

IPSAS WORKSHOP

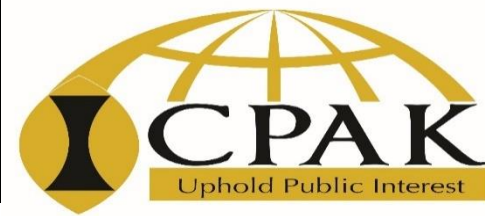
Preparation of Financial Statements Under various IPSAS

Mountain Breeze Hotel - EMBU , 15th -16th June 2017

IPSAS 17

Property, Plant and Equipment

Session objectives



◆ By the end of the session you will

- Be able to define the initial cost of a non-current asset distinguishing between capital and revenue items
- Describe, and be able to identify, subsequent expenditures that should be capitalised
- Account for gains and losses on the disposal of re-valued assets
- Be able to calculate depreciation on: – revalued assets, and – assets that have two or more major items or significant parts
- Understand the revaluation and cost models of accounting for property, plant and equipment (PPE)

◆ Definition

- Tangible items
 - Held for production or supply of goods or services, or rental to others, or for administrative purposes
 - Are expected to be used during more than one period
- Expected to be used during more than one period

◆ Scope: Accounting for all PPE

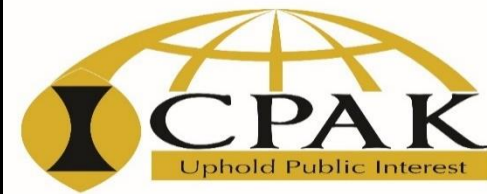
- Unless another standard requires or permits a different accounting treatment (IPSAS 27, IPSAS 12, IPSAS 16)

- ◆ **PPE is recognised as an asset when**
 - Future economic benefits are probable, and
 - Cost can be measured reliably

- ◆ **Criteria apply to all costs when incurred, including**
 - Initial acquisition or construction costs
 - Subsequent costs

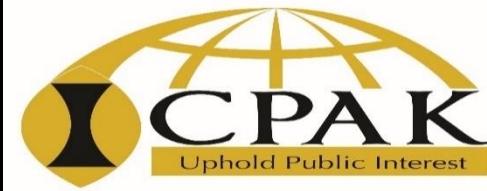
- ◆ **PPE is measured initially at cost**

Cost of acquired or self-constructed assets



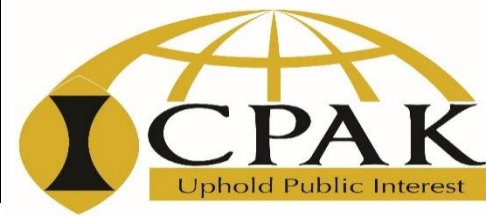
- ◆ **Purchase price (including import duties and non-refundable purchase taxes)**
 - Less any discounts or rebates deducted
 - Less implicit interest in deferred payment
 - Plus borrowing costs in certain cases
 - Plus any other directly attributable costs
- ◆ **Excludes abnormal amounts of wasted material, labour and other resources**

Expenses not recognised as cost of PPE



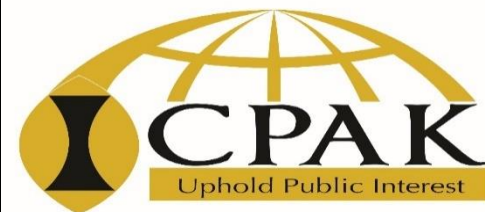
- ◆ **Feasibility assessment costs**
- ◆ **Costs of opening new facility**
- ◆ **Costs of introducing new product or service**
- ◆ **Costs of conducting business in new location or with new class of customer**
- ◆ **Costs of staff training**
- ◆ **Administration and other general overhead costs**
- ◆ **Costs incurred in using or redeploying an item**
- ◆ **Amounts related to certain incidental operations**
- ◆ **Costs incurred while construction is interrupted, unless certain criteria are met**

Asset exchange transactions



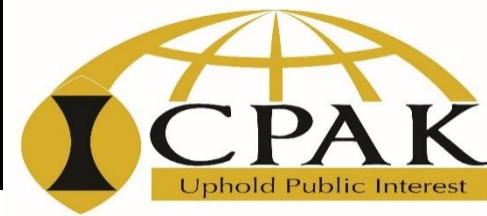
- ◆ **Cost of exchanged asset is measured at fair value unless**
 - Exchange transaction lacks commercial substance, or
 - Fair value of neither asset received nor given up can be measured reliably
- ◆ **Fair value of asset given up is used, unless fair value of asset received is more clearly evident**
- ◆ **If not measured at fair value, then carrying amount of asset given up becomes new cost basis**

