

# FINANCIAL REPORTING WORKSHOP

## IAS 16- Property, Plant and equipment

Presentation by:

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# Learning objectives

## ◆ Upon completion 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

**Controlled  
by the entity**

**Expected future  
economic benefits**

**Expected to be used  
> 1 period**



**Held for production,  
rental,  
administrative use**



**Identifiable asset  
without physical  
substance**

# What is identifiable?



**Arises from contractual / other legal rights**



**Is separable**

# What is control?



**Power to obtain future economic benefits**



**Restrict access of others to benefits**

# 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 (covered later)
- ◆ **PPE is measured initially at cost**

# Measurement at cost

**Expenditure directly attributable to bringing asset  
to  
location and condition necessary for intended use**



# Examples of costs

**Import duties**

**Dismantling and  
removal costs**

**Borrowing costs  
on qualifying  
asset**

**Part of cost**

**Feasibility  
assessment costs**

**Costs of staff  
training**

**Administration  
and overhead  
costs**

**Not part of cost**

## 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)**

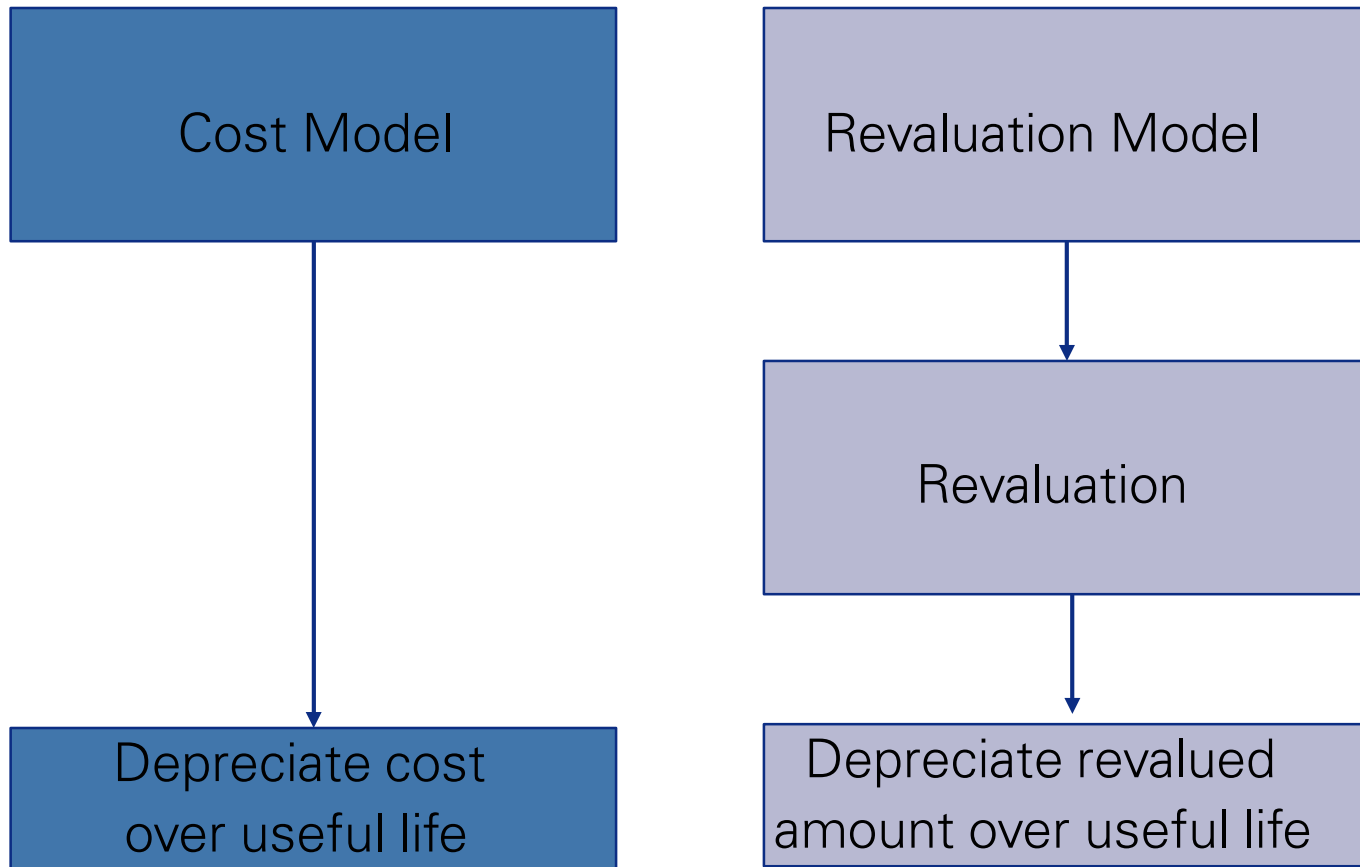
## Parts of an item - "Component accounting"

