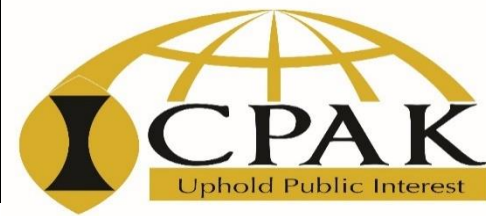


INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) WORKSHOP

IPSAS 17: PROPERTY, PLANT AND EQUIPMENT

Golf Hotel, Kakamega, 18th – 19th July, 2017

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)

Effective date

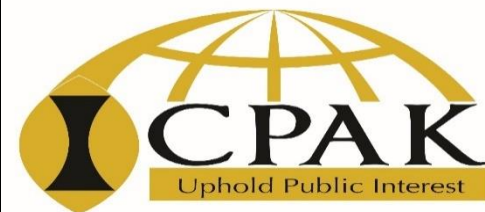
The Standard is drawn primarily from International Accounting Standard (IAS) 16 – Property, Plant and Equipment

An entity shall apply this standard for annual financial statements covering periods beginning on or after January 1, 2008.

When an entity adopts the accrual basis of accounting defined by IPSAS's, the standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

This standard replaces the previous standard issued in 2001

Objective and scope of IPSAS 17



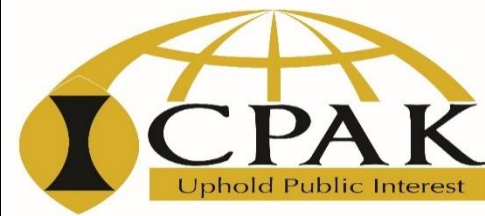
Objective

The standard prescribes the accounting treatment for Property, Plant and Equipment and related disclosure requirements.

Scope

- **The standard shall be applied in accounting for property, plant and equipment under the accrual basis of accounting.**
- **The standard applies to all public sector entities other than government business enterprises.**
- **The standard applies to all items of PPE.**
- **The standard covers property being developed for future use as Investment property but does not fully meet the definition under IPSAS 16.**
- **Heritage assets (Historical significance, etc.) – which are owner occupied.**

Objective and scope of IPSAS 17



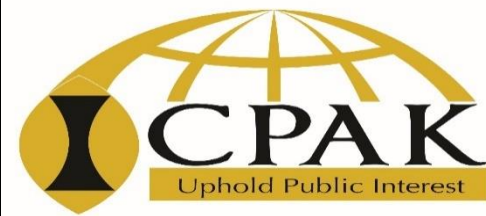
Out of Scope

The standard DOES NOT deal with:

Biological assets related to agricultural activity or mineral rights and reserves such as oil, natural gas and similar non – regenerative resources.

Heritage assets which do not have the ability to generate cash flows.

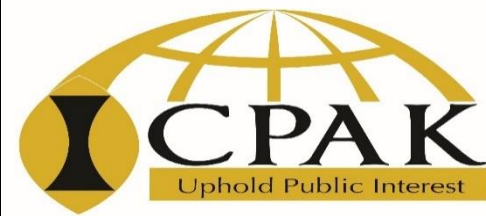
Outline of PPE



PPE definition

- **Tangible assets that are held for use in production or supply of goods and services or for administrative purposes.**
- **Tangible assets that are expected to be used for more than one period.**

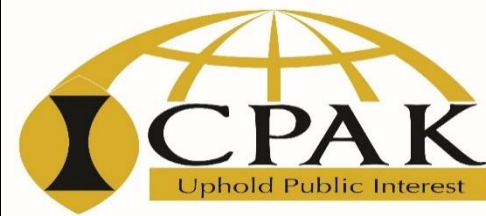
Examples of PPE



Examples of assets classified as Property, Plant and Equipment

- Land
- Operational buildings
- Roads
- Machinery
- Electricity transmission networks
- Ships
- Airport
- Specialist military equipment
- Motor vehicles
- Furniture and fittings
- Office equipment
- Oil rigs

