

SRILANKA ACCOUNTING STANDARD FOR PROPERTY, PLANT AND EQUIPMENT, AND ACCOUNTING FOR ASSETS DEPRECIATION.

PROPERTY, PLANT AND EQUIPMENT:-

The Non Current assets that are acquired with the purpose of using for business operations for a time period of more than one year, are known as Property, plant and Equipment. They are absolutely tangible.

Ex:-

- *Lands
- *Buildings
- *Motor vehicles
- *Machinery
- *Equipment
- *Furniture and fittings

COST OF PPE:-

The total value of PPE which has already been made for bringing the assets to the current location and position/condition, is identified as the Cost. The cost could comprise with the following items.

	Rs.
-Purchasing price.....	xxxxx
-Transport payments.....	xxx
-Taxes non claimable.....	xxx
-Permits and licenses.....	xx
-Trialing expenses.....	xx
-Consultancy fees.....	xx
-Installation expenses.....	x
-Expenses for site and location arrangements.....	xxx
-Demolishing charges.....	x
-All the payments made to bring up the asset to the present location and condition.....	<u>xxx</u>
	xxxxx
Less:-Discounts.....	(xx)
Income of selling trial outcome.....	(x)
Cost.....	<u>xxx</u>

Useful Life Line of PPE:-

The time period for which a particular asset is supposed to be used for business operations or the number of items expected to be produced with an asset, is called the Useful Life line of that asset.

Residual Value of PPE:-

The value of an asset, at the end of the Useful Life Line, is the residual value of that asset.(Ex:-Parts of a motor vehicle has a value for old iron after it's useful life as well as the furniture has a value for firewood after the useful life.)

Depreciation of PPE:-

The equal value of decrease recognized for each year, when the depreciable value is fairly distributed throughout it's useful life, is identified as Depreciation.

Depreciable value = Cost – Residual value

Cost formulas for computation of the annual depreciation expenditure:-

$$\text{Annual depreciation expenditure} = \frac{\text{Cost} - \text{Residual value}}{\text{Useful life}}$$

Or;

$$\text{Annual depreciation expenditure} = \text{Cost} \times \text{Annual rate of depreciation}$$

Depreciable assets:-

The assets of which the useful life is exact and more than one year, and of which the useful life is not still over, are known as the depreciable assets.

Ex:- *Buildings

*Motor vehicles

*Machinery

*Equipment

*Furniture

Non- depreciable assets:-

- *Assets of which the useful life is already over.
- *Assets of which the useful life is less than one year.
- *Non regenerating assets such as mines
- *Natural resources such as rocks and forests

Accumulated depreciation:-

The total of the depreciation expenditure of several years, as at a certain date, is identified as Accumulated depreciation, of PPE.

Carrying Value of PPE:-

The difference between the cost and accumulated depreciation as at a certain date, is known as the carrying value.

$$\text{Carrying Value} = \text{Cost} - \text{Accumulated depreciation}$$

Fair Value of PPE:-

The value of exchange of an asset or the value of origin of a liability, determined in a transaction occur between two or among more market participants, that take place at arm's length, is known as the Fair Value of PPE.

Recoverable Value/Amount:-

The gain/ income that is anticipated to be recovered from a particular asset, within the useful life time of that asset, is known as the Recoverable Amount of that asset.

Impairment Loss:-

If the Recoverable amount is less than the Carrying amount of a particular asset, the difference is known as the Impairment Loss.

$$\text{Impairment Loss} = \text{Carrying amount} > \text{Recoverable amount}$$

Facts determine the Useful life Line of PPE:-

1. Cost of the asset.
2. Technology.
3. Method of depreciation.
4. Amortization.
5. Efficiency of the asset.
6. Absolance of the asset.

Methods of depreciation:-

There are several methods generally used to depreciate assets, but mostly used the following two methods by many firms.

1. Straight Line method of depreciation.
2. Reducing/diminishing balance method of depreciation.

Straight Line method of depreciation.

