



IPSAS 17: Property, Plant & Equipment

Presentation by:

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IPSAS 17



Drawn primarily from from **IAS 16** (revised 2003),
“Property, Plant and Equipment”

OBJECTIVE



- To prescribe the accounting treatment for property, plant and equipment
- The **principal issues** in accounting for property, plant and equipment **are**
 - recognition of assets,
 - determination of their carrying amounts, which includes
 - depreciation charges and
 - impairment losses.

Applicability

- To entities that prepare and present financial statements under the accrual basis of accounting, except:
 - When a different accounting treatment has been adopted for PPE in accordance with another IPSAS; and
 - In respect of heritage assets.
- To all public sector entities other than Government Business Enterprises.

Heritage Assets

- Assets that have cultural, environmental or historical significance.
- **Examples include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.**

Heritage Assets...

- Their certain characteristics include:
 - Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
 - Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and
 - It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Property, plant and Equipment

- 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
 - are expected to be used during more than one reporting period.

Infrastructure Assets

- While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following **characteristics**:
 - They are part of a system or network;
 - They are specialized in nature and do not have alternative uses;
 - They are immovable; and
 - They may be subject to constraints on disposal.

Infrastructure Assets

- **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.**

Recognition

- An item of PPE should be recognized as an asset at cost if
 - it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
 - the cost or fair value of the item can be measured reliably.

Initial measurement

- 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

- Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- Costs directly attributable to bringing the asset to location and condition ready for use
- Initial estimated costs of dismantling and removing the item and restoring the site on which it is located

Measurement after Recognition

- Choice between either
 - the cost model, or
 - the revaluation model
- The accounting policy adopted shall apply to the entire class of property, plant and equipment.

Cost Model

- An item of property, plant and equipment is carried at its **cost less any accumulated depreciation and any accumulated impairment losses.**

Revaluation Model

- An item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount
- Under this model an asset should be carried at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
- Revaluation should be regular (no significant change)

Revaluation Model...

- 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.**
- If the carrying amount of a class of assets is increased as a result of a revaluation, **the increase shall be credited directly to revaluation surplus.**
- The **increase shall be recognized in surplus or deficit** to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.

Revaluation Model...

- If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit.
- Decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

Disclosures

- **If a class of property, plant and equipment is stated at revalued amounts, the following shall be disclosed:**
 - **The effective date of the revaluation;**
 - **Whether an independent valuer was involved;**
 - **The methods and significant assumptions applied in estimating the assets' fair values;**
 - **The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;**

Disclosures

- **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;**
- **The sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and**
- **The sum of all revaluation deficits for individual items of property, plant and equipment within that class.**

Depreciation...

- Only for items of Property, Plant and Equipment with defined economic
- Begins when item of Property, Plant and Equipment is available for use,
- Ceases when the asset
 - is de-recognised.
 - The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount

Depreciation...

- Does 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

- The **amount initially recognized** in respect of an item of property, plant and equipment should be **allocated to its significant parts** and **each part depreciated separately**
- For example, **in the case of a road system**, it would be required to depreciate separately the **pavements, formation, curbs and channels, footpaths, bridges and lighting** within a road system.
- Similarly, **it may be appropriate to depreciate separately the airframe and engines of an aircraft**, whether owned or subject to a finance lease.

Depreciation...

- Where parts of an item of property, plant and equipment have a useful life and a depreciation method that are the same, such parts may be grouped in determining the depreciation charge.
- The depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset.

Depreciation...

- 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,
- Where expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate

Depreciation...

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

Land and Building

- **Separable assets** and are **accounted for separately**, even when they are acquired together.
- With some exceptions, such as quarries and sites used for landfill, **land has an unlimited useful life and therefore is not depreciated.**
- Buildings have a limited useful life and therefore are depreciable assets.

Depreciation Pattern

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

Compensation for Impairment

- Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

De-recognition

The carrying amount of an item of property, plant and equipment shall be derecognized:

- On disposal; or
- When no future economic benefits or service potential is expected from its use or disposal.

The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognized

Disclosures

- For each class of property, plant and equipment recognized in the financial statements:
 - 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 period; and
 - A reconciliation of the carrying amount at the beginning and end of the period

Disclosures...

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;**
- (v) **Impairment losses recognized in surplus or deficit;**

Disclosures...

- (vi) Impairment losses reversed in surplus or deficit ;**
- (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.**

Disclosures...

- **For each class of property, plant and equipment recognized in the financial statements:**
 - **The existence and amounts of restrictions on title, and property, plant and equipment pledged as securities for liabilities;**
 - **The amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction;**
 - **The amount of contractual commitments for the acquisition of property, plant and equipment; and**

Disclosures

- **If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.**

Thank you