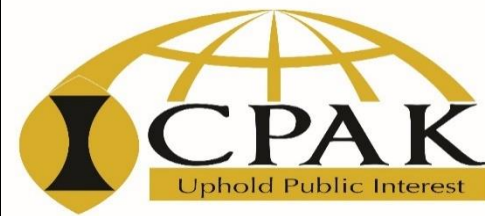
Recognition



The cost of an asset shall be recognized as property, plant and equipment only if;

- **It is probable that future economic benefits will flow to the entity. (Judgemental)**
- **The cost or fair value of the asset can be measured reliably.**

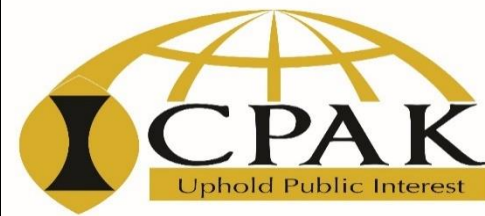
Recognition guidelines



Guidelines

- PPE shall be measured initially at its cost. (Transaction costs or initial costs are included)
- PPE does not include subsequent costs or replacement costs.
- Items that may need definite replacement after a certain number of years, e.g. – aircraft engines. **Judgement must be exercised!**

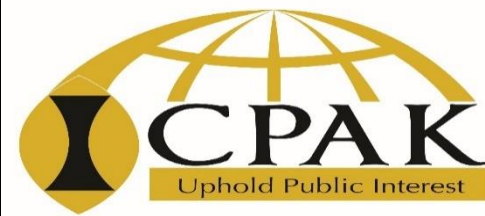
Measurement at recognition



Guidelines

- An item of PPE shall be measured at cost.
- If there is a non exchange transaction, cost shall be measured at its fair value as at the date of acquisition. This does NOT constitute a revaluation.

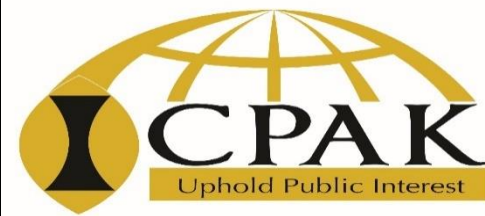
Measurement at recognition



Elements of 'cost'

- **Purchase price**
- **Costs attributed to bringing an asset to its current location and necessary condition.**
- **Replacement and renovation costs to accommodate the addition of PPE**
- **Employee benefits on construction**
- **Site preparation**
- **Delivery and handling costs**
- **Installation and assembly costs**
- **Costs of testing the asset**

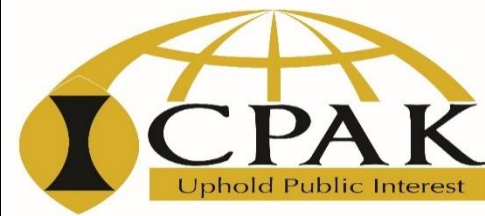
Measurement at recognition



NOT costs under PPE

- **Costs of opening a new facility**
- **Costs of introducing a new service line or product**
- **Costs of conducting business in a new location**
- **Administration and other overheads**
- **Relocating costs pegged to a shift in operations**
- **Assets built for sale in the regular course of business**

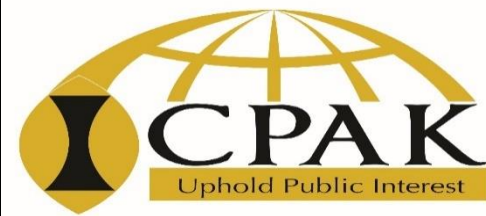
Measurement at recognition



Measurement of cost

- **Cash price equivalent or fair value at the recognition date**
- **In case of exchange of PPE, fair value measurement must be used**

