

# Property, Plant and Equipment

## IPSAS 17

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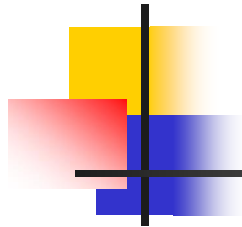


## Property, Plant and Equipment

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Tangible assets that are:

- Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- Used over more than one period.
  
- Exclude
  - biological assets
  - mineral rights and mineral reserves



## Recognition

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Initially recognised at cost when;

- it is probable that future economic benefits associated with the item will flow to the entity, and
- the cost of the item can be measured reliably.
  - major spare parts and stand-by equipment included
  - Minor Spare parts and servicing equipment are inventory and are recognised in profit or loss as consumed.



## Cost comprises

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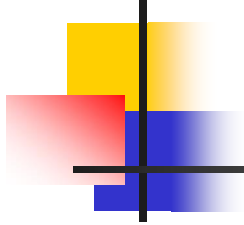
- purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended
- costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item.
- Items acquired for safety or environmental reasons.
- condition of continuing to operate an item of property, plant and equipment may be performing regular major inspections for faults.



## Cost excludes

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- costs of opening a new facility;
- costs of introducing a new product or service
- costs of conducting business in a new location or with a new class of customer
- costs of staff training
- administration and other general overhead costs.
- costs incurred while an item capable of operating in the manner intended
- initial operating losses
- costs of relocating or reorganising



- Recording and payment for the acquisition of fixed assets shall be as per payment procedures.
- Acquisition must be supported by approval/minutes etc



# Asset register

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- maintained and have the following details:
  - a) Identification or serial number
  - b) Acquisition date
  - c) Description of asset
  - d) Location
  - e) Class of asset
  - f) Cost of acquisition
  - g) Accumulated depreciation
  - h) Net book value
  - Assets are tagged with identification codes.



## Example of tag

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- an office desk at the reception will fall under the furniture and fitting class and will be identified by the code T/PPE/FF/OD/001 where:-
  - T – location town office
  - PPE- Property and equipment
  - FF – Furniture & Fittings
  - OD – Office Desk
  - 001 – Unique for Desk at the reception





## Apportionment of cost

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- ▶ Allocate the initial cost to major components if they have significantly different patterns of consumption of economic benefits.
- ▶ Cost of replacing major parts is capitalised if it is expected to provide incremental future benefits
- ▶ Derecognise the carrying amount of those parts that are replaced
  - Cost of regular major inspections for faults is capitalised



## Example

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- Kenya Forest Services has an aircraft that it acquired for Ksh 10,400,000. The cost of the aircraft is attributed to its significant parts as follows: the jet engine (60%), body (20%) and aviation equipment (10%) and furniture and fittings (10%). A condition of operating an aircraft is that it is inspected by the aviation authorities every three years at a costs Ksh 400,000.
- Aviation regulations require the jet engine to be replaced when it has flown 2,000,000 air miles. Management intends fitting a new engine to the aircraft when it requires replacement so that the aircraft can be used for approximately 10 years, at which time it intends to scrap the aircraft. The useful life of the furniture and fittings is five years at which time they will be scrapped and replaced.



## Example

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- Government agency purchased a new office building at a cost of Sh.1 billion. The building has an estimated life of 50 years, but it contains a sophisticated escalator, lift and air conditioning (included in the price of the building), which will require replacement every ten years at a cost of Sh.100 million, and interior décor at sh 50 million requiring replacement after 5 years.



## Exchange transaction

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### Acquired in exchange (trade in)

- deemed cost of the acquired asset is its fair value unless
  - the exchange transaction lacks commercial substance or
  - the fair value of neither the asset received nor the asset given up is reliably measurable.
- Cost is then carrying amount of the asset given up.



## Subsequent measurement

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Subsequent to initial recognition, choice as a matter of accounting policy between;

- Cost model: the asset is carried at cost less accumulated depreciation and impairment; or
- Revaluation model : adjusting the carrying amount to market value



## Revaluation model

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- If fair value can be measured reliably, an entity may carry all items of property, plant and equipment of a class at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses.
- fair value may be estimated using an income or a depreciated replacement cost approach.
- revaluation surplus recognised as other comprehensive income net of applicable deferred tax
- Revaluation should be regular (no significant change)



## PPE maintenance cost

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- costs of day-to-day servicing or maintenance of PPE is recognised an expense
- NB cost that enhance useful life, or capacity or change how the asset is used should be capitalized



