

IPSAS WORKSHOP

**Preparation of Financial Statements Under various IPSAS
IPSAS 17- Property, Plant and Equipment**

**MERICA HOTEL – NAKURU
27th – 28th June 2017**

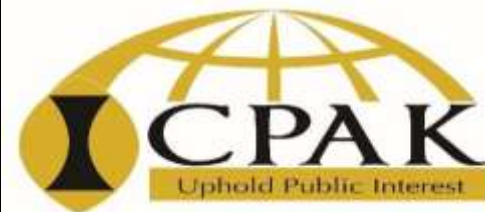
Session objectives



◆ 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)

Definition and scope



❑ 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

❑ Scope: Accounting for all PPE

- ✓ Unless another standard requires or permits a different accounting treatment (IPSAS 27-Agriculture, IPSAS 12-Inventory, IPSAS 16-IP)
- ✓ IPSAS 17 also applies to specialised military equipment, infrastructure assets and service concession assets under IPSAS 32

Public Sector Assets



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.

Public Sector Assets



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.

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.

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.

Recognition



- ◆ **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



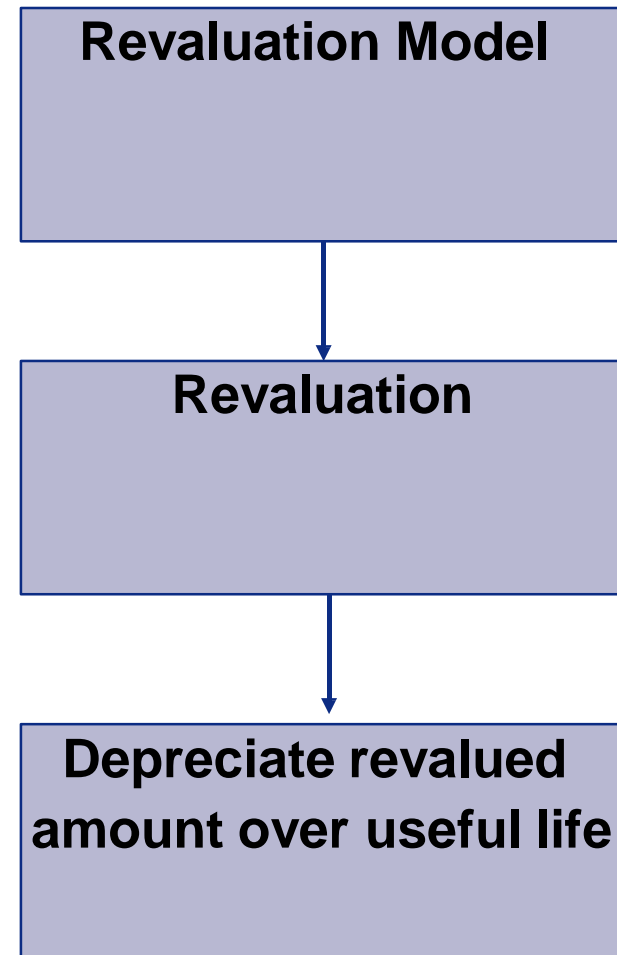
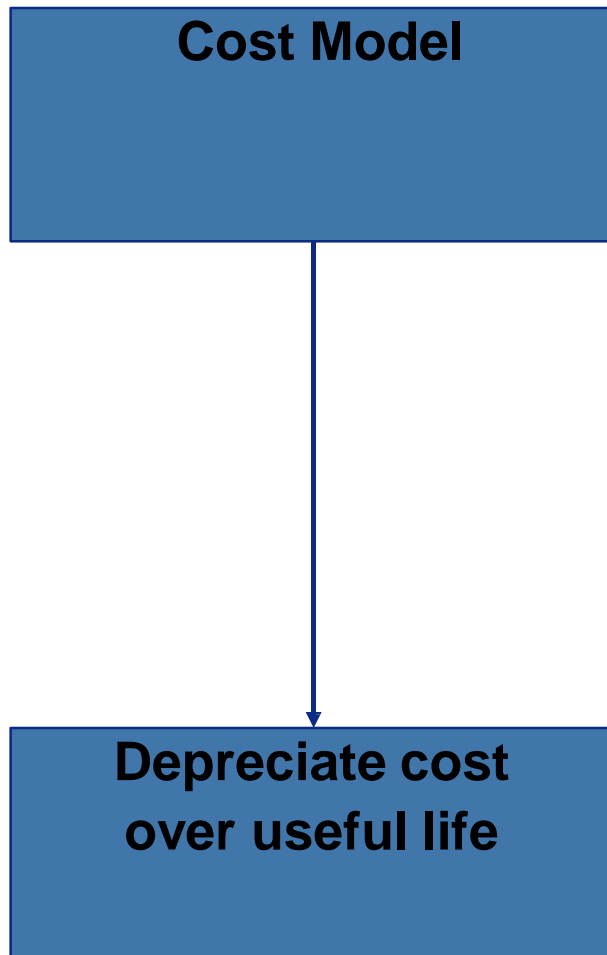
- ◆ **Subsequent costs are capitalised only if meet general recognition criteria**
 - Future economic benefits are probable
 - Cost can be measured reliably
- ◆ **Costs of day-to-day servicing are expensed as incurred**
- ◆ **Recognise cost of replacing part of PPE item when incurred**
- ◆ **Recognise 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, and Depreciation method
- ❑ Changes are changes in estimate, so adjust current and future periods only
- ❑ Begins when it is available for use and ceases when asset is derecognised

