer of Government of India.
    b. Restrictions on Titles: Five hundred hectares of land (carried at ₹ 6,25,00,000) is designated as national interest land and may not be sold without the approval of the parliament. Two hundred hectares (carried at ₹ 2,50,00,000) of the national interest land and a further two thousand hectares (carried at ₹ 2,50,00,000) of other land are subject to title claims by former owners in the Supreme Court of India and the Court has ordered that the land may not be disposed of until the claim is decided.

2. **Buildings**
    a. Buildings consist of office buildings and industrial facilities at various locations.
    b. Buildings are initially recognized at cost. They are subsequent to purchase also recognised and depicted at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.
    c. The Department has entered into five contracts for the construction of new buildings; total contract costs are ₹ 2,50,00,000.

3. **Machinery**
    a. Machinery is measured at cost less depreciation.
    b. Depreciation is calculated on a straight-line basis over the useful life of the machine.
    c. The machinery has various useful lives:
       Tractors: 10 years
       Road Roller: 4 years
       Cranes: 15 years

d. The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings - the contracted cost is ₹ 100,000.

4. **Furniture and Fixtures**

   a. Furniture and fixtures are measured at cost less depreciation.
   b. Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.
   c. All items within this class have a useful life of five years.