## PPE items with defined economic life

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### Depreciation

- ▶ allocate the depreciable amount of an asset on a systematic basis over its useful life.
- useful life of an asset depends on:
  - expected usage of the asset
  - expected physical wear and tear
  - Environmental factors
  - technical or commercial obsolescence
  - legal or similar limits





## Change in estimate

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- ▶ Review estimates of useful life, residual value and depreciation method if there is
  - ▶ change use,
  - ▶ unexpected wear and tear,
  - ▶ technological advancement, and
  - ▶ changes in market prices
- ▶ change in residual value, depreciation method or useful life is a change in an accounting estimate



## Depreciation commencement

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### Depreciation

- begins when it is available for use,
- ceases when the asset is derecognised.
  - not cease when the asset becomes idle unless it is retired from active use (abandonment)
- under usage methods of depreciation the depreciation charge can be zero when there is no production.



## Depreciation pattern

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### Depreciation method

- Reflects the pattern of consuming the asset's future economic benefits.
  - straight-line ,
  - the diminishing balance
  - usage such as the units of production.
- Subject to impairment review



## Derecognition

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### Derecognise

- on disposal, or
- when no future economic benefits are expected.
- gain or loss on the derecognition included in profit or loss
- gain or loss arising is the difference between the net disposal proceeds and the carrying amount of the item.



## Disposal procedures

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- The board of organization must approve disposal of fixed assets. No assets should be disposed of without the written authorization of the board.
- On the strength written authorization by the board, the management should invite public bids for the purchase of the asset.
- On receipt of minimum bids,



## Disclosures

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Disclose for each significant class

- the measurement bases used for determining the gross carrying amount.
- the depreciation methods used.
- the useful lives or the depreciation rates used.
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period.



## PPE movement schedule in the notes

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Reconciliation of the carrying amount of each class at the beginning and end of the reporting period showing separately

- additions.
- disposals.
- acquisitions through business combinations.
- transfers to investment property if a reliable measure of fair value becomes available
- impairment losses recognised or reversed in profit or loss
- depreciation.

<b>18. Property, plant and equipment</b>	<b>Motor vehicles Shs'000</b>	<b>copiers &amp; faxes Shs'000</b>	<b>Office equipment Shs'000</b>	<b>Furniture &amp; fittings Shs'000</b>	<b>work-in-progress Shs'000</b>	<b>Total Shs'000</b>
At 1st July 2012						
Cost	17,876	48,010	16,383	67,492	13,334	163,095
Accumulated depreciation	(12,516)	(28,035)	(9,046)	(10,923)	-	(60,520)
Net carrying amount	5,360	19,975	7,337	56,569	13,334	102,575
<b>Year ended 30th June 2013</b>						
Opening carrying amount	5,360	19,975	7,337	56,569	13,334	102,575
Additions	4,145	47,806	802	265	-	53,018
Reclassified to intangible assets	-	-	-	-	(11,547)	(11,547)
Reclassified to expenses	-	-	-	-	(180)	(180)
Work-in-progress capitalised	-	-	-	472	(472)	-
Disposals	(6,013)	(2,201)	(461)	(3,258)	-	(11,933)
Accumulated depreciation reversed on disposal	4,510	1,897	390	2,880	-	9,677
Depreciation charge	(2,730)	(10,905)	(2,382)	(8,020)	-	(24,037)
Closing carrying amount	5,272	56,572	5,686	48,908	1,135	117,573
<b>At 30th June 2013</b>						
Cost	16,008	93,615	16,724	64,971	1,135	192,453
Accumulated depreciation	(10,736)	(37,043)	(11,038)	(16,063)	-	(74,880)
Net carrying amount	5,272	56,572	5,686	48,908	1,135	117,573
<b>Year ended 30th June 2014</b>						
Opening carrying amount	5,272	56,572	5,686	48,908	1,135	117,573
Additions	10,380	4,768	130	35	746	16,059
Disposals	-	(449)	-	(69)	-	(518)
Accumulated depreciation reversed on disposal	-	197	-	52	-	249
Depreciation charge	(3,826)	(18,098)	(2,266)	(7,832)	-	(32,022)
Closing carrying amount	11,826	42,990	3,550	41,094	1,881	101,341
<b>At 30th June 2014</b>						
Cost	26,388	97,934	16,854	64,937	1,881	207,994
Accumulated depreciation	(14,562)	(54,944)	(13,304)	(23,843)	-	(106,653)
Net carrying amount	11,826	42,990	3,550	41,094	1,881	101,341

Motor vehicles balance relates to the vehicles owned at the Authority's Forest Park and Shauri Moyo.