Subsequent costs



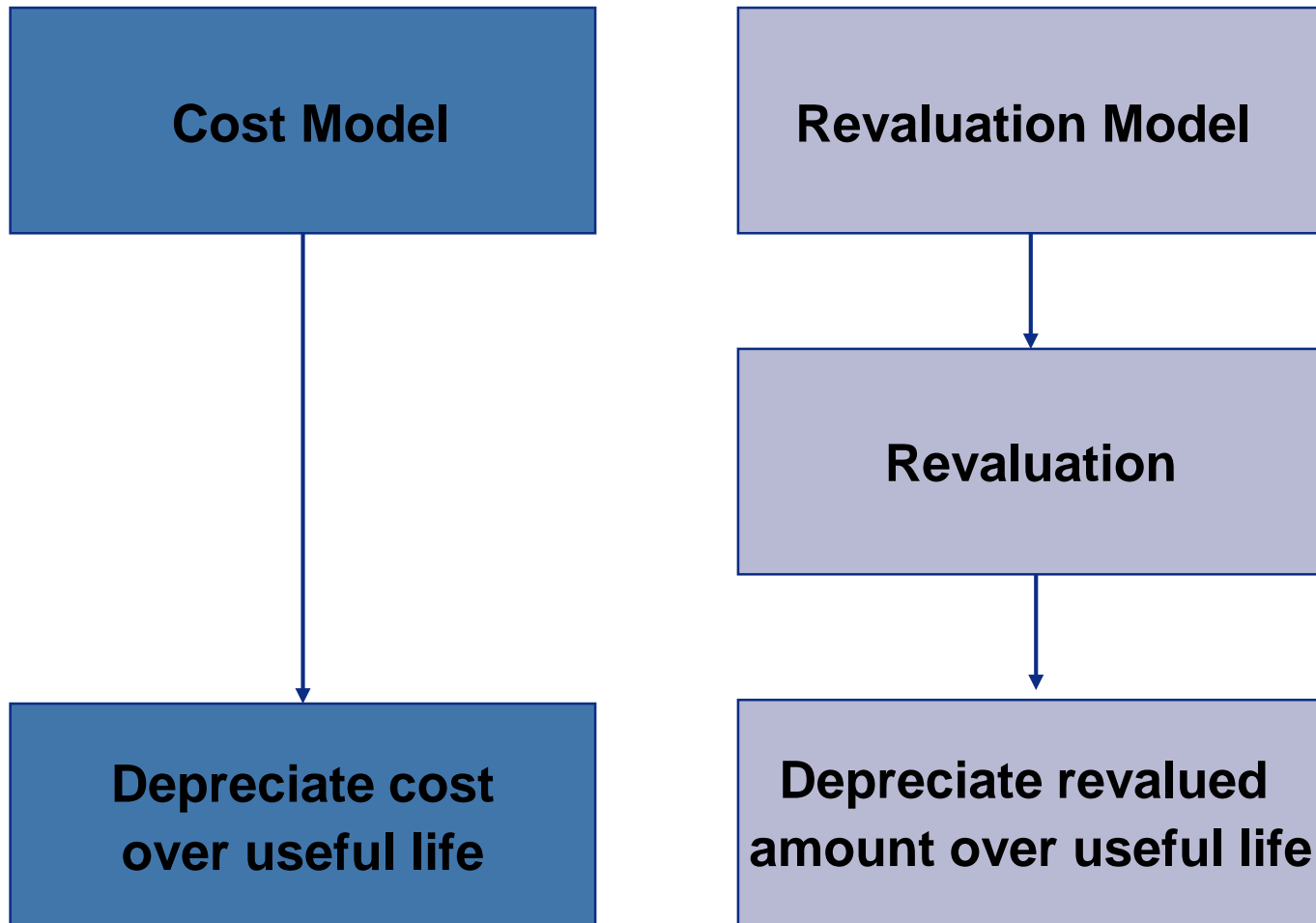
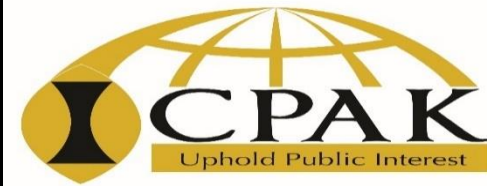
- ◆ **Subsequent costs are capitalised only if meet general recognition criteria**
 - Future economic benefits are probable
 - Cost can be measured reliably
- ◆ **Costs of day-to-day servicing are expensed as incurred**
- ◆ **Recognise cost of replacing part of PPE item when incurred**
- ◆ **Recognise major inspection cost as replacement**
- ◆ **Derecognise replaced parts (physical or otherwise)**