If the assets are depreciated under the above mentioned Cost Formulas, that method is known as the Straight Line method. The depreciation expenditure for each period/year would be the same value, under this method.

$$\text{Annual depreciation} = \text{Cost} \times \text{Annual rate of depreciation}$$

Reducing/Diminishing balance method of depreciation.

The method under which an asset is depreciated on it's Carrying Value, is the Reducing Balance method. The depreciation expenditure from the beginning would decrease gradually, from one period to another period, under this method.

$$\text{Annual depreciation} = (\text{Cost} - \text{Carrying Value}) \times \text{Annual rate of depreciation}$$

Ex:-

Arosh Plc acquired a machine on 01.04.20... and the following payments were made with respect to that.

	Rs.000
-Purchasing price(15% VAT inclusively).....	230
-Transport cost.....	25
-Consultancy charges.....	5
-Installation expenses.....	10
-Trialing expenses.....	40

Units which were manufactured in the trial process, were sold out for Rs.20000. The residual value of this machine was estimated at Rs.10000 and the Useful life was estimated as 10 years, at the time of acquisition.

Required:-

- 1.Computation of the cost of the machine.
- 2.Computation of the depreciable amount.
- 3.Annual depreciation expenditure of the machine.
- 4.Following values as at the end of each year separately, throughout the Useful Life line.
 - (a) Cost
 - (b) Annual depreciation
 - (c) Accumulated depreciation
 - (d) Carrying value

Accounting for depreciation, disposal and exchange of PPE:-

Double entries for depreciation:-

i. Adjustment for annual depreciation expenditure:-

Depreciation a/c	Dr:xxx
Provision for dep:a/c	Cr:xxx

ii.Closing entry for depreciation:-

P/L a/c	Dr:xxx
Depreciation a/c	Cr:xxx

Double entries for assets disposal:-

i. Transferring the cost of the asset:-

Asset disposal a/c	Dr:xxx
Asset a/c	Cr:xxx

ii. Transferring the accumulated depreciation up to the date of disposal:-

Provision for depreciation a/c	Dr:xxx
Asset disposal a/c	Cr:xxx

iii. Receipt of cash:-

Cash control a/c	Dr:xxx
Asset disposal a/c	Cr:xxx

iv. Disposal gain:-

Asset disposal a/c	Dr:xxx
P/L a/c	Cr:xxx

v. Disposal loss:-

P/L a/c	Dr:xxx
Asset disposal a/c	Cr:xxx

Double entries for exchange of assets:-

i. Transferring the cost of the asset disposed:-

Assets exchange a/c	Dr:xxx
Asset a/c	Cr:xxx

ii. Transferring the accumulated depreciation up to the date of exchange:-

Provision for accumulated depreciation a/c	Dr:xxx
Assets exchange a/c	Cr:xxx

iii. Setting off the exchange value of the asset disposed, for the new asset :-

Assets a/c (Relevant new asset)	Dr:xxx
Assets exchange a/c	Cr:xxx

iv. Payment of cash which is further required to pay for the new asset, when the new asset value is higher than the, disposed asset value:-

Assets a/c (Relevant new asset)	Dr:xxx
Cash control a/c	Cr:xxx

v. Receipt of cash which is further receivable for the disposed asset, when the disposed asset value is higher than the new, asset value:-

Cash control a/c	Dr:xxx
Assets exchange a/c	Cr:xxx

vi. Gain on assets exchange:-

Assets exchange a/c	Dr:xxx
P/L a/c	Cr:xxx

vii. Loss on assets exchange:-

P/L a/c	Dr:xxx
Assets exchange a/c	Cr:xxx

Q1:-

Following information are relevant for Moon light Plc.

Balances as on 31.03.20....and the other relevant information are as follows.

Asset	Cost (Rs.000)	Accumulated depreciation(Rs.000)	Rate of depreciation (straight line method)
Lands & Building	900	180	10% p:a:(Building)
Motor vehicles	800	160	20% p:a:
Equipment	300	45	5% p:a:

*Cost of the lands was Rs.300000.

Following transactions occurred within the year ended 31.03.20....

