

Accounting Standard (AS) 10
(issued 1985)

Accounting for Fixed Assets

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The following Accounting Standards Interpretation (ASI) relates to AS 10:

- ASI 2 - Accounting for Machinery Spares

The above Interpretation is published elsewhere in this Compendium.

Accounting Standard (AS) 10

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Accounting for Fixed Assets

*(This Accounting Standard includes paragraphs 18-39 set in **bold italic** type and paragraphs 1-17 set in plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of the Preface to the Statements of Accounting Standards¹.)*

The following is the text of the Accounting Standard (AS) 10 issued by the Institute of Chartered Accountants of India on 'Accounting for Fixed Assets'.

In the initial years, this accounting standard will be recommendatory in character. During this period, this standard is recommended for use by companies listed on a recognised stock exchange and other large commercial, industrial and business enterprises in the public and private sectors.²

Introduction

1. Financial statements disclose certain information relating to fixed assets. In many enterprises these assets are grouped into various categories, such as land, buildings, plant and machinery, vehicles, furniture and fittings, goodwill, patents, trade marks and designs. This statement deals with accounting for such fixed assets except as described in paragraphs 2 to 5 below.³

¹ Attention is specifically drawn to paragraph 4.3 of the Preface, according to which Accounting Standards are intended to apply only to items which are material.

² It may be noted that this Accounting Standard is now mandatory. Reference may be made to the section titled 'Announcements of the Council regarding status of various documents issued by the Institute of Chartered Accountants of India' appearing at the beginning of this Compendium for a detailed discussion on the implications of the mandatory status of an accounting standard.

³ From the date of Accounting Standard (AS) 26, Intangible Assets, becoming mandatory for the concerned enterprises, the relevant paragraphs of this Standard that deal with patents and know-how, stand withdrawn and, therefore, the same are omitted from this standard.

2. This statement does not deal with the specialised aspects of accounting for fixed assets that arise under a comprehensive system reflecting the effects of changing prices but applies to financial statements prepared on historical cost basis.
3. This statement does not deal with accounting for the following items to which special considerations apply:
 - (i) forests, plantations and similar regenerative natural resources;
 - (ii) wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources;
 - (iii) expenditure on real estate development; and
 - (iv) livestock.

Expenditure on individual items of fixed assets used to develop or maintain the activities covered in (i) to (iv) above, but separable from those activities, are to be accounted for in accordance with this Statement.

4. This statement does not cover the allocation of the depreciable amount of fixed assets to future periods since this subject is dealt with in Accounting Standard 6 on 'Depreciation Accounting'.
5. This statement does not deal with the treatment of government grants and subsidies, and assets under leasing rights. It makes only a brief reference to the capitalisation of borrowing costs⁴ and to assets acquired in an amalgamation or merger. These subjects require more extensive consideration than can be given within this Statement.

Definitions

6. The following terms are used in this Statement with the meanings specified:

6.1 *Fixed asset* is an asset held with the intention of being used for the

⁴ The relevant requirements in this regard are omitted from this Standard pursuant to AS 16, Borrowing Costs, becoming mandatory in respect of accounting periods commencing on or after 1.4.2000.

purpose of producing or providing goods or services and is not held for sale in the normal course of business.

6.2 *Fair market value* is the price that would be agreed to in an open and unrestricted market between knowledgeable and willing parties dealing at arm's length who are fully informed and are not under any compulsion to transact.

6.3 *Gross book value* of a fixed asset is its historical cost or other amount substituted for historical cost in the books of account or financial statements. When this amount is shown net of accumulated depreciation, it is termed as net book value.

Explanation

7. Fixed assets often comprise a significant portion of the total assets of an enterprise, and therefore are important in the presentation of financial position. Furthermore, the determination of whether an expenditure represents an asset or an expense can have a material effect on an enterprise's reported results of operations.