Depreciation



Depreciation method

- ❑ Reflects the pattern of consuming the asset's future economic benefits and could be:
 - ✓ straight-line ,
 - ✓ the diminishing balance
 - ✓ usage such as the units of production.

Revaluation model



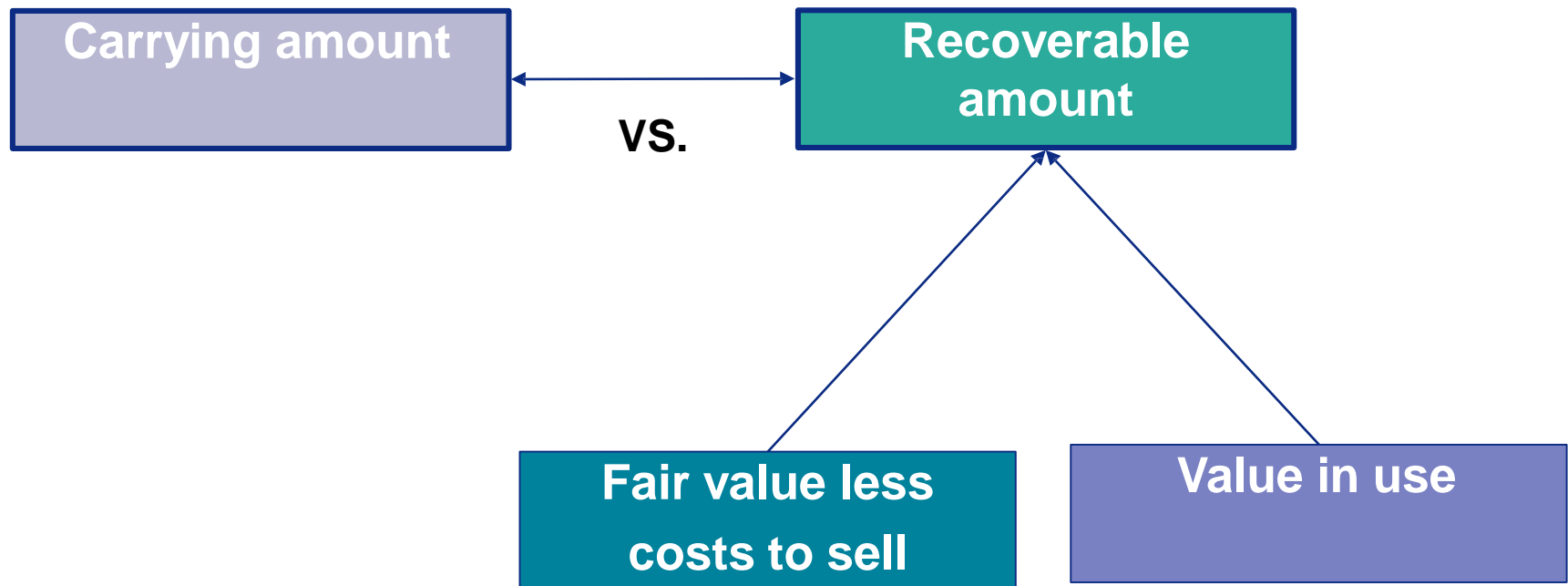
- ◆ **Revalue with sufficient regularity**
- ◆ **If insignificant changes in fair value, revalue only every 3 – 5 years**
- ◆ **Revalue all assets of the same class**
- ◆ **To adjust accumulated depreciation at the date of the revaluation either:**
 - Restate it proportionately with the change in the 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 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**