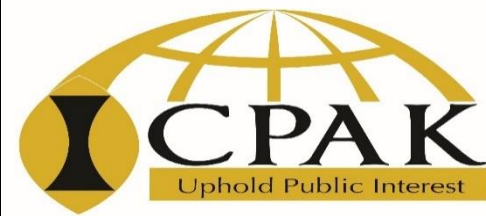
Measurement after recognition



Accounting policy

- **An entity shall choose to adopt either the revaluation or cost model. Changes are allowed if the result is a more appropriate presentation of transactions.**

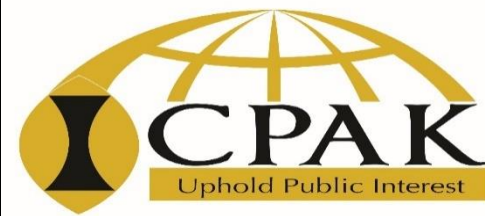
Measurement after recognition



The cost model

- After initial recognition, the item of PPE shall be carried at cost less accumulated depreciation and accumulated impairment cost.

Measurement after recognition



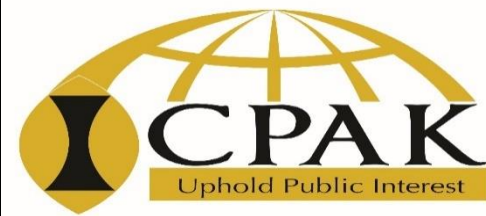
The revaluation model

- After initial recognition, an item of PPE is carried at the revalued amount, being its fair value at date of revaluation, less any subsequent accumulated depreciation and impairment.
- Revaluations must be carried out at regular periods to ensure that the carrying amount does not differ materially from the carrying amount as at the reporting date.

Inability to determine fair value

- If fair value cannot be reliably measured on a continuing basis (when market transactions are infrequent), the entity may estimate the same.

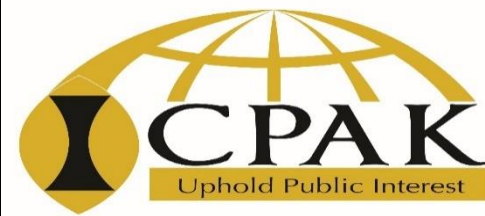
Measurement after recognition



Rules of revaluation

- If fair value cannot be reliably measured on a continuing basis (when market transactions are infrequent), the entity may estimate the same.
- Items in the market that are similar in nature may be used to derive estimates.
- Depreciation is either restated proportionally or eliminated altogether.
- If an item of PPE is revalued, the entire class of assets must be revalued.
- If the carrying amount of a class of assets is increased as a result of revaluation, the increase shall be credited to revaluation surplus.

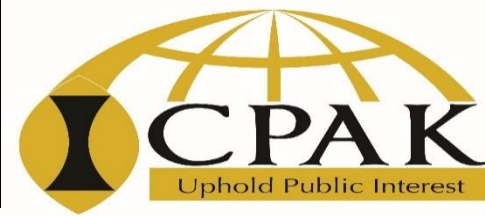
Measurement after recognition



Rules of revaluation (continued)

- If as in the case above, an increase was taken to surplus or deficit, the same must apply to the same extent.
- In the case of a decrease, the same must be recognized to deficit or surplus.

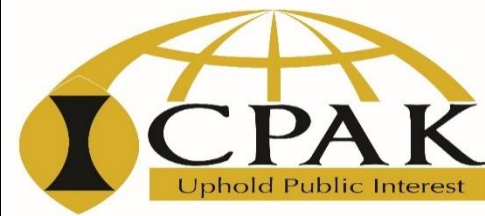
Depreciation



Guidelines

- Different parts relating to an asset must be depreciated separately.
E.g. pavements depreciated separately from roads in a road system.
- Depreciation charge shall be included in surplus or deficit
- Depreciation is spread over the estimated useful life of an asset.
- Reassessment of the depreciation policy must be revisited periodically.
- Depreciation begins when asset is available for use.