8. Identification of Fixed Assets

8.1 The definition in paragraph 6.1 gives criteria for determining whether items are to be classified as fixed assets. Judgement is required in applying the criteria to specific circumstances or specific types of enterprises. It may be appropriate to aggregate individually insignificant items, and to apply the criteria to the aggregate value. An enterprise may decide to expense an item which could otherwise have been included as fixed asset, because the amount of the expenditure is not material.

8.2 Stand-by equipment and servicing equipment are normally capitalised. Machinery spares are usually charged to the profit and loss statement as and when consumed. However, if such spares can be used only in connection with an item of fixed asset and their use is expected to be irregular, it may be appropriate to allocate the total cost on a systematic basis over a period not exceeding the useful life of the principal item.⁵

⁵ See also Accounting Standards Interpretation (ASI) 2 published elsewhere in this Compendium.

8.3 In certain circumstances, the accounting for an item of fixed asset may be improved if the total expenditure thereon is allocated to its component parts, provided they are in practice separable, and estimates are made of the useful lives of these components. For example, rather than treat an aircraft and its engines as one unit, it may be better to treat the engines as a separate unit if it is likely that their useful life is shorter than that of the aircraft as a whole.

9. Components of Cost

9.1 The cost of an item of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

- (i) site preparation;
- (ii) initial delivery and handling costs;
- (iii) installation cost, such as special foundations for plant; and
- (iv) professional fees, for example fees of architects and engineers.

The cost of a fixed asset may undergo changes subsequent to its acquisition or construction on account of exchange fluctuations, price adjustments, changes in duties or similar factors.

9.2 ⁶[***]

9.3 Administration and other general overhead expenses are usually excluded

⁶Pursuant to the issuance of Accounting Standard (AS) 16, Borrowing Costs, which came into effect in respect of accounting periods commencing on or after 1-4-2000, this paragraph stands withdrawn from the aforesaid date. The erstwhile paragraph was as under:

“9.2 Financing costs relating to deferred credits or to borrowed funds attributable to construction or acquisition of fixed assets for the period up to the completion of construction or acquisition of fixed assets are also sometimes included in the gross book value of the asset to which they relate. However, financing costs (including interest) on fixed assets purchased on a deferred credit basis or on monies borrowed for construction or acquisition of fixed assets are not capitalised to the extent that such costs relate to periods after such assets are ready to be put to use.”

from the cost of fixed assets because they do not relate to a specific fixed asset. However, in some circumstances, such expenses as are specifically attributable to construction of a project or to the acquisition of a fixed asset or bringing it to its working condition, may be included as part of the cost of the construction project or as a part of the cost of the fixed asset.

9.4 The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalised as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production, i.e., production intended for sale or captive consumption, is not capitalised and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period.

9.5 If the interval between the date a project is ready to commence commercial production and the date at which commercial production actually begins is prolonged, all expenses incurred during this period are charged to the profit and loss statement. However, the expenditure incurred during this period is also sometimes treated as deferred revenue expenditure to be amortised over a period not exceeding 3 to 5 years after the commencement of commercial production.⁷

10. Self-constructed Fixed Assets

10.1 In arriving at the gross book value of self-constructed fixed assets, the same principles apply as those described in paragraphs 9.1 to 9.5. Included in the gross book value are costs of construction that relate directly to the specific asset and costs that are attributable to the construction activity in general and can be allocated to the specific asset. Any internal profits are eliminated in arriving at such costs.

⁷ It may be noted that this paragraph relates to “all expenses” incurred during the period. This expenditure would also include borrowing costs incurred during the said period. Since Accounting Standard (AS) 16, Borrowing Costs, specifically deals with the treatment of borrowing costs, the treatment provided by AS 16 would prevail over the provisions in this respect contained in this paragraph as these provisions are general in nature and apply to “all expenses” (see ‘The Chartered Accountant’, November 2001, page 699). Accordingly, this paragraph stands withdrawn insofar as borrowing costs are concerned.

11. Non-monetary Consideration

11.1 When a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

11.2 When a fixed asset is acquired in exchange for shares or other securities in the enterprise, it is usually recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident.