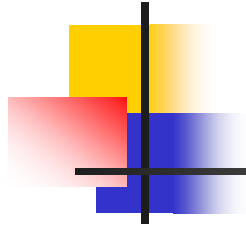
	Freehold Land	Freehold Building	Plant, Machinery & Medical Equipment	Motor vehicles	Furniture and fittings	Computers, copiers and faxes	Capital work in progress	Total
Cost	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000	Kshs.' 000
<b>At 1 July 2012</b>	<b>4,014,600</b>	<b>6,701,438</b>	<b>3,478,072</b>	<b>56,148</b>	<b>229,220</b>	<b>66,321</b>	<b>137,060</b>	<b>14,682,859</b>
Additions		4,440	150,539	10,359	3,804	12,806	80,338	262,285
Disposals				(1,370)				(1,370)
Transfers/adjustments		35,378	64,998		36,684		(137,060)	
<b>At 30 June 2013</b>	<b>4,014,600</b>	<b>6,741,256</b>	<b>3,693,608</b>	<b>65,137</b>	<b>269,708</b>	<b>79,127</b>	<b>80,338</b>	<b>14,943,773</b>
Additions		8,000	75,814		370	2,558	421,424	508,165
Disposals			(14,665)	(2,280)	(33)	(6)		(16,984)
Transfers from WIP			203,599	32,800	1,908	72,646	(310,953)	
<b>At 30 June 2014</b>	<b>4,014,600</b>	<b>6,749,256</b>	<b>3,958,357</b>	<b>95,657</b>	<b>271,953</b>	<b>154,325</b>	<b>190,808</b>	<b>15,434,955</b>
Depreciation								
At 1 July 2012		918,647	1,708,351	43,304	117,771	33,536		2,821,609
Depreciation		145,565	253,807	5,770	19,000	13,677		437,819
Disposal 2012/2013				(1,187)				(1,187)
<b>At 30 June 2013</b>		<b>1,064,213</b>	<b>1,962,158</b>	<b>47,886</b>	<b>136,771</b>	<b>47,213</b>		<b>3,258,241</b>
Depreciation		142,126	256,516	12,465	16,900	32,135		460,142
Disposals			(8,113)	(2,052)	(20)	(6)		(10,190)
At 30 June 2014		1,206,339	2,210,561	58,299	153,651	79,343		3,708,193
<b>NBV At 30 June 2014</b>	<b>4,014,600</b>	<b>5,542,917</b>	<b>1,747,796</b>	<b>37,357</b>	<b>118,302</b>	<b>74,982</b>	<b>190,808</b>	<b>11,726,762</b>
<b>NBV At 30 June 2013</b>	<b>4,014,600</b>	<b>5,677,043</b>	<b>1,731,450</b>	<b>17,250</b>	<b>132,937</b>	<b>31,914</b>	<b>80,338</b>	<b>11,685,532</b>



## Condition for use

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- the existence and carrying amounts of restricted title
- pledged as security for liabilities.
- the amount of contractual commitments for the acquisition



- Investment Property
- IPSAS 16



## Definition

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- Land or a building, or part of a building, or both held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than PPE.
- Transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.
- Mixed use property shall be separated between investment property and property, plant and equipment.



# Investment Property

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- its cost on initial recognition
- Subsequent to initial recognition
- If fair value can be measured reliably at each reporting date with changes in fair value recognised in profit or loss.
- Cost model



# Investment Property

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Disclose:

- ▶ methods and significant assumptions applied in determining the fair value
- ▶ the extent to which the fair value of investment property is based on a valuation by an independent valuer who has recent experience in the location and class of the investment property being valued.
- ▶ the existence and amounts of restrictions on the realisability or the remittance of income and proceeds of disposal.
- ▶ contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

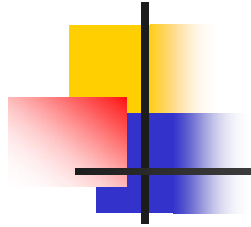


# Investment Property

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A reconciliation of carrying amounts showing separately:

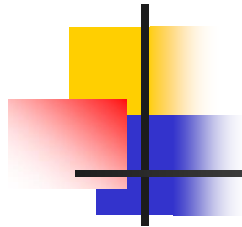
- Additions, disclosing separate for acquisitions and business combinations.
- net gains or losses from fair value adjustments.
- transfers to and from inventories and owner-occupied property.
- Disclose of fair value for investment property accounted at cost



- Intangible assets

- IPSAS 31





## Intangible Asset

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- investment in intangible assets is growing rapidly.
- Matches or exceeds investment in tangible assets such as machinery, equipment and buildings.
- Intensified global competition, ICTs, new business models, and the growing importance of the services sector have all amplified the importance of intangible assets to firms and industries.