Depreciation



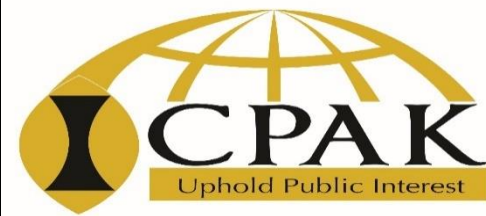
Methods

Methods of depreciation must reflect the pattern in which the assets future economic benefits are expected to be consumed by the entity.

Types

- **Straight line basis - % applied to cost**
- **Reducing balance basis – % applied to cost less accumulated depreciation**

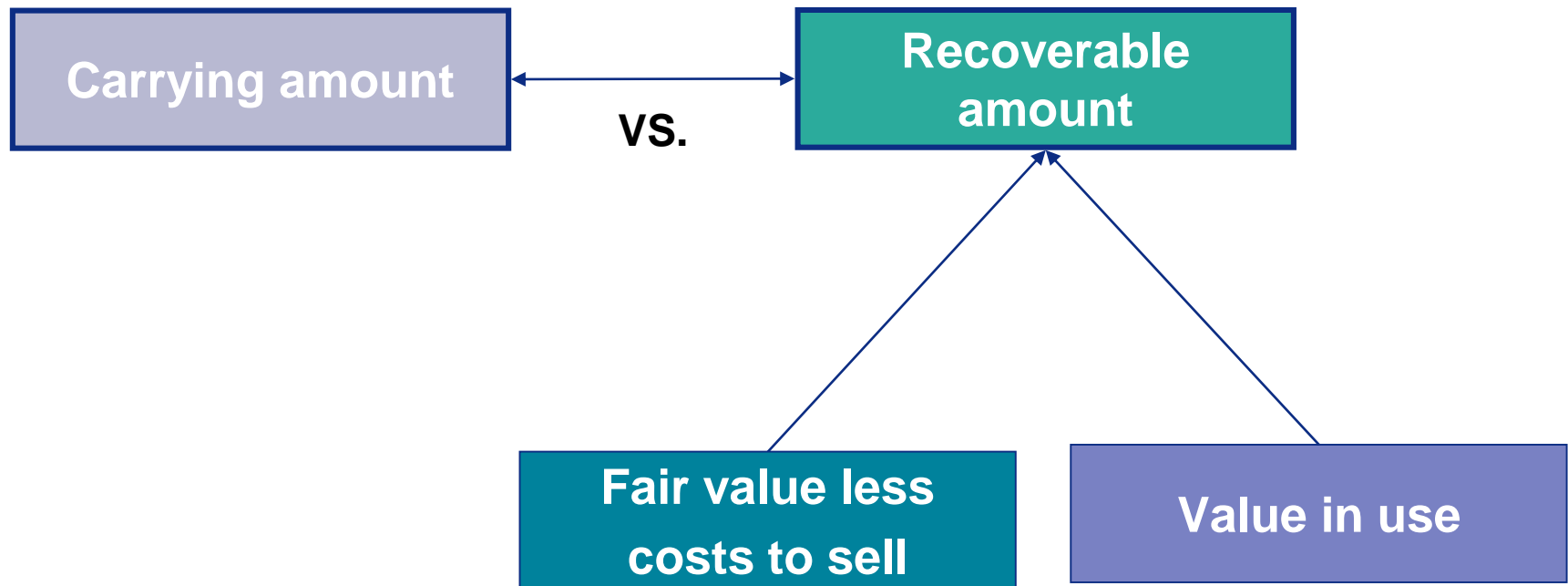
Impairment



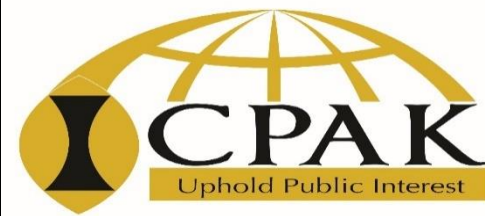
Guidelines

IPSAS 21 must be applied to PPE and the carrying amount of the asset is revisited.

