



IPSAS SEMINAR

**Theme: 'ROAD MAP TO EXCELLENCE'
PUBLIC SECTOR REPORTING'**

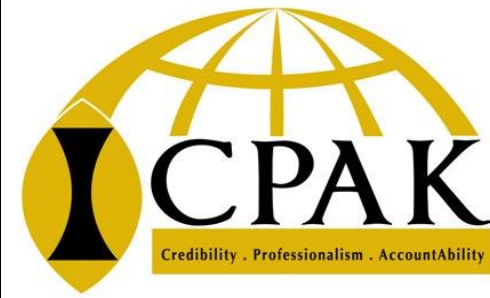
10TH - 12TH JUNE 2015

SAFARI PARK HOTEL

Day 2

Session 3: Property, plant and equipment

Content – IAS 16/IPSAS 17



1. Introduction and Objective
2. Recognition
3. Acquisition and Initial measurement
4. Subsequent expenditure
5. Subsequent measurement
6. Depreciation, Revaluations and Impairment
7. De recognition -Disposal
8. Disclosures

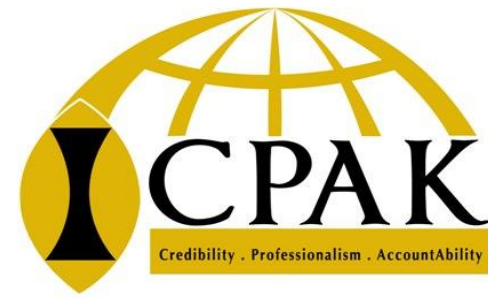
I. Introduction



Property, plant and equipment are tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

I. Introduction



Examples of assets that are classified as Property, plant and equipment include:

Land & Buildings (Property), Plant & machinery

Equipment (e.g. computers and other electronics), Furniture, Fixtures & Fittings

Motor Vehicles

Capital Work In Progress (Land and Buildings under construction)

I. Introduction



In the public sector, we also frequently have infrastructure assets. They have the following characteristics:

- (a) They are part of a system or network;
- (b) They are specialized in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal.

I. Introduction



Examples of infrastructure assets include road networks, sewer systems, water and power supply systems, and communication networks. Infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with IPSAS 17.

I. Introduction



In addition to Infrastructure assets, we also have **Heritage Assets**. They are described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

I. Introduction



IPSAS 17 **does not require** an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of IPSAS 17 and may, but is not required to, apply the measurement requirements of this Standard.

I. Objective



The objective of IPSAS 17 is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment.

I. Objective



The principal issues in accounting for property, plant, and equipment are

- (a) the recognition of the assets,
- (b) the determination of their carrying amounts, and
- (c) The depreciation charges and impairment losses to be recognized in relation to them.

2. Recognition



The question is when should we include an asset in the financial statements as PPE? Two criteria:

- (a) it is probable that future economic benefits associated with the item will flow to the entity; and
- (b) the cost of the item can be measured reliably.

3. Acquisition & Measurement



PPE can either be purchased or constructed. **The question is how should we measure PPE on acquisition?** An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost (Purchase price or construction costs plus all other expenses incurred to get the asset ready for use).

4. Subsequent Expenditure



These are additional costs incurred on PPE while in use. For example repairs and maintenance. Such expenditure should be reported .

However if there is an improvement in future economic benefits for example increasing the capacity of a building or replacing a part of a machine that will increase its useful life or improving the quality of the products. This should be added to the initial cost of the asset (also referred to as capital expenditure).

5. Subsequent Measurement



The question is how should we value an item of PPE at the end of a financial period?

An entity shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost: Cost less accumulated Depreciation

Revaluation: Revaluation less accumulated Dep.

6. Depreciation



Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation is simply expensing the cost of an asset over the period we expect to use the asset in the business. the cost of PPE is expensed as depreciation but now over the period of use of the asset. Except for Land which has no useful life all the other items of PPE are depreciated.

6. Depreciation



The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life.

These methods include the straight-line method, the diminishing balance method, and the units of production method.

6. Depreciation



For the purpose of reporting, an entity is supposed to disclose the cost of the asset, total depreciation charged to date (accumulated depreciation) and the difference also called the net book value or carrying amount.

7. Revaluation



The alternative to the cost model is the revaluation model. An entity can use this model especially for those whose assets the market value tends to appreciate rather than depreciate. This applies for land and buildings.

Under revaluation model an item of PPE shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation

7. Revaluation



Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.

7. Revaluation



If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus (after reversing any previously reported losses).

If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit (after reversing any previous gains)

7. Impairment Losses



To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

7. Impairment Losses



Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.

This is because impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, are separate economic events.

8. De-recognition



The carrying amount of an item of property, plant, and equipment shall be derecognized i.e. removed from the financial statements:

- (a) On disposal; or
- (b) When no future economic benefits or service potential is expected from its use or disposal.

8. De-recognition



The gain or loss arising from the de-recognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback).

8. De-recognition



The gain or loss arising from the de-recognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

9. Disclosures



The financial statements shall disclose, for each class of property, plant and equipment:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;

A property, plant and equipment schedule should be prepared. See handout