

IAS 16

PROPERTY, PLANT AND EQUIPMENT

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OBJECTIVE



Prescribe Accounting Treatment for PPE

Principal Issues in Accounting for PPE

- Recognition of the assets,
- Determination of their carrying amounts
- Depreciation charges
- Impairment losses to be recognized

AMMENDMENTS

Amendments would prohibit deducting from cost of item of PPE any proceeds from selling items produced while bringing that asset to its location and condition necessary for it to be capable of operating in manner intended by management.

Instead, entity would recognize those sales proceeds in profit or loss.

Paragraph 17(e) of IAS 16

IFRS
Interpretations
Committee
received a
request asking
two questions
about
paragraph
17(e) of IAS 16:

- whether the proceeds referred to in that paragraph relate only to items produced from testing; and
- whether an entity deducts from the cost of an item of PPE any proceeds that exceed the costs of testing



The Board is proposing to amend IAS 16 to prohibit deducting from cost of item of PPE any proceeds from selling items produced while bringing that asset to location and condition necessary for it to be capable of operating in manner intended by management. Instead, an entity would recognize proceeds from selling such items, and costs of producing those items, in profit or loss.

Do you agree with the Board's proposal?

Why or why not? If not, what alternative would you propose, and why?

17 Examples of directly attributable costs are:

(a) ...

(e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that the asset is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes), ~~after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);~~ and

(f) ...

20A Items may be produced while bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as inventories produced when testing an asset. An entity recognizes the proceeds from selling any such items, and the costs of producing those items, in profit or loss in accordance with applicable Standards.

RELATED INTERPRETATIONS

Scope



shall be applied in accounting for PPE except when another Standard requires or permits a different accounting treatment.

This Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
- (b) biological assets related to agricultural activity other than bearer plants (see IAS 41 *Agriculture*).
- (c) the recognition and measurement of exploration and evaluation assets (see IFRS 6 *Exploration for and Evaluation of Mineral Resources*).
- (d) mineral rights and mineral reserves such as oil

RECOGNITION

Cost of an item of PPE shall be recognized as an asset if, and only if:

is probable that future economic benefits associated with the item will flow to entity; and

cost of item can be measured reliably.

Initial recognition of indirect costs



- Items of PPE may be acquired for safety or environmental reasons.
- Acquisition of such PPE, although not directly increasing the future economic benefits of any particular existing item of PPE, may be necessary for an entity to obtain future economic benefits from its other assets.

Subsequent Recognition of Indirect Costs



Day to Day Servicing

Replacement Parts

Major Inspection

MEASUREMENT

An item of PPE that qualifies for recognition as an asset shall be measured at its cost.

Cost of a self-constructed asset is determined using the same principles as for an acquired asset

ELEMENTS OF COST

Examples of directly attributable costs are: (a) costs of employee benefits (as defined in IAS 19 Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;

- (b) costs of site preparation;
- (c) initial delivery and handling costs;
- (d) installation and assembly costs;
- (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- (f) professional fees.

Examples of costs that are not costs of an item of property, plant and equipment are: (a) costs of

opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs;

(e) incidental operations may occur before or during the construction or development activities and as incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss

Measurement of Cost



CASH PRICE EQUIVALENT

ASSET EXCHANGE

FINANCE LEASE

GOVERNMENT ASSISTANCE

- **Recognition of costs in carrying amount of an item of PPE ceases when item is in location and condition necessary for it to be capable of operating in the manner intended by management.**
- **Therefore, costs incurred in using or redeploying an item are not included in carrying amount of that item.**
- **eg, following costs are not included in carrying amount of an item of PPE:**
 - **costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;**
 - **initial operating losses, such as those incurred while demand for the item's output builds up; and**
 - **costs of relocating or re-organising part or all of an entity's operations.**

MEASUREMENT AFTER RECOGNITION

COST MODEL



After recognition as an asset, an item of PPE 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 PPE whose fair value can be measured reliably shall be carried at a revalued amount, being **its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.**

Revaluations shall be made with sufficient regularity to ensure that carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Revaluation Changes



If an asset's carrying amount is increased as a result of a revaluation:

- increase shall be recognized in OCI and accumulated in equity under the heading of revaluation surplus; or
- increase shall be recognized in profit or loss to extent that it reverses a revaluation decrease of same asset previously recognized in profit or loss

If an asset's carrying amount is decreased as a result of a revaluation:

- decrease shall be recognized in profit or loss; or
- decrease shall be recognized in OCI to the extent of any credit balance existing in revaluation surplus in respect of that asset.
- decrease recognized in OCI reduces amount accumulated in equity under the heading of revaluation surplus.

DEPRECIATION

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation charge for each period shall be recognized in profit or loss unless it is included in carrying amount of another asset.

Depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

Residual value and useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8

Depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Depreciation method applied to an asset shall be reviewed at least at each

financial year-end and, if there has been a significant change in expected

pattern of consumption of future economic benefits embodied in asset,

method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

IMPAIRMENT

Apply IAS 36 *Impairment of Assets*

COMPENSATION FOR IMPAIRMENT

Compensation from third parties for items of PPE that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

DERECOGNITION

Carrying amount of an item of PPE shall be derecognized:

-on disposal; or

-when no future economic benefits are expected from its use or disposal.

Gain or loss arising from derecognition of an item of PPE shall be determined as the difference between net disposal proceeds, if any, and carrying amount of the item.

Gain or loss shall be included in profit or loss when the item is derecognised (unless IFRS 16 *Leases* requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

However, an entity that, in the course of its ordinary activities, routinely sells items of PPE that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*.

IFRS 5 does not apply when assets that are held for sale in the ordinary course of business

DISCLOSURE

PRESENTATION AND DISCLOSURE

THANK YOU

WE GIVE GLORY TO ALMIGHTY GOD