Parts of an item – “Component accounting”

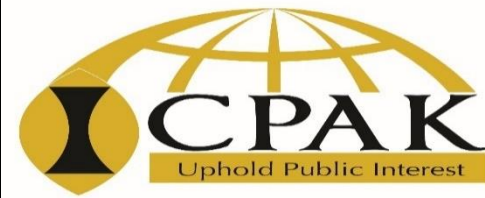


- ◆ On initial recognition, allocate cost to significant parts of asset, including non-physical parts
- ◆ Separate depreciation of each “component”

Measurement after recognition



Depreciation

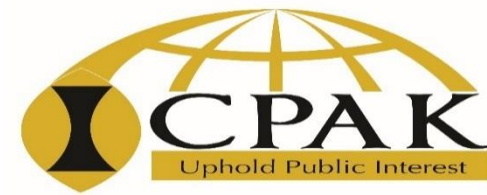


- ◆ **Systematic allocation of cost to profit or loss over useful life**
- ◆ **Depreciable amount determined after deducting residual value**
- ◆ **Review at least at each reporting date**
 - Residual value
 - Useful life
 - Depreciation method
- ◆ **Changes are changes in estimate, so adjust current and future periods only**

◆ Amendment (Clarification) – 1 January 2016

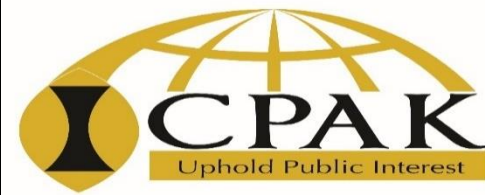
- Depreciation method based on revenue that is generated by an activity that includes the use of an asset is not appropriate.
- This is because such methods reflects a pattern of *generation* of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of *consumption* of an asset's expected future economic benefits.

Revaluation model (1)



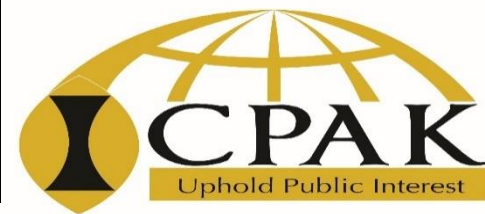
- ◆ **Revalue with sufficient regularity**
- ◆ **If insignificant changes in fair value, revalue only every 3 – 5 years**
- ◆ **Revalue all assets of the same class**
- ◆ **To adjust accumulated depreciation at the date of the revaluation either:**
 - Restate it proportionately with the change in the gross carrying amount of the asset, or
 - Eliminate it against the gross carrying amount of the asset and restate the net amount to the revalued amount of the asset

Revaluation model (2)



- ◆ **Revaluation increases credited to**
 - Profit or loss to the extent they reverse previous revaluation decrease of that asset recognised in profit or loss
 - Otherwise, OCI and equity (revaluation surplus)
- ◆ **Revaluation decreases debited to**
 - Equity to the extent of any revaluation surplus in equity related to that asset
 - Otherwise, profit or loss
- ◆ **The revaluation surplus may be transferred to retained earnings when the asset is derecognised or as it is used by the entity**

IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (1)