## Definition

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- Identifiable long-term assets of a company having no physical existence are called intangible assets.
- Intangible assets are either acquired, arise in business combination or developed internally.
- They include goodwill, patents, copyrights, etc.



## Scope of discussion - exclude

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- financial assets as defined in IAS 32 Financial instruments: presentation
- recognition and measurement of exploration and evaluation assets, and
- expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources.



## Separation of tangible and intangible

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- where an asset incorporates both tangible and intangible elements, judgment is required to assess whether the tangible or intangible element is more significant; the outcome of that assessment determines whether the asset is accounted for as Property, Plant and Equipment or as an intangible asset.
- Example, computer software residing on a computer hard drive or compact disc, licenses or patents embodied in legal documentation, and audio or film products.
- Consequently, the operating system of a computer is an integral part of the related hardware and it is treated as PP&E. Application software, which is not an integral part of the related hardware, is treated as an intangible asset.



## Recognition criteria

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- Recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
  1. the definition of an intangible asset; and
  2. the recognition criteria.
  
- This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.



## Definition criteria

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- To meet the definition of an intangible asset, there must be all of the following elements:
  - Identifiability (i.e. separable from the entity, or arises from contractual or legal rights)
  - control over a resource by the entity
  - existence of future economic benefits.



## Control (irrespective of ownership)

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- An entity controls an asset if the entity has;
  - the power to obtain the future economic benefits flowing from the underlying resource and,
  - Power to restrict the access of others to those benefits.



## Future economic benefits

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- The future economic benefits flowing from an intangible asset may include:
  - revenue from the sale of products or services;
  - cost savings; or
  - other benefits resulting from the use of the asset by the entity.





## Internally generated intangible assets

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- there are two phases: research phase and development phase.
  - Research phase includes all activities and costs incurred before the intangible asset is commercially feasible, while
  - the development phase includes all activities and costs incurred after the asset is established to be commercially feasible.
- All costs in research phase are expensed in the period incurred while costs incurred in development phase can be capitalized.



# Capitalisation of development cost

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- An intangible asset arising from development (or from the development phase of an internal project) can be recognised if all the conditions described below can be demonstrated:
  - the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  - its intention to complete the intangible asset and use or sell it;
  - its ability to use or sell the intangible asset;
  - how the intangible asset will generate probable future economic benefits;
  - the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
  - its ability to measure reliably the expenditure attributable to the intangible asset during its development.



## Not recognised

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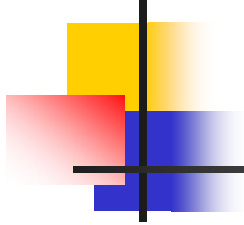
- Internally developed and not specifically identifiable.
- If there is not a specifically identifiable intangible asset, then you should charge its cost to expense in the period incurred
- Consequently internal goodwill customer listing not recognised



## Example

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- IPSAS 31 specifically prohibits the following internally generated intangible assets from being recognised:
- Internal goodwill;
- Internal brands names;
- publishing titles;
- customer lists;
- item similar in substance and



- Other examples of items that are expensed as incurred include expenditures for
  - start-up costs
  - training, advertising, and promotional activities



## Purchased intangible assets

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### **Copyrights**

- Copyrights grant a business sole authority to reproduce and sale a software, book, magazine, journal, etc.

### **Patents**

- Patents grant a manufacturing and research company control over the use and sale of a specific design in manufacturing process, etc.

### **Computer application software**



## Software developed for internal use

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- This is the cost of software developed for internal use, with no plan to market it externally.
- You amortize these costs over the useful life of the asset.



## Subsequent measurement

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- After initial recognition, either the cost model or revaluation model as a matter of policy,
- however, the revaluation model can only be selected if fair values can be determined in an active market.
- However, some jurisdictions may have an active market for freely transferable licences, which may provide a fair value for some intangible assets.

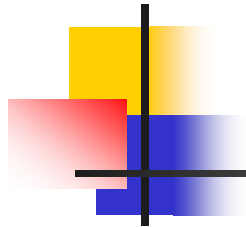




## Intangible assets with definite economic life

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- Others have a definite useful life and are amortized over their useful life. Most of intangible assets are amortized using straight line method. Useful life is the shorter of legal life and economic life.
- Amortization is the process of expensing out intangible assets over their useful life. It is in effect the depreciation of intangible assets.
- Some intangible assets have indefinite or unlimited useful life, such as goodwill. Such assets are not amortized.