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



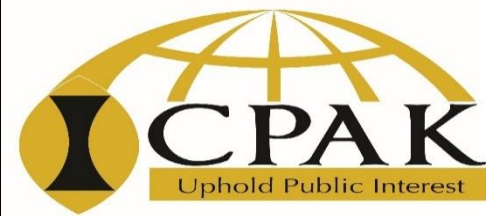
Impairment loss recognition



- ◆ **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**

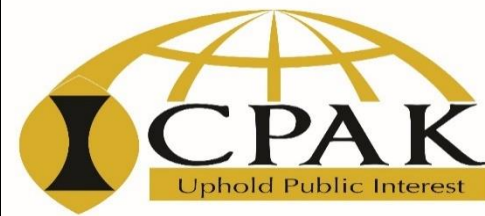
Derecognition



Guidelines

- **Derecognized on disposal**
- **Derecognized when no future economic benefits are expected.**
- **Gain or loss included in surplus/deficit.**
- **Gain or loss is computed as difference between disposal proceeds and the net proceeds for the same.**

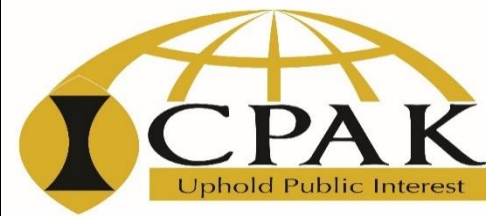
Disclosure



The financial statements shall disclose:

- **Measurement basis**
- **Depreciation methods used**
- **Depreciation rates used**
- **Useful lives**
- **Gross carrying amounts**
- **Accumulated depreciation**
- **Additions**
- **Disposals**
- **Increases or decreases resulting from revaluations**
- **Impairment losses recognized or reversed**
- **Contractual commitments**
- **Restrictions to use**

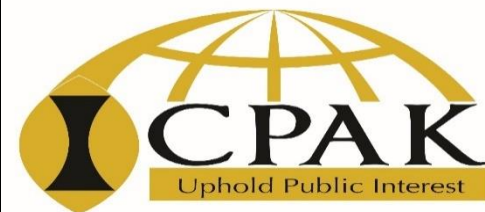
Disclosure



The financial statements shall disclose:

- Nature and effect of a change in accounting estimate.
- Effective date of revaluation
- The methods and assumptions of revaluation
- Revaluation surplus
- Disclosure on impairment in accordance with IPSAS 21

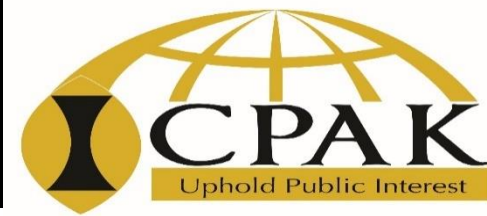
New version of IPSAS 17



Changes to IPSAS 17

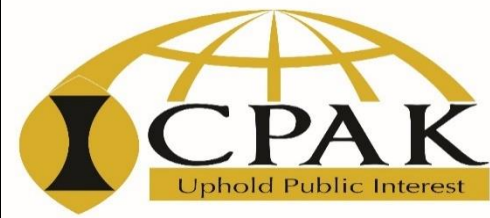
- **Elaboration on key definitions – Impairment loss, recoverable amount**
- **Recognition – no separate policy on initial and subsequent expenditure as was previously the case.**
- **Measurement of recognition – Non monetary assets**
- **Depreciation – Required for each individual component of an asset**
- **Transition provisions as discussed later**

Transition provisions



- For first time adopters, 5 years from date of adoption are given within which the PPE must be recognized (must disclose)
- First time adopters shall initially recognize PPE at either cost or fair value.
- The entity shall initially recognize the effect of the initial recognition of PPE as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the PPE was initially recognized.
- Prior to first application, an entity may recognize PPE on a basis other than cost or fair value, or may control assets that it has not recognized.
- IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Hence, impairment and accumulated depreciation must be recognized with cost.

Conclusion



- Discussion
- Questions?

