IAS 16 and IPSAS 17- Property, Plant and Equipment

- IPSAS 17 is drawn primarily from International Accounting Standard (IAS) 16 (revised 2003), “Property, Plant and Equipment” published by the International Accounting Standards Board (IASB).

Reasons for revising IPSAS 17

- The IPSAS Board developed this revised IPSAS 17 as a response to the International Accounting Standards Board's project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.
- In developing this revised IPSAS 17, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 16, "Property, Plant and Equipment" made as a consequence of the IASB's improvements project, except where the original IPSAS had varied from the provisions of IAS 16 for a public sector specific reason

Summary of revisions

- Recognition - The Standard requires an entity to apply the **general asset recognition principle** to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent expenditures Previously, IPSAS 17 contained two recognition principles − one applied to initial costs while another applied to subsequent expenditures.
- The Standard clarifies that the costs of day-to-day servicing of property, plant and equipment are recognized in surplus or deficit. Previously, IPSAS 17 did not make this very clear.

Summary of revisions-Measurement at Recognition

- The Standard requires an entity to include the estimate of **asset dismantlement, removal and restoration** costs as an element of cost of property, plant and equipment, including the obligations which the entity incurs both when the asset is acquired and when it is used at subsequent periods;
- The Standard requires an entity to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless: the exchange transaction lacks commercial substance; or the fair value of neither the asset given up nor the asset received can be reliably measured.

Summary of changes -Depreciation

- The Standard requires an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment. Previously, IPSAS 17 did not make this clear.
- The Standard requires an entity to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until it is derecognized, even if during that period the item is idle.
- The Standard requires an entity to include in surplus or deficit compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up when the compensation becomes receivable.

Scope of the standard

- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant and equipment, except: (a) When a different accounting treatment has been adopted in accordance with another International Public Sector Accounting Standard; and (b) In respect of heritage assets.
- However, the disclosure requirements of paragraphs 88, 89 and 92 apply to those heritage assets that are recognized.
- This Standard applies to all public sector entities other than Government Business Enterprises.

Heritage Assets

- The Standard 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 this Standard and may, but is not required to, apply the measurement requirements of this Standard.
- Some assets 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.

Heritage assets

- These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.
- Some heritage assets have service potential other than their heritage value, for example, an historic building being used for office accommodation.
- In these cases, they may be recognized and measured on the same basis as other items of property, plant and equipment. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins

Heritage assets

- The disclosure requirements in paragraphs 88 to 94 require entities to make disclosures about recognized assets.
- Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:
  - (a) The measurement basis used;
  - (b) The depreciation method used, if any;
  - (c) The gross carrying amount;
  - (d) The accumulated depreciation at the end of the period, if any; and
  - (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Recognition

- The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:
  - (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
  - (b) The cost or fair value of the item can be measured reliably.

Infrastracture assets

- Some assets are commonly described as “infrastructure assets”.
- While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of 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.
- Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector.
- Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Subsequent Costs

- Under the recognition principle in paragraph , an entity does not recognize in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item.
- Rather, these costs are recognized in surplus or deficit as incurred.
- Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the "repairs and maintenance" of the item of property, plant and equipment.

Measurement at Recognition

- An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
- Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Elements of Cost

- The cost of an item of property, plant and equipment comprises:
  - (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
  - (b) 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 by management.
  - (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Measurement after Recognition

- An entity shall choose either the cost model in paragraph or the revaluation model in paragraph as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.
- Cost Model - After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.
- Revaluation Model - After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
- 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.

Measurement

- Revaluation -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.
- Depreciation -Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- The depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset.
- The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
- The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors."

Disclosure

- The financial statements shall disclose, for each class of property, plant and equipment recognized in the financial statements:
  - (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;
  - (d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

Disclosure

- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) Additions;
  - (ii) Disposals;
  - (iii) Acquisitions through entity combinations;
  - (iv) Increases or decreases resulting from revaluations and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21;
  - (v) Impairment losses recognized in surplus or deficit in accordance with IPSAS 21;
  - (vi) Impairment losses reversed in surplus or deficit in accordance with IPSAS 21;
  - (vii) Depreciation;
  - (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and (ix) other changes.