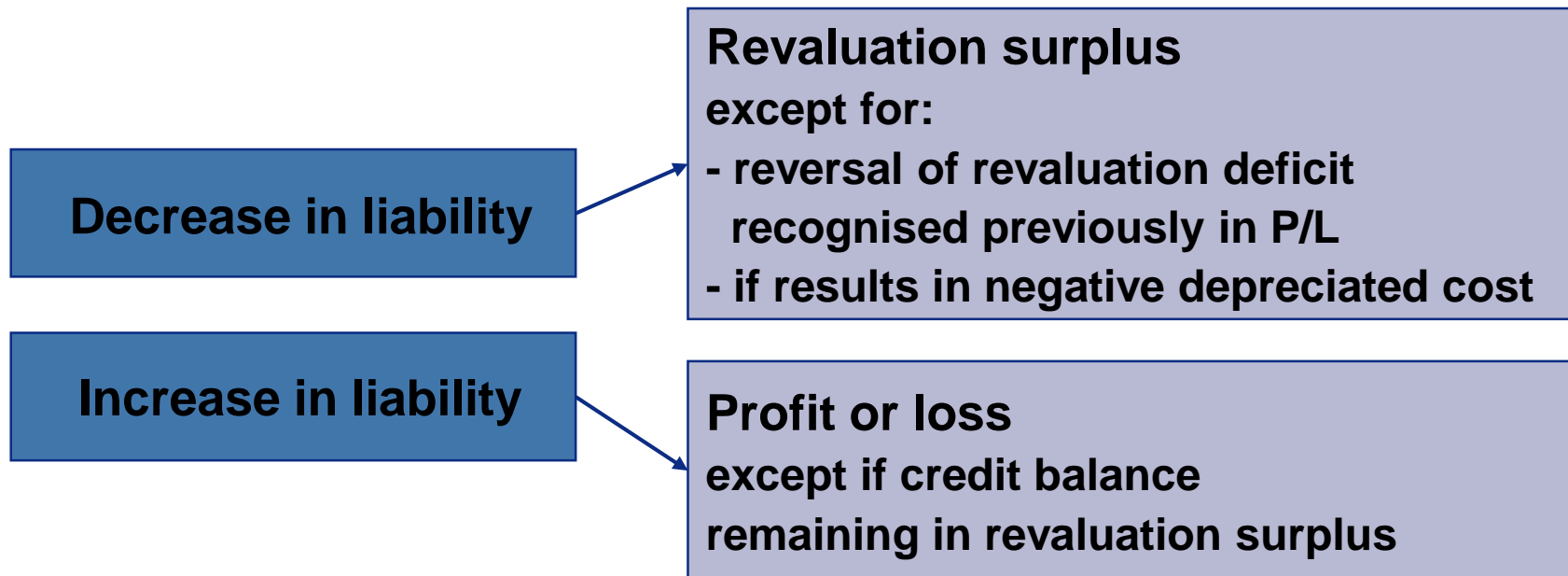
- ◆ **Changes due to a change in**
 - Estimated timing
 - Estimated amount of payments
 - Discount rate
- ◆ **Added to / deducted from cost of underlying asset and depreciated prospectively over remaining useful life**
- ◆ **Foreign exchange gains and losses may be recognised in profit or loss or adjusted against cost of PPE**
- ◆ **Applies regardless of accounting policy (cost or revaluation model) but implementation varies**
- ◆ **New obligations: in our view, accounting analogous to change in estimates**

◆ **Cost model**

- Changes in liability added/deducted from asset cost in current period
- No negative carrying amount possible; any excess recognised immediately in profit or loss
- Increase in carrying amount triggers consideration of impairment, including, if necessary, calculation of recoverable amount

