A STUDY ON ACCOUNTING OF TANGIBLE FIXED ASSETS UNDER IFRS, IND AS, IGAAP AND ICDS: RECOGNITION, MEASUREMENT AND DIFFERENCES

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ABSTRACT
The ongoing process of globalization and adoption of IFRS in India has significantly affected the direction of accounting. Again practice of multiple set of accounting standards and practices have increased the complexity of accounting in India. While accounting certain critical areas, the corporates are required to consider the effect of IFRS (i.e. Ind AS), IGAAP and also ICDS. The objective this study is interpretation of IFRS, Ind AS, IGAAP and ICDS while recognizing and valuing the tangible fixed assets. The study will demonstrate the similarities and differences between IFRS, IndAS, IGAAP and ICDS.

Keywords: ICDS, IGAAP, IFRS, IND AS, Accounting Standards.

INTRODUCTION
The accounting is a challenge in India due to enactment and introduction of several laws and accounting standards. Till recently, Indian Accounting Standards (i.e. IGAAP) and Companies Act were governing principles for maintaining account books and presentation of financial statements. The recent notification of Ministry of Corporate affairs has imposed the obligation on corporates having net worth of Rupees 500 crores and more to adopt the converged IFRS (commonly known as IndAS) with effect from 1st April 2016. The rest of the companies need to comply with IndAS at latter stages. Over and above the Income Tax Authorities have introduced Income Computation and Disclosure Standards (i.e ICDS) and which are applicable from financial
year 2015-16. Under the circumstances, it is very important to have a knowledge about adoption all these standards.

OBJECTIVES

✓ To Study the recognition principles under IFRS, IGAAP and ICDS with reference to tangible fixed Assets.
✓ To understand the measurement principles under IFRS, IGAAP and ICDS with reference to tangible fixed assets.
✓ To high light the main differences in accounting of Tangible Fixed Assets under IFRS, IndAS, IGAAP and ICDS.

RESEARCH METHODOLOGY

The study is theoretical and analytical in nature based on secondary data and pertinent literature. The main sources of secondary data and pertinent literature are published and documented sources. Secondary data and pertinent literature has been compiled, analyzed and reviewed accordingly and the data has been presented in tabulated form.

SIGNIFICANCE OF STUDY

The study will have significant contribution to the society by way of helping professionals and accountants while implementing IFRS and Ind AS. They can grab the important differences in IFRS, Ind As and ICDS and accordingly they can implement their accounting policies and procedures. It also helps the academicians while understanding the Standards in their teaching pedagogy.

FINDINGS

Recognition and Measurement of Tangible Fixed Asset:

Under IFRS and IndAS:

The rules and regulations are governed in IAS 16 – Property, Plant and Equipment unless there is a separate standard which permits different treatment.

The IAS 16, says that fixed assets should be recognized only if:

a) It is probable that economic benefit associated with the asset will flow to the entity.

b) Cost of the asset can be measured reliably.

The fixed assets are initially measured at cost. The cost includes

- purchase price including import duty and non-refundable purchase taxes,
- directly attributable cost of bringing the asset to the location and working condition and
- An initial estimate of dismantling and removing cost of asset and restoring the site in which it is located.
- Borrowing costs that are directly attributable to the acquisition, construction or production of a ‘qualifying asset’ (IAS 23).
Subsequent to initial measurement, the entity may choose either cost model or revaluation model for subsequent valuation. Under cost model asset is valued at initial cost reduced by accumulated depreciation and any impairment losses. Under revaluation model assets are valued at fair value at the date of revaluation reduced by subsequent accumulated depreciation and any impairment losses.

Some parts of the fixed assets have different useful life and needs replacement at different intervals. Also some of the assets need major inspection at regular intervals, for example, a ship, aircraft and so on. The cost incurred for replacing the part and major inspection should be capitalized and carrying amount of replaced part is derecognized.

When an asset is made up of multiple components and these components have different useful lives the asset should be broken down into the separate components and each component should be depreciated as a separate asset.

An asset is derecognized upon its disposal or when no future economic benefit are expected from the use or disposal of asset.

The depreciation should be allocated on systematic basis over useful life of the asset. Useful life and residual value should be reviewed at each financial year end. The change in estimation of useful life and residual value is considered as a change in accounting estimate and effect of change in estimate should be recognized prospectively.

The recommended methods of depreciation are:

a) Straight line method
b) Diminishing Balance Method
c) Sum of digits Method.

Under IGAAP:

The primary literature for accounting of fixed assets is given in AS 6 - Depreciation Accounting and AS 10 – Accounting for fixed assets.

AS 10 does not lay down any recognition criteria for recognition of fixed asset. It says the fixed assets are recognized when it is brought to its working condition for its intended use i.e. ready for commercial production.

