

**FAQ on deemed cost of Property, Plant and Equipment under Ind AS 101, First-time Adoption of Indian Accounting Standards\***

**Issue:** Ind AS 101 provides that the net carrying amounts of all of its Property, Plant and Equipment as per previous GAAP can be used as deemed cost on the date of transition to Ind AS. In that case, whether the accumulated depreciation and provision for impairment under previous GAAP would be treated as nil on the date of transition. In case the response is in the affirmative, then how the provision for impairment provided before the date of transition as per previous GAAP would be reversed in later years if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized?

**Response:**

In the context of the issue, the following paragraphs of Ind AS 101, *First-time Adoption of Indian Accounting Standards*, and the definition of 'deemed cost' contained in the Standard may be noted:

“D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to Ind ASs at its fair value and *use that fair value as its deemed cost* at that date.”

“D7AA Where there is no change in its functional currency on the date of transition to Ind ASs, a first-time adopter to Ind ASs may elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind ASs, measured as per the previous GAAP and *use that as its deemed cost* as at the date of transition after making necessary adjustments in accordance with paragraph D21 and D21A, of this Ind AS.....”

**Definition of Deemed Cost**

“An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.”

In view of the above, with regard to deemed cost, Ind AS 101, *inter alia*, provides an option to continue with the carrying value for all of its property, plant and equipment measured as per previous GAAP and use that as deemed cost on the date of transition. As per the definition of deemed cost, it is the amount used as a surrogate for the cost or depreciated cost and for the purpose of subsequent depreciation or amortisation, deemed cost becomes the cost as the starting point. Accordingly, from the date of transition, the deemed cost, i.e., carrying values of PPE as per the previous GAAP in the given case, is the cost and any accumulated depreciation and provision for impairment under previous GAAP have no relevance as would

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\* This issue was referred to the Accounting Standards Board (ASB) by Ind AS Transition Facilitation Group of Ind AS (IFRS) Implementation Committee. Accordingly, ASB has considered the issue and issued FAQ on the same.

be the case if fair value were to be taken as deemed cost as per paragraph D5 above. Accordingly, provision for impairment provided before the date of transition as per previous GAAP cannot be reversed in later years.

However, information regarding gross book of assets, accumulated depreciation and provision for impairment under previous GAAP can be disclosed by way of note forming part of the financial statements. This information can be disclosed only as additional disclosures and the same cannot be considered for subsequent recognition and/or measurement purposes.