◆ Revaluation model

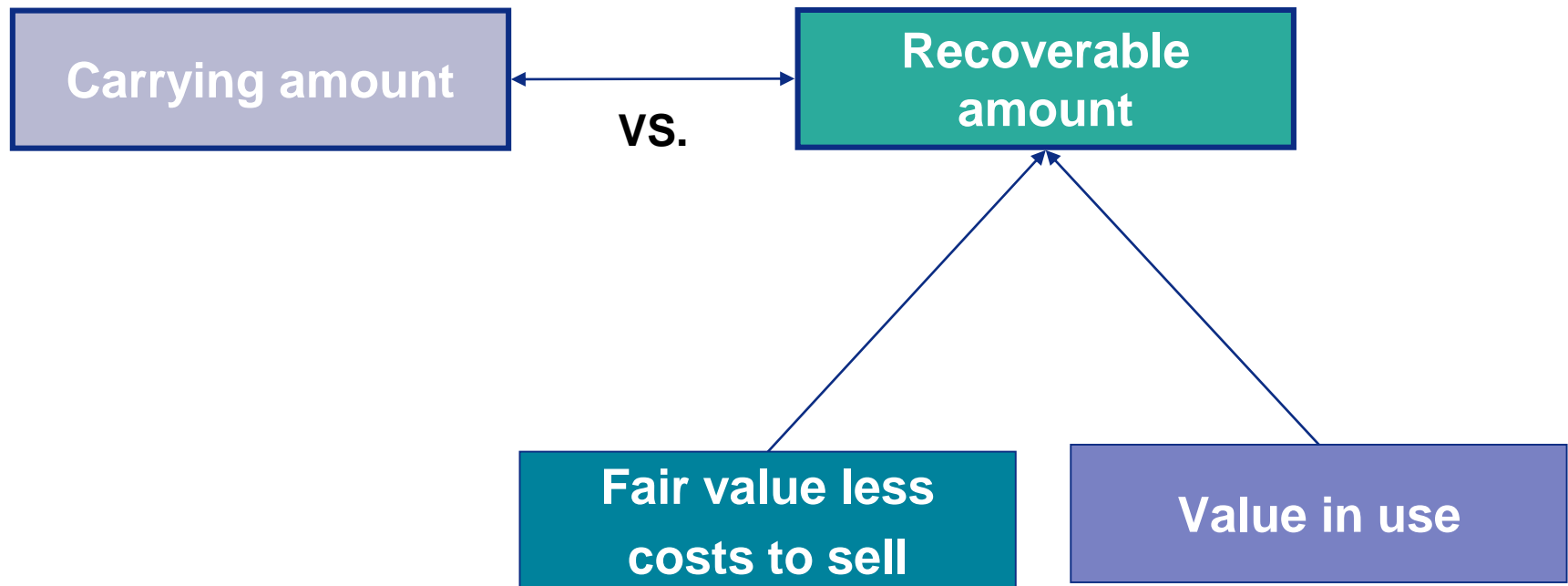
- Change in liability does not affect valuation of asset (impact on valuation reserve)



- Changes in liability : Indication that asset might have to be revalued

Impairment assessment

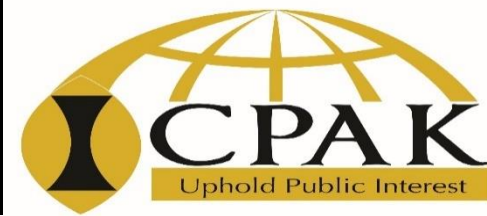
- ◆ **Assess at each reporting date indicators of impairment; if indication exists:**



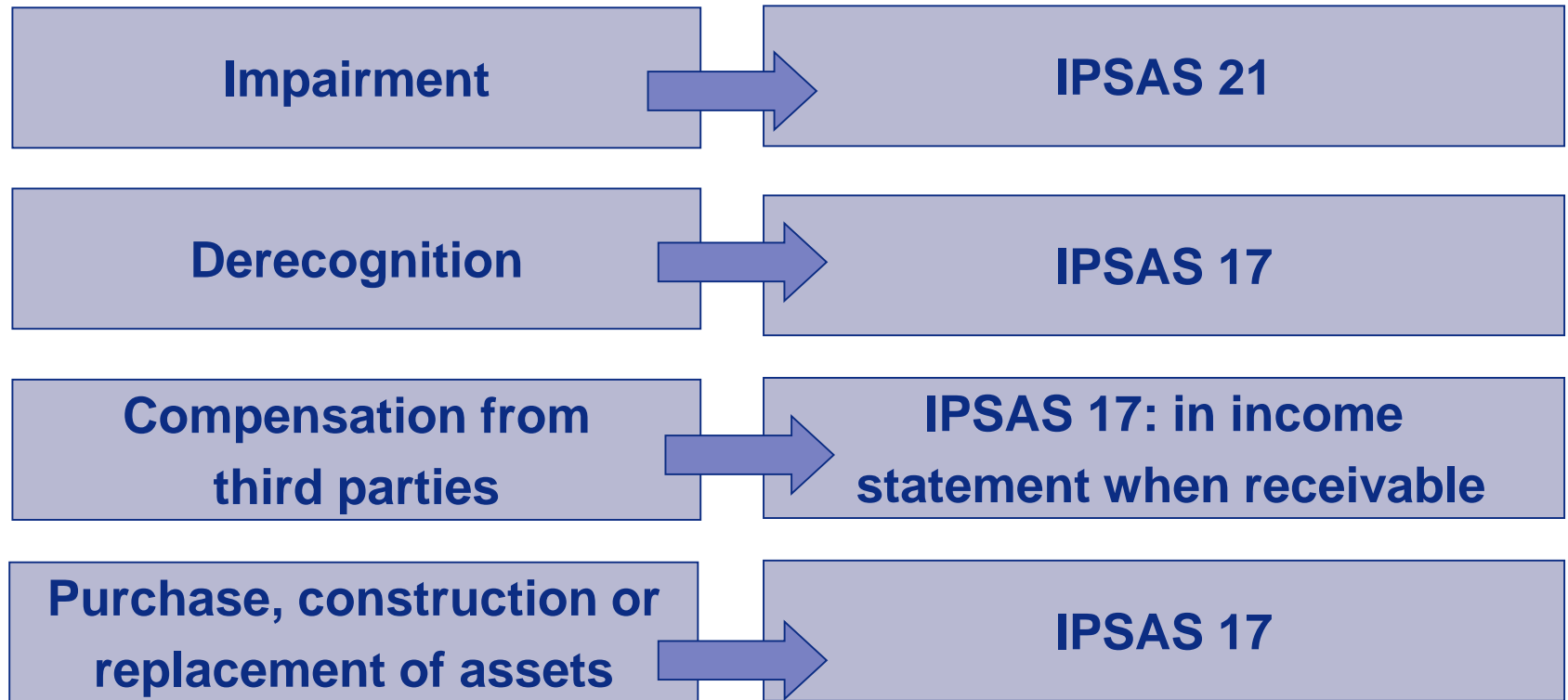
- ◆ **Recognise impairment loss as expense immediately**
 - Unless carried at revalued amount (treat as revaluation)
 - Use “new” carrying amount to calculate future depreciation
- ◆ **Refer to IPSAS 21 for impairment loss calculation**