Date.	Transaction.
30-06-20.....	A land that had been acquired on 31.10...was sold at Rs.200000. The cost of this land was Rs.100000
30-09-20.....	Purchasing a new building costing to Rs.300000.The estimated useful life is 10 years and no residual value.
01.10.20.....	Disposal of a motor van ,of which the cost was Rs.500000, at Rs.475000.A new motor van was purchased on the very date for Rs.1000000 and the estimated residual value of this vehicle is Rs.120000 whilst the useful life is 11 years. (All the motor vehicles, as at 31.03.20.....,had been acquired on 31.03.20...)
01.01.20.....	Acquisition of a new computer and equipment, to the cost of Rs.75000.The estimated residual value is Rs.3000 and the useful life is 9 years, of them.

Required:-

- 1.Journal entries to record all the above transactions, including depreciation.
- 2.Posting the above transactions to the relevant ledger accounts.
- 3.Carrying value of PPE as at 31.03.20.....

Q2:-

Following balances were extracted from Malki Plc, as on 01.04.2018

	Cost (Rs.000)	Carrying Amount (Rs.000)	Useful life (Yrs)	Residual Value (Rs.000)
-Land	1000	—	—	—
-Building	850	750	40	50
-Motor van	520	470	10	20
-Equipment	210	180	20	10

Following transactions occurred within the year ended 31.03.2019

Date.	Transaction.
- 01.04.19	Landscaping to the cost of Rs.200000 and repairing the building paying Rs.50000
-30.06.19	Starting to use the newly built attachment to the building and this has cost Rs.205000, increasing the balance useful life of the entire building premises, up to 45 years. The residual value remains further as Rs.50000.
-01.10.19	Renovation of the motor van enlarging the capacity of it, making a cost of Rs.200000.This has increased the useful life estimated at the beginning, by 11 ½ more years , and the residual value changes as Rs.45000.
-31.03.19	Equipment was disposed at Rs.150000

Required:-

- 1.Journal entries to record building depreciation and transactions occurred on 30.06.2019
- 2.Total expenditure related to, PPE for the year ended 31.03.2019
- 3.Equipment disposal account
- 4.Carrying value of PPE as at 31.03.2019

Q3:-

Following balances were extracted from Athula Plc as on 01.04.2018.

Asset	Cost(Rs.000)	Accumulated depreciation(Rs.000)	Useful life(Yrs)
Lands	1000	—	—
Building	800	160	10
Equipment	200	40	10

Following transactions incurred within the year ended 31.03.2019.

- i. Landscaping cost made by the company was Rs.100000 on 01.07.2018.
 - ii. Building was renovated making a cost Rs.400000 on 01.10.2018.
 - iii.Equipment was sold for Rs.180000 on 31.03.2019.
- * Useful life of the building would increase by 12 ½ years, due to renovation, from that day.

- Required:-**
- 1.Building account and Provision for build:depreciation account
 - 2.Equipment disposal account
 - 3.Carrying value of PPE as at 31.03.2019

Q4:-

Following balances were extracted from Sudesh Plc, as on 01.04.2018.

	Rs.000
-Land and buildings (At cost).....	1000
-Machinery (At cost).....	750
-Provision for building depreciation.....	120
-Provision for machinery depreciation.....	150

The cost of the land is Rs.400000.

The company depreciates PPE under straight line method as follows.

- *Buildings.....10% (p;a;)
- *Machinery.....20% (p;a;)
- *Equipment.....2.5% (p;a;)

Following transactions occurred within the year ended 31.03.2019.

- i. New equipment to the cost of Rs.40000 was purchased for the office use, on 01.10.2018.
- ii. A building owned by the company, to the cost of Rs.300000 was exchanged with a new land costing to Rs.500000, on 31.03.2019. The building was valued at Rs.450000 for the exchange and the balance was paid by cash.

Required:-

1. Computation of the depreciation expenditure for the year ended 31.03.2019.
2. PPE exchange account.
3. Net impact of the PPE exchange, on the profit of the year ended 31.03.2019.