Tangible fixed assets are initially measured at cost. The cost comprises purchase price, directly attributable cost, borrowing cost, foreign exchange difference on long term borrowing and non-refundable excluding trade discounts availed at the time of purchase should not be included in the cost.

Subsequently, the tangible fixed assets can be measured at historical cost less accumulated depreciation or at revalued price.

Machinery spares are usually charged to the profit and loss statement as and when consumed. However, the spares can be capitalized, if such spares can be used only in connection with an item of fixed asset and their use is expected to be irregular.

Expenses incurred during the interval between the dates an asset is ready to commence commercial production and the dates at which commercial production actually begins are charged to the profit and loss statement.
Subsequent 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.

An asset is removed from the financial statements on its disposal. Fixed assets retired from use should be shown at lower of their net book value or net realizable value and are shown separately in the financial statements.

Even though there are several methods available for charging depreciation, the straight line method and written down value method are the most common method by the industries. The companies act has laid down the depreciation rates for various assets.

**Under ICDS:**

The accounting of tangible fixed assets under income tax, are governed by ICDS V. The standard has not given any specific guidance for recognition of tangible fixed assets. The standard however says that the tangible fixed assets are land, building, machinery, plant or furniture held for the purpose of producing goods or for providing services.

The assets are initially measured at cost price, which consist of purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.

The subsequent to initial measurement, the assets are valued at cost less accumulated depreciation. There is no reference under ICDS regarding revaluation model. Under income tax Act, profit or loss are recognized only on actual realization.

Addition or extension to an existing tangible fixed asset which is of a capital nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost. Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

The depreciation shall be computed in accordance with provisions of Income Tax Act. The Income Tax Act allows straight line method and written down value method for calculating depreciation.
<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Topic</th>
<th>IFRS</th>
<th>Ind AS</th>
<th>IGAAP</th>
<th>ICDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Property under development</td>
<td>Property under development for future purpose of earning rentals and capital appreciation are excluded from the classification of PPE. These items are classified as investment property under IAS 40</td>
<td>Similar to IFRS</td>
<td>These types of properties are included under AS 16.</td>
<td>Not covered under ICDS</td>
</tr>
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<td>2</td>
<td>Spare parts</td>
<td>Spare parts are recognized as PPE only if they fulfill recognition criteria of IAS 16. Otherwise they are considered as inventory</td>
<td>Similar to IFRS</td>
<td>Spare parts are charged to profit and loss as and when they are consumed. Capitalize spare parts if they are used only in connection with an item of fixed asset and their use is expected to be irregular.</td>
<td>Machinery spares which can be used only in connection with a tangible fixed asset and use is irregular can be capitalized</td>
</tr>
<tr>
<td>3</td>
<td>Dismantling and restoration cost</td>
<td>Present value of initial estimate of dismantling and restoration of site cost should be capitalized.</td>
<td>Similar to IFRS</td>
<td>No guidance under AS 10</td>
<td>Not covered under ICDS</td>
</tr>
<tr>
<td>4</td>
<td>Replacement cost</td>
<td>Replacement cost of an item of PPE should be capitalized</td>
<td>Similar to IFRS</td>
<td>Expenditure which increases the future economic benefit over and above the previously assessed benefit should be capitalized. All other replacement cost are expensed. However, schedule II of the Companies Act mandated component accounting for fixed asset from 1st April 2015. Hence, treatment will be similar to IFRS.</td>
<td>Similar to IGAAP</td>
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<td>5</td>
<td>Revaluation</td>
<td>Revaluation should be done at sufficient frequency, to ensure that carrying amount does not differ materially from fair value</td>
<td>Similar to IFRS</td>
<td>No such guidance</td>
<td>Not covered under ICDS</td>
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<td>CONCLUSION</td>
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Entity need not to maintain separate books of accounts for ICDS. ICDS is only for computation of income under the head “Profit and gains of business or profession” or “Income from other sources”. However, there could be possibility that the value of depreciation, residual amount, and useful life and so on will be different under IGAAP, Ind GAAP and ICDS. Hence to keep the track on these values, it is advisable to have separate working sheet under IGAAP, IFRS and ICDS for fixed assets and other significant valuations where the amounts are different.
REFERENCE

- Accounting Standard 6 issued by Institute of Chartered Accountants of India
- Accounting Standard 10 issued by Institute of Chartered Accountants of India
- ICDS V – Tangible Fixed Assets issued by Central Board of Direct Taxes (2014)
- IAS 16 – Property, Plant and Equipment Issued by IASB.
- Deloitte (May 2015), ICDS, Indian GAAP and IndAS comparison.
- Deloitte (May 2015) Indian GAAP, IFRS and IndAS comparison.