- ◆ On initial recognition, allocate cost to significant parts of asset, including non-physical parts
- ◆ Separate depreciation of each "component"

Ship costs 150, useful life 10 years  
Estimated docking cost 15, planned after 3 years



# 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
  - Depreciation
- ◆ **method**

**Changes are changes in estimate, so adjust current and future periods only**

## ◆ **Ammendment (Clarification) – 1 January 2016**

- Depreciation method based on revenue that is generated by an activity that includes the use of an asset is not appropriate.
- This is because such methods reflects a pattern of *generation* of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of *consumption* of an asset's expected future economic benefits.

# Methods of depreciation

**Depreciation examples**



**Straight-line**

**Reducing balance**

**Unit-of-production**

## Revaluation model (1)

- ◆ **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 model (2)

### ◆ **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**

# Restoration and Similar Liabilities (1)



- ◆ Changes due to a change in
  - Estimated timing
  - Estimated amount of payments
  - Discount rate
- ◆ Added to / deducted from cost of underlying asset and depreciated prospectively over remaining useful life
- ◆ Foreign exchange gains and losses may be recognised in profit or loss or adjusted against cost of PPE
- ◆ Applies regardless of accounting policy (cost or revaluation model) but implementation varies
- ◆ New obligations: in our view, accounting analogous to change in estimates

## Restoration and Similar Liabilities (2)

### ◆ **Cost model**

- Changes in liability added/deducted from asset cost in current period
- No negative carrying amount possible; any excess recognised immediately in profit or loss
- Increase in carrying amount triggers consideration of impairment, including, if necessary, calculation of recoverable amount

## Restoration and Similar Liabilities (3)

### ◆ Revaluation model

- Change in liability does not affect valuation of asset (impact on valuation reserve)

Decrease in liability

Revaluation surplus

except for:

- reversal of revaluation deficit recognised previously in P/L
- if results in negative depreciated cost