ASSETS REVALUATION FOR THE FIRST TIME.

Updating the cost value of the assets as to bring up them to the current market value , by the professionally qualified valuers, is simply known as Revaluation.

When the assets are revalued, the carrying value of the assets would increase or decrease.

The increase of the carrying value, is identified as the “Revaluation Gain” whereas the decrease is identified as the “Revaluation deficit/ Loss”.

When the PPE is being revalued, the accumulated depreciation up to the date of revaluation, should be removed ,dropping to the carrying value of the asset, against the cost of that particular asset.

Double entries for assets revaluation:-

1.Revaluation, increasing the asset value:-

i.Writing off the accumulated depreciation, up to the date of revaluation, against the cost:-

Provision for depreciation a/c	Dr:xxx
Assets a/c	Cr:xxx

ii. Increasing the asset value at the revaluation,recording the **Revaluation Gain:-**

Assets a/c	Dr:xxx
Revaluation Reserve/Other comprehensive income a/c	Cr:xxx

2.Revaluation, decreasing the asset value:-

i.Writing off the accumulated depreciation, up to the date of revaluation, against the cost:-

Provision for depreciation a/c	Dr:xxx
Assets a/c	Cr:xxx

ii. Decreasing the asset value at the revaluation, recording the **Revaluation Loss**:-

P/L account	Dr:xxx
Assets a/c	Cr:xxx

Q5:-

Following balances were extracted from Shiran Plc, as at 01.04.2018.

Asset	Cost (Rs.000)	Accumulated depreciation (Rs.000)	Useful life(Yrs)
Building	2000	400	20
Motor vehicles	1000	200	10
Equipment	500	100	5

Transactions incurred in the year ended 31.03.2019. were as follows.

Date.	Transaction.
01.10.2018.	Revaluation of the building at Rs.2600000, increasing the balance useful life by 4 ½ years.
01.01.2019.	Revaluation of the motor vehicles at Rs.600000 and the balance useful life is estimated as 10 years.

Required:-

1. Journal entries to record the above transactions.
2. Posting them to the appropriate ledger accounts.
3. Increasing or decreasing final impact of all the above transactions, on the Profit for the year ended, 31.03.2019.
4. Carrying value of PPE as at 31.03.2019.

Q6:- Following balances were extracted from Diamond Plc, as on 01.04.2018.

	Rs.000
-Lands and building (cost).....	2000
-Motor vans (cost).....	1200
-Equipment (cost).....	800

Following information are also relevant for PPE.

Asset	Date of acquisition	Estimated Useful life(Yrs)	Estimated residual Value(Rs.000)
Building	01.04.2015	45	100
Motor van	01.04.2016	20	200
Equipment	01.10.2016	16	-

*The cost of the land is Rs.1000000.

Following transactions occurred in the year ending 31/3/2019.

Date.	Transaction.
30.06.2018.	Revaluation of the building, at Rs.1235000.
01.10.2018.	Revaluation of motor vans at Rs.1300000.
31.03.2019.	Revaluation of equipment, generating a surplus of Rs.25000.

Following information are relevant for PPE after the revaluations.

Asset.	Balance useful life. (Years)	Residual Value. (Rs.)
Building.	50	35000
Motor vans.	22	200000
Equipment.	14	0

Required:-

1. Journal entries to record the above, revaluation and depreciation transactions.
2. Ledger accounts posting the above transactions.
3. Carrying Value of PPE as at 31.03.2019.

ASSETS REVALUATION AFTER THE FIRST TIME REVALUATION.