Impairment assessment



- ◆ **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
- ◆ **To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, *Impairment of Non-Cash and Cash-Generating Assets*, as appropriate.**

Derecognition



☐ **Derecognise:**

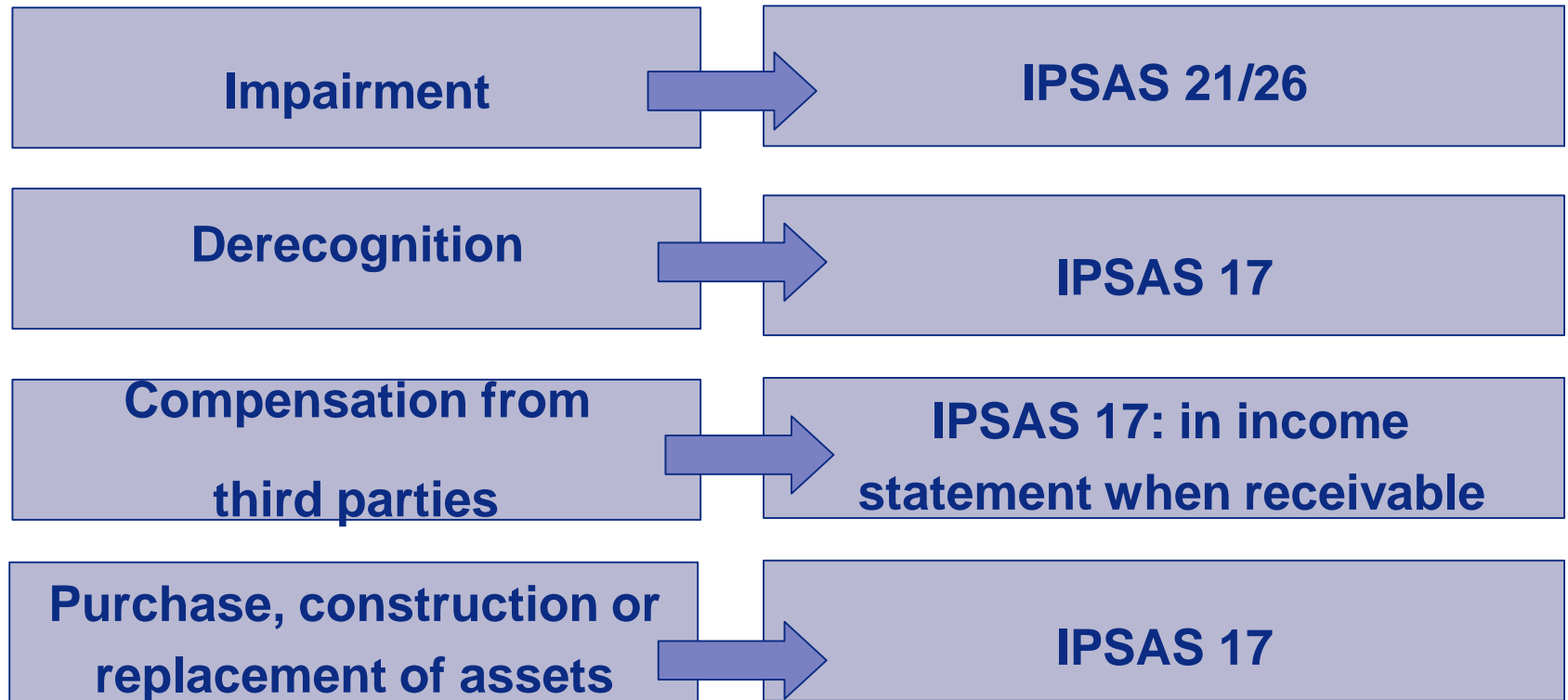
- ✓ On disposal, or
- ✓ When no future benefits expected from use or disposal

☐ **Difference between carrying amount and net disposal proceeds recognised as gain/loss in surplus or deficit**

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?

