



Business Process Solution Alert Accounting Insights

Accounting of Long Term
Tangible Assets Reference:
Indian Accounting Standard
(IAS – 16)

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Background

On 1st April 15 India has introduced roadmap for introduction of Ind AS – Indian Accounting Standard (Converged with IFRS). Ind AS will be applied in a phased manner from 1 April 2016, beginning with companies whose net worth is equal to or exceeding 500 crore INR. Comparative Ind AS information for the year ending 31 March 2016 will also be required. Listed companies and others with a net worth equal to or exceeding 250 crore INR will follow suit starting 1 April 2017. From 1 April 2015, companies covered in phase I of the roadmap will have to look closely into the details of the 39 newly-notified accounting standards. This leaves little time for these companies to put into action an implementation strategy to ensure a successful and smooth Ind AS transition. In this edition we have highlighted application of various Ind AS under accounting of long term tangible assets.

Which Assets to Apply?

Ind AS 16 (Property, Plant and Equipment)

Any assets which are procured for the purpose of using them in the production of goods or providing services, for rentals to others or administrative purposes will be accounted under Ind AS 16 Property, Plant & Equipment.

Ind AS 40 (Investment Property)

Ind AS 40 also provides accounting of Land or building kept with the intention of earning rentals. Moreover, if you hold your buildings or land for capital appreciation purposes (i.e. making profit from their fair value changes), then you need to apply Ind AS 40 rather than Ind AS 16.

Ind AS 2 (Inventories)

Holding some long-term assets in order to sell them in an ordinary course of business, are considered as inventories rather than property, plant and equipment.

For example, vehicle dealers report new vehicle for resale under “inventories”, and vehicles for their own use usually under “property, plant and equipment”.

Ind AS 105 (Non-Current Assets held for Sale and Discontinued Operations)

As soon as specified conditions are met (i.e. management is committed to a sale, an asset is immediately available for sale, etc.), then you can forget about Ind AS 16 and other standards. Instead, you need to focus on Ind AS 105.

Conclusion

In this alert we have tried to bring more clarity on the recording of Long term Tangible Assets under recently notified Ind AS. Be extremely careful in judging here, because sometimes, the classification is NOT that easy and obvious and you need to make judgment in order to pick the right standard.

Upcoming webcast - Register

Black Money Act – Analysis and Implications

On 15 September 2015 from 11:30 AM to 12:30 PM IST followed by Q&A

The BMA has provided a one-time 'compliance window' up to 30 September 2015 to declare any undisclosed foreign income or assets and subsequent payment of the tax liability by 31 December 2015 - before the stringent provisions are fully operational. Therefore, it is highly important to understand the key provisions, trigger points, and certain actions that can be undertaken now. Join us for a webcast to share more knowledge about related topics

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