IPSA 31 &IAS 38 Intangible Assets

- IPSAS 31 is drawn primarily from International Accounting Standard (IAS) 38, Intangible Assets published by the International Accounting Standards Board (IASB).
- The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard.
- An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets

- Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, intellectual property, and trademarks (including brand names and publishing titles).
- Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, lists of users of a service, acquired fishing licences, acquired import quotas, and relationships with users of a service.
- Not all the items described above meet the definition of an intangible asset, **i.e., identifiability**, control over a resource, and existence of future economic benefits or service potential.
- If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred.

Intangible assets

- An asset is identifiable if it either:
- Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Recognition and Measurement

- The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
- (a) The definition of an intangible asset; and
(b) The recognition criteria

Recognition criteria

- An intangible asset shall be recognized if, and only if:
  - (a) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
  - (b) The cost or fair value of the asset can be measured reliably.
- An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Recognition

- An intangible asset shall be measured initially at cost.
- Where an intangible asset is acquired through a nonexchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

Subsequent Expenditure on an Acquired In-process Research and Development Project

- Research or development expenditure that:
  - (a) Relates to an in-process research or development project acquired separately and recognized as an intangible asset; and
  - (b) Is incurred after the acquisition of that project;

Research phase

- No intangible asset arising from research (or from the research phase of an internal project) shall be recognized.
- Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.
- In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential.
- Therefore, this expenditure is recognized as an expense when it is incurred.

Research phase

- Examples of research activities are:
  - (a) Activities aimed at obtaining new knowledge;
  - (b) The search for, evaluation and final selection of, applications of research findings or other knowledge;
  - (c) The search for alternatives for materials, devices, products, processes, systems, or services; and
  - (d) The formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services.

Development Phase

- An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, an entity can demonstrate all of the following:
  - (a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
  - (b) Its intention to complete the intangible asset and use or sell it;
  - (c) Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits or service potential.
- Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally Generated Goodwill

- Internally generated goodwill shall not be recognized as an asset.

Subsequent Measurement

- An entity shall choose either the cost model or the revaluation model as its accounting policy.
- If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

Dislcosure

- An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:
- (a) Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;
- (b) The amortization methods used for intangible assets with finite useful lives;
- (c) The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;

Transition

- An entity that has previously recognized intangible assets shall apply this Standard retrospectively in accordance with IPSAS 3.
- An entity that has not previously recognized intangible assets and uses the accrual basis of accounting shall apply this Standard prospectively.
- However, retrospective application is permitted.

IPSAs 16 and IAS 40 Investment Property

- IPSAS 16 is drawn primarily from International Accounting Standard (IAS) 40 (Revised 2003), “Investment Property” published by the International Accounting Standards Board (IASB).

Summary of changes

- The Standard allows a property interest held by a lessee under an operating lease to be classified and accounted for as investment property provided certain criteria are met.
- The Standard requires a lessee that classifies a property interest held under an operating lease as investment property to account for the lease as if it were a finance lease in accordance with IPSAS 13 “Leases,” i.e., the asset shall be recognized at the lower of the fair value of the property interest and the present value of the minimum lease payments.

Summary of changes

- The Standard specifies that the subsequent measurement choice between cost model and fair value model is not available for a lessee accounting for a property interest held under an operating lease that it has elected to classify as investment property.
- Such investment property is required to be measured using the fair value model.

Investment property

- This is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:
  - (a) Use in the production or supply of goods or services or for administrative purposes; or
  - (b) Sale in the ordinary course of operations.
- A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model

Investment Property

- There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation.
- For example, a public sector entity may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property.
- Other public sector entities may also hold property for rentals or capital appreciation and use the cash generated to finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services.
- This property would also meet the definition of investment property.

Examples of investment property

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future.
- (b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation).
- (c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties.
- (d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

Recognition

- Investment property shall be recognized as an asset when, and only when:
- (a) It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
- (b) The cost or fair value of the investment property can be measured reliably.

Measurement at Recognition

- Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).
- Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Measurement After Recognition Accounting Policy

- An entity shall choose as its accounting policy either the **fair value model** or the **cost model** and shall apply that policy to all of its investment property.

Fair Value Model

- After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value
- When a property interest held by a lessee under an operating lease is classified as an investment property the fair value model shall be applied.
- A gain or loss arising from a change in the fair value of investment property shall be recognized in surplus or deficit for the period in which it arises.

Cost Model

- After initial recognition, an entity that chooses the cost model shall measure all of its investment property in accordance with IPSAS 17’s requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.