- ◆ **Derecognise:**
 - On disposal, or
 - When no future benefits expected from use or disposal
- ◆ **Difference between carrying amount and net disposal proceeds recognised as gain/loss in profit or loss**
- ◆ **Gains not classified as revenue**
- ◆ **Apply IPSAS 9 *Revenue* in determining date of disposal. Criteria for sale of goods under IPSAS 9 must be met.**
- ◆ **Consideration receivable measured at fair value**

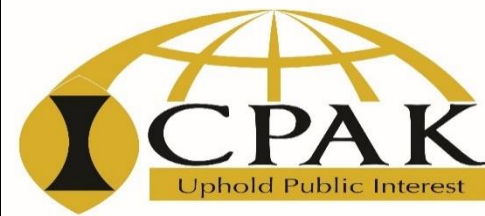
Compensation for impairment, loss or surrender



◆ Separate economic events:

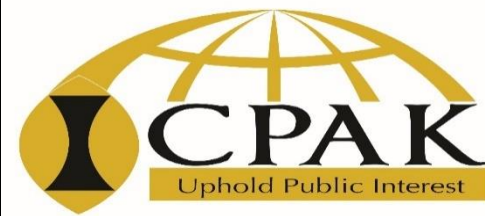


Disclosure (1)



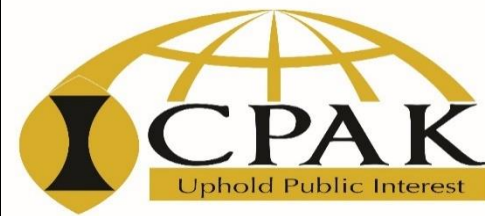
- ◆ **Measurement basis**
- ◆ **Depreciation methods**
- ◆ **Useful lives or depreciation rates**
- ◆ **Gross carrying amount and accumulated depreciation at the beginning and end of the period**
- ◆ **Reconciliation of the carrying amount at the beginning and end of the period**
- ◆ **Comparative information required**

Disclosure (2)



- ◆ **Existence and amounts of restrictions on title to assets**
- ◆ **PPE pledged as security for liabilities**
- ◆ **Amount of expenditures on account for PPE in the course of construction**
- ◆ **Commitments for acquisition of PPE**
- ◆ **Compensation from third parties**

Disclosure (3)



- ◆ **Disclosure requirements for revalued assets:**
 - Date of revaluation
 - Whether independent valuer was used
 - Carrying amount of each class of revalued PPE as if under the cost model
 - Revaluation surplus, including movement and any restrictions on distribution of balance to shareholders

Conclusion

- Discussion
- Questions?