1. - Last year Revaluation gain was Rs.10000
- If the current year Profit is equal to that/ lower than to that/greater than to that, the current year adjustment;

Assets account	Dr:xxx
Revaluation surplus/Other Comprehensive Income a/c	Cr:xxx

2. - Last year Revaluation gain was Rs.10000
- If the current year loss is Rs.10000, the current year adjustment;

Revaluation surplus/Other Comprehensive Income a/c	Dr:xxx
Assets a/c	Cr:xxx

3. - Last year Revaluation gain was Rs.10000
- If the Current year loss is Rs.8000, the current year adjustment;

Revaluation surplus/Other Comprehensive Income a/c	Dr:8000
Assets a/c	Cr:8000

4. -Last year Revaluation gain is Rs.10000
- If the current year loss is Rs.12000, the current year adjustment;

Revaluation surplus/Other Comprehensive Income a/c	Dr:10000
P/L a/c	Dr:2000
Assets a/c	Cr:12000

5. -Last year Revaluation loss is Rs.15000
- If the Current year gain is Rs.15000, the current year adjustment is;

Assets a/c	Dr:12000
P/L a/c (Other income)	Cr:12000

6. - Last year Revaluation loss was Rs.15000.
 - If the current year gain is Rs.10000, the current year adjustment;

Assets a/c	Dr: 10000
P/L a/c (Other income)	Cr: 10000

7. - Last year Revaluation loss was Rs.15000.
 - If the current year gain is Rs.20000, the current year adjustment;

Assets a/c	Dr:20000
P/L a/c (Other income)	Cr:15000
Revaluation surplus/Other Comprehensive Income a/c	Cr: 5000

8. - Last year Revaluation loss was Rs.20000.
 - If the current year Revaluation loss is equal or less than or greater than to this, the current year adjustment is;

P/L a/c (Other expenses)	Dr:xxx
Assets a/c	Cr:xxx

Q8:-

Following balances were extracted from Imperial Plc: as on 01.04.2018.

Asset	Cost (Rs.000)	Accumulated depreciation(Rs.000)	Date of acquisition
-Land	1200	-	01.04.2015.
-Buildings	1000	250	01.10.2015.
-Machinery	500	100	01.04.2016.
-Equipment	200	10	01.10.2017.

Following transactions occurred in the year ended 31.03.2019.

Date.	Transaction.
01.07.2018	Revaluation of land at Rs.1300000.(The loss on revaluation of this land,on 01.01.2017 was Rs.50000)
01.10.2018	Renovation of the existing building, making a cost of Rs.500000 changing the balance Useful life as 10 years.

01.10.2018	Disposal of Machinery at Rs.400000.
01.01.2019	Acquisition of a new delivery van for Rs.690000 (15% VAT inclusively).The useful life of this van is estimated as 20 years from the beginning and the residual value is estimated as Rs.40000, end of the useful life.

Required:-

1. Journal entries to record the transactions incurred on 01.07.2018 and 01.01.2019.
2. Machinery disposal account.
3. Increasing/ decreasing impact of all the above transactions, on the profit of the year ended 31.03.2019.

Q9:-

Following balances were extracted from Nirmal Plc: as on 01.04.2018.

Asset	Cost/Reval: Amount(Rs.000)	Accumulated depreciation (Rs.000)	Use full life (Yrs)
-Land	2000	-	-
-Building	900	50	18
-Motor van	800	100	8

*Land has been purchased on 01.04.2015. and it was revalued at Rs.2000000 on 01.04.2017. generating a surplus of Rs.500000

*Building has become to the using condition, since 01.04.2016.and the cost was Rs.800000 as at that day. The building was revalued at Rs.900000 generating a surplus of Rs.180000 on 01.04.2017.

*Motor van was purchased on 01.04.2016. at Rs.900000 and it was revalued at Rs.800000 reporting a deficit (Loss) of Rs.10000, on 01.04.2017.

Following transactions occurred in the year ended 31.03.2019.

Date.

01.05.2018

01.10.2018

Transaction.

Revaluation of land at Rs.2500000

Revaluation of Motor van at Rs.800000. (The balance lifetime is 10 years and the residual value is

31.03.2019

Rs.25000)
Motor van was revalued at
Rs.650000 and the useful life
Is estimated as 13 years.

Required:-

1. Total depreciation expenditure for the year ended 31.03.2019.
2. Journal entries to record the revaluation transactions
3. Total value of Land revaluation reserve as at 31.03.2019
4. Increasing/decreasing impact of all the above transactions on the profit of the year ended 31.03.2019.

Q10:-