12. Improvements and Repairs

12.1 Frequently, it is difficult to determine whether subsequent expenditure related to fixed asset represents improvements that ought to be added to the gross book value or repairs that ought to be charged to the profit and loss statement. Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity.

12.2 The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is usually added to its gross book value. Any addition or extension, which has a separate identity and is capable of being used after the existing asset is disposed of, is accounted for separately.

13. Amount Substituted for Historical Cost

13.1 Sometimes financial statements that are otherwise prepared on a historical cost basis include part or all of fixed assets at a valuation in substitution for historical costs and depreciation is calculated accordingly. Such financial statements are to be distinguished from financial statements prepared on a basis intended to reflect comprehensively the effects of changing prices.

13.2 A commonly accepted and preferred method of restating fixed assets

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is by appraisal, normally undertaken by competent valuers. Other methods sometimes used are indexation and reference to current prices which when applied are cross checked periodically by appraisal method.

13.3 The revalued amounts of fixed assets are presented in financial statements either by restating both the gross book value and accumulated depreciation so as to give a net book value equal to the net revalued amount or by restating the net book value by adding therein the net increase on account of revaluation. An upward revaluation does not provide a basis for crediting to the profit and loss statement the accumulated depreciation existing at the date of revaluation.

13.4 Different bases of valuation are sometimes used in the same financial statements to determine the book value of the separate items within each of the categories of fixed assets or for the different categories of fixed assets. In such cases, it is necessary to disclose the gross book value included on each basis.

13.5 Selective revaluation of assets can lead to unrepresentative amounts being reported in financial statements. Accordingly, when revaluations do not cover all the assets of a given class, it is appropriate that the selection of assets to be revalued be made on a systematic basis. For example, an enterprise may revalue a whole class of assets within a unit.

13.6 It is not appropriate for the revaluation of a class of assets to result in the net book value of that class being greater than the recoverable amount of the assets of that class.

13.7 An increase in net book value arising on revaluation of fixed assets is normally credited directly to owner's interests under the heading of revaluation reserves and is regarded as not available for distribution. A decrease in net book value arising on revaluation of fixed assets is charged to profit and loss statement except that, to the extent that such a decrease is considered to be related to a previous increase on revaluation that is included in revaluation reserve, it is sometimes charged against that earlier increase. It sometimes happens that an increase to be recorded is a reversal of a previous decrease arising on revaluation which has been charged to profit and loss statement in which case the increase is credited to profit and loss statement to the extent that it offsets the previously recorded decrease.

14. Retirements and Disposals

14.1 An item of fixed asset is eliminated from the financial statements on disposal.

14.2 Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the profit and loss statement.

14.3 In historical cost financial statements, gains or losses arising on disposal are generally recognised in the profit and loss statement.

14.4 On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value is normally charged or credited to the profit and loss statement except that, to the extent such a loss is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilised, it is charged directly to that account. The amount standing in revaluation reserve following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve.

15. Valuation of Fixed Assets in Special Cases

15.1 In the case of fixed assets acquired on hire purchase terms, although legal ownership does not vest in the enterprise, such assets are recorded at their cash value, which, if not readily available, is calculated by assuming an appropriate rate of interest. They are shown in the balance sheet with an appropriate narration to indicate that the enterprise does not have full ownership thereof.⁸

15.2 Where an enterprise owns fixed assets jointly with others (otherwise than as a partner in a firm), the extent of its share in such assets, and the proportion in the original cost, accumulated depreciation and written down value are stated in the balance sheet. Alternatively, the *pro rata* cost of

⁸ Accounting Standard (AS) 19, Leases, has come into effect in respect of assets leased during accounting periods commencing on or after 1-4-2001. AS 19 also applies to assets acquired on hire purchase during accounting periods commencing on or after 1-4-2001. Accordingly, this paragraph is not applicable in respect of assets acquired on hire purchase during accounting periods commencing on or after 1-4-

2001 (see 'The Chartered Accountant', November 2001, page 699).

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such jointly owned assets is grouped together with similar fully owned assets. Details of such jointly owned assets are indicated separately in the fixed assets register.