Increase in liability

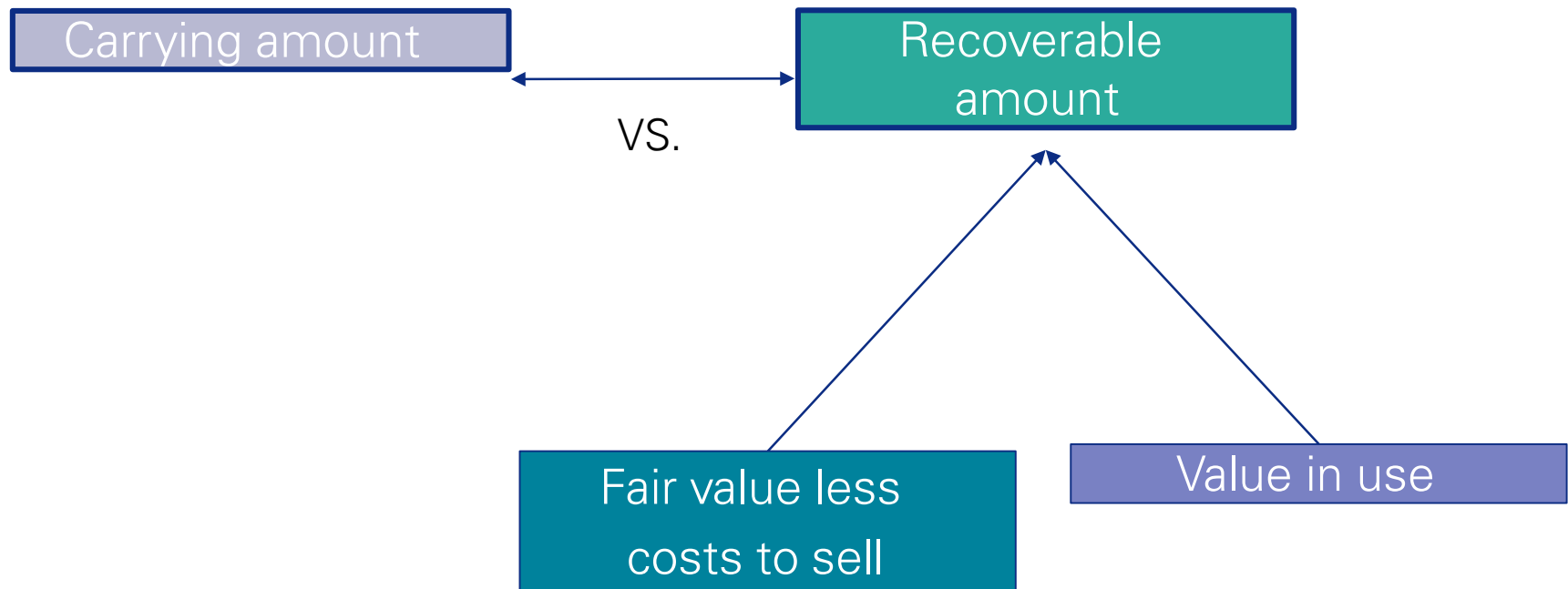
Profit or loss

except if credit balance remaining in revaluation surplus

- Changes in liability : Indication that asset might have to be revalued

# Impairment assessment

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



# Cost vs Revaluation model

## Cost model



### Cost less:

- ◆ Depreciation / amortisation
- ◆ Impairment losses

## Revaluation model



### Revalued amount less:

- Depreciation / amortisation
- Impairment losses

# 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 IAS 36 for impairment loss calculation**

# Derecognition

Gain or loss in profit or loss

**Derecognise**



**Held for sale**



**Disposed of**



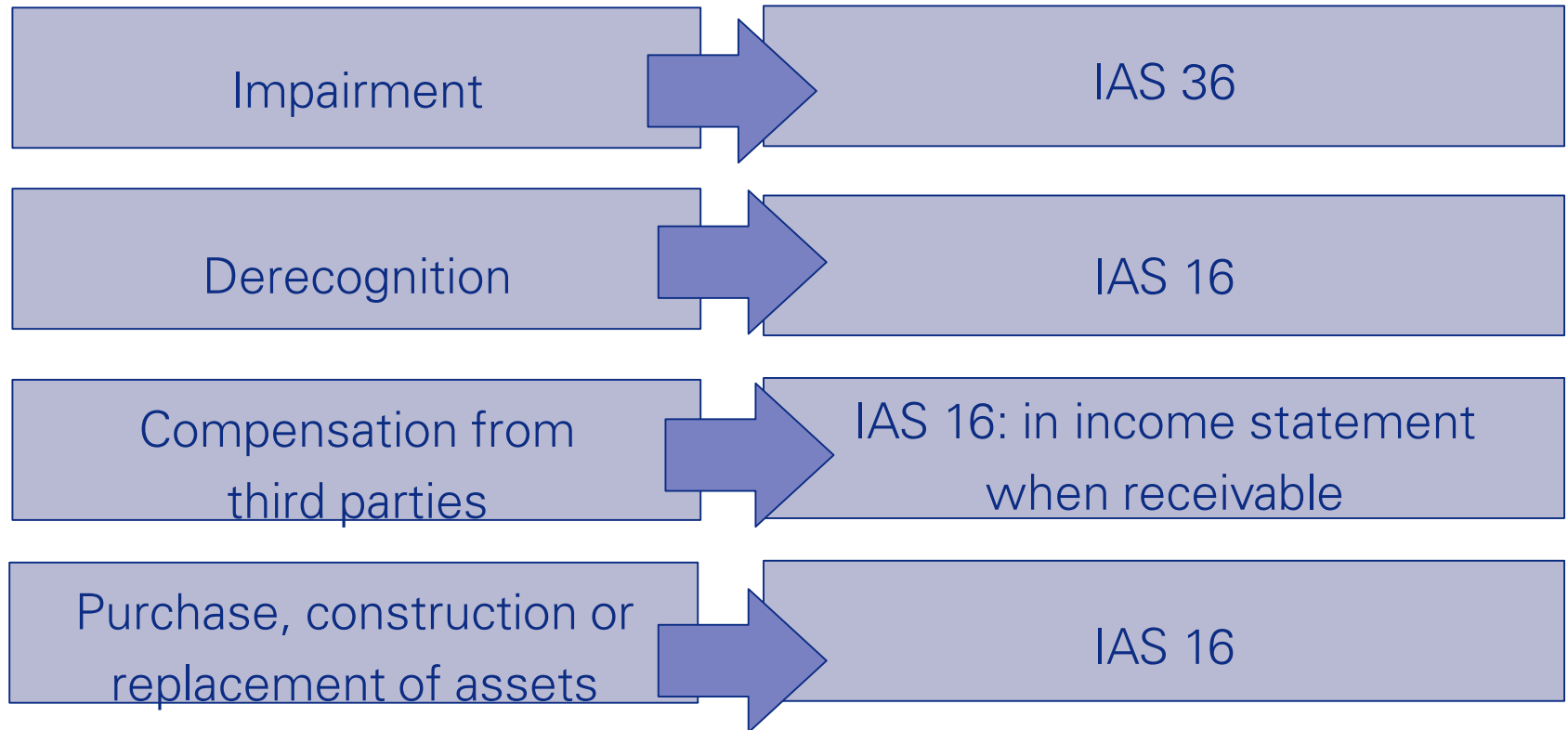
**Permanent withdrawal**