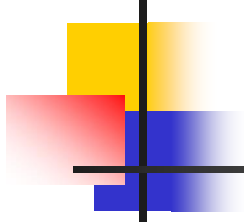
- If an intangible asset has a finite useful life, you should amortize it over that useful life.
- The amount to be amortized is its recorded cost, less any residual value.
- However, intangible assets are usually not considered to have any residual value.
- If there is any pattern of economic benefits to be gained from the intangible asset, then you should adopt an amortization method that approximates that pattern.
- If not, the customary approach is to amortize it using the straight-line method



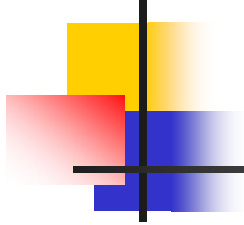
## Impairment of Intangible Assets

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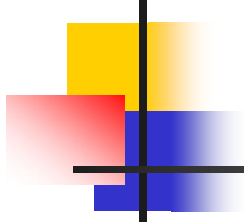
- Test for an impairment loss whenever circumstances indicate that an intangible asset's carrying amount may not be recoverable, or at least once a year.
- Examples of such instances are:
  - Significant decrease in the asset's market price
  - Significant adverse change in the asset's manner of use
  - Significant adverse change in legal factors or the business climate that could affect the asset's value
  - Excessive costs incurred to acquire or construct the asset
  - Historical and projected operating or cash flow losses associated with the asset
  - The asset is more than 50% likely to be sold or otherwise disposed of significantly before the end of its previously estimated useful life



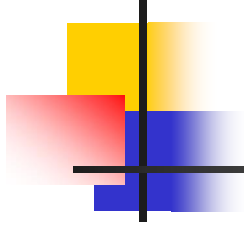
- Revaluation model
- An intangible asset is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.
- Fair value is determined by reference to an active market and revaluations are obtained to ensure the carrying amount of the intangible asset is not materially different from its carrying amount.



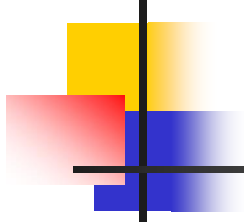
- An asset has a 'readily ascertainable market value' only if:
  - the asset belongs to a homogenous population of assets that are equivalent in all material respects, and
  - an active market, evidenced by frequent transactions, exists for that population of assets.



- If one intangible asset is revalued, all other capitalised intangible assets of the same class should be revalued.
- Once an intangible asset has been revalued, further revaluations should be performed sufficiently often to ensure that the carrying value does not differ materially from the market value at the balance sheet date



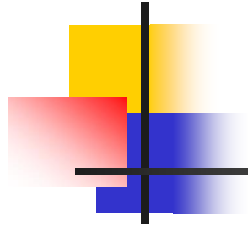
- if an asset's carrying value is increased as a result of revaluation, the increase is recorded as a component of other comprehensive income, and is accumulated in equity as an item of other comprehensive income under the heading "Revaluation surplus."



- De-recognition of intangible assets
- An intangible asset is derecognised on disposal or when no future benefits are expected from its use or disposal.
- The gain or loss on de-recognition is the difference between any net disposal proceeds and carrying amount of the asset.
- It is recognised in profit or loss when de-recognition occurs.
- Gains shall not be classified as revenue



<b>19. Intangible assets</b>	<b>Intangible assets Shs'000</b>	<b>Work in progress Shs'000</b>	<b>Total Shs'000</b>
<b>Software costs</b>			
<b>Cost</b>			
At 1st July 2012	25,852	238	26,090
Reclassification from work-in-progress	238	(238)	-
Additions	113,698	-	113,698
Reclassification from property, plant and equipment	11,547	-	11,547
At 30th June 2013	151,335	-	151,335
<b>Amortisation</b>			
At 1st July 2012	12,262	-	12,262
Amortisation	12,245	-	12,245
At 30th June 2013	24,507	-	24,507
<b>Net book value</b>			
At 30th June 2013	126,828	-	126,828
<b>Cost</b>			
At 1st July 2013	151,335	-	151,335
Additions	8,371	-	8,371
At 30th June 2014	159,706	-	159,706
<b>Amortisation</b>			
At 1st July 2013	24,507	-	24,507
Amortisation	49,411	-	49,411
At 30th June 2014	73,918	-	73,918
<b>Net book value</b>			
At 30th June 2014	85,788	-	85,788



Thank you

Interactive session