15.3 Where several assets are purchased for a consolidated price, the consideration is apportioned to the various assets on a fair basis as determined by competent valuers.

16. Fixed Assets of Special Types

16.1 Goodwill, in general, is recorded in the books only when some consideration in money or money's worth has been paid for it. Whenever a business is acquired for a price (payable either in cash or in shares or otherwise) which is in excess of the value of the net assets of the business taken over, the excess is termed as 'goodwill'. Goodwill arises from business connections, trade name or reputation of an enterprise or from other intangible benefits enjoyed by an enterprise.

16.2 As a matter of financial prudence, goodwill is written off over a period. However, many enterprises do not write off goodwill and retain it as an asset.

16.3 ⁹[***]

16.4 ⁹[***]

⁹From the date of Accounting Standard (AS) 26, Intangible Assets, becoming mandatory for the concerned enterprises, paragraphs 16.3 to 16.7 stand withdrawn (see AS 26). The erstwhile paragraphs were as under:

"16.3 Patents are normally acquired in two ways: (i) by purchase, in which case patents are valued at the purchase cost including incidental expenses, stamp duty, etc. and (ii) by development within the enterprise, in which case identifiable costs incurred in developing the patents are capitalised. Patents are normally written off over their legal term of validity or over their working life, whichever is shorter.

16.4 Know-how in general is recorded in the books only when some consideration in money or money's worth has been paid for it. Know-how is generally of two types:

- (i) relating to manufacturing processes; and
- (ii) relating to plans, designs and drawings of buildings or plant and machinery.

16.5 Know-how related to plans, designs and drawings of buildings or plant and machinery is capitalised under the relevant asset heads. In such cases depreciation is calculated on the total cost of those assets, including the cost of the know-how

16.5 ¹⁰[***]

16.6 ¹⁰[***]

16.7 ¹⁰[***]

17. Disclosure

17.1 Certain specific disclosures on accounting for fixed assets are already required by Accounting Standard 1 on 'Disclosure of Accounting Policies' and Accounting Standard 6 on 'Depreciation Accounting'.

17.2 Further disclosures that are sometimes made in financial statements include:

- (i) gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
- (ii) expenditure incurred on account of fixed assets in the course of construction or acquisition; and
- (iii) revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

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18. The items determined in accordance with the definition in

capitalised. Know-how related to manufacturing processes is usually expensed in the year in which it is incurred.

16.6 Where the amount paid for know-how is a composite sum in respect of both the types mentioned in paragraph 16.4, such consideration is apportioned amongst them on a reasonable basis.

16.7 Where the consideration for the supply of know-how is a series of recurring annual payments as royalties, technical assistance fees, contribution to research, etc., such payments are charged to the profit and loss statement each year."

¹⁰ See footnote 9.

paragraph 6.1 of this Statement should be included under fixed assets in financial statements.

19. The gross book value of a fixed asset should be either historical cost or a revaluation computed in accordance with this Standard. The method of accounting for fixed assets included at historical cost is set out in paragraphs 20 to 26; the method of accounting of revalued assets is set out in paragraphs 27 to 32.

*20. The cost of a fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. ¹¹[***]*

21. The cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the specific asset.

22. When a fixed asset is acquired in exchange or in part exchange for another asset, the cost of the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. For these purposes fair market value may be determined by reference either to the asset given up or to the asset acquired, whichever is more clearly evident. Fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident.

¹¹ Pursuant to the issuance of Accounting Standard (AS) 16, Borrowing Costs, which came into effect in respect of accounting periods commencing on or after 1-4-2000, a portion of this paragraph stands withdrawn from the aforesaid date. The erstwhile paragraph was as under:

“20. The cost of a fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to deferred credits or to borrowed funds attributable to construction or acquisition of fixed assets for the period up to the completion of construction or acquisition of fixed assets should also be included in the gross book value of the asset to which they relate. However, the financing costs (including interest) on fixed assets purchased on a deferred credit basis or on monies borrowed for construction or acquisition of fixed assets should not be capitalised to the extent that such costs relate to periods after such assets are ready to be put to use.”

23. *Subsequent expenditures related to an item of fixed asset should be added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.*
24. *Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realisable value and shown separately in the financial statements.*
25. *Fixed asset should be eliminated from the financial statements on disposal or when no further benefit is expected from its use and disposal.*
26. *Losses arising from the retirement or gains or losses arising from disposal of fixed asset which is carried at cost should be recognised in the profit and loss statement.*
27. *When a fixed asset is revalued in financial statements, an entire class of assets should be revalued, or the selection of assets for revaluation should be made on a systematic basis. This basis should be disclosed.*
28. *The revaluation in financial statements of a class of assets should not result in the net book value of that class being greater than the recoverable amount of assets of that class.*
29. *When a fixed asset is revalued upwards, any accumulated depreciation existing at the date of the revaluation should not be credited to the profit and loss statement.*
30. *An increase in net book value arising on revaluation of fixed assets should be credited directly to owners' interests under the head of revaluation reserve, except that, to the extent that such increase is related to and not greater than a decrease arising on revaluation previously recorded as a charge to the profit and loss statement, it may be credited to the profit and loss statement. A decrease in net book value arising on revaluation of fixed asset should be charged directly to the profit and loss statement except that to the extent that such a decrease is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilised, it may be charged directly to that account.*

31. *The provisions of paragraphs 23, 24 and 25 are also applicable to fixed assets included in financial statements at a revaluation.*

32. *On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value should be charged or credited to the profit and loss statement except that to the extent that such a loss is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilised, it may be charged directly to that account.*

33. *Fixed assets acquired on hire purchase terms should be recorded at their cash value, which, if not readily available, should be calculated by assuming an appropriate rate of interest. They should be shown in the balance sheet with an appropriate narration to indicate that the enterprise does not have full ownership thereof.*¹²

34. *In the case of fixed assets owned by the enterprise jointly with others, the extent of the enterprise's share in such assets, and the proportion of the original cost, accumulated depreciation and written down value should be stated in the balance sheet. Alternatively, the pro rata cost of such jointly owned assets may be grouped together with similar fully owned assets with an appropriate disclosure thereof.*

35. *Where several fixed assets are purchased for a consolidated price, the consideration should be apportioned to the various assets on a fair basis as determined by competent valuers.*

36. *Goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Whenever a business is acquired for a price (payable in cash or in shares or otherwise) which is in excess of the value of the net assets of the business taken over, the excess should be termed as 'goodwill'.*

¹² Accounting Standard (AS) 19, Leases, has come into effect in respect of assets leased during accounting periods commencing on or after 1-4-2001. AS 19 also applies to assets acquired on hire purchase during accounting periods commencing on or after 1-4-2001. Accordingly, this paragraph is not applicable in respect of assets acquired on hire purchase during accounting periods commencing on or after 1-4-2001 (see 'The Chartered Accountant', November 2001, page 699).

37. ¹³[***]

38. ¹³[***]

Disclosure

39. *The following information should be disclosed in the financial statements:*

- (i) *gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;*
- (ii) *expenditure incurred on account of fixed assets in the course of construction or acquisition; and*
- (iii) *revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.*

¹³From the date of Accounting Standard (AS) 26, Intangible Assets, becoming mandatory for the concerned enterprises, paragraphs 37 and 38 stand withdrawn (See AS 26). The erstwhile paragraphs were as under :

"37. The direct costs incurred in developing the patents should be capitalised and written off over their legal term of validity or over their working life, whichever is shorter.

38. Amount paid for know-how for the plans, layout and designs of buildings and/or design of the machinery should be capitalised under the relevant asset heads, such as buildings, plants and machinery, etc. Depreciation should be calculated on the total cost of those assets, including the cost of the know-how capitalised. Where the amount paid for know-how is a composite sum in respect of both the manufacturing process as well as plans, drawings and designs for buildings, plant and machinery, etc., the management should apportion such consideration into two parts on a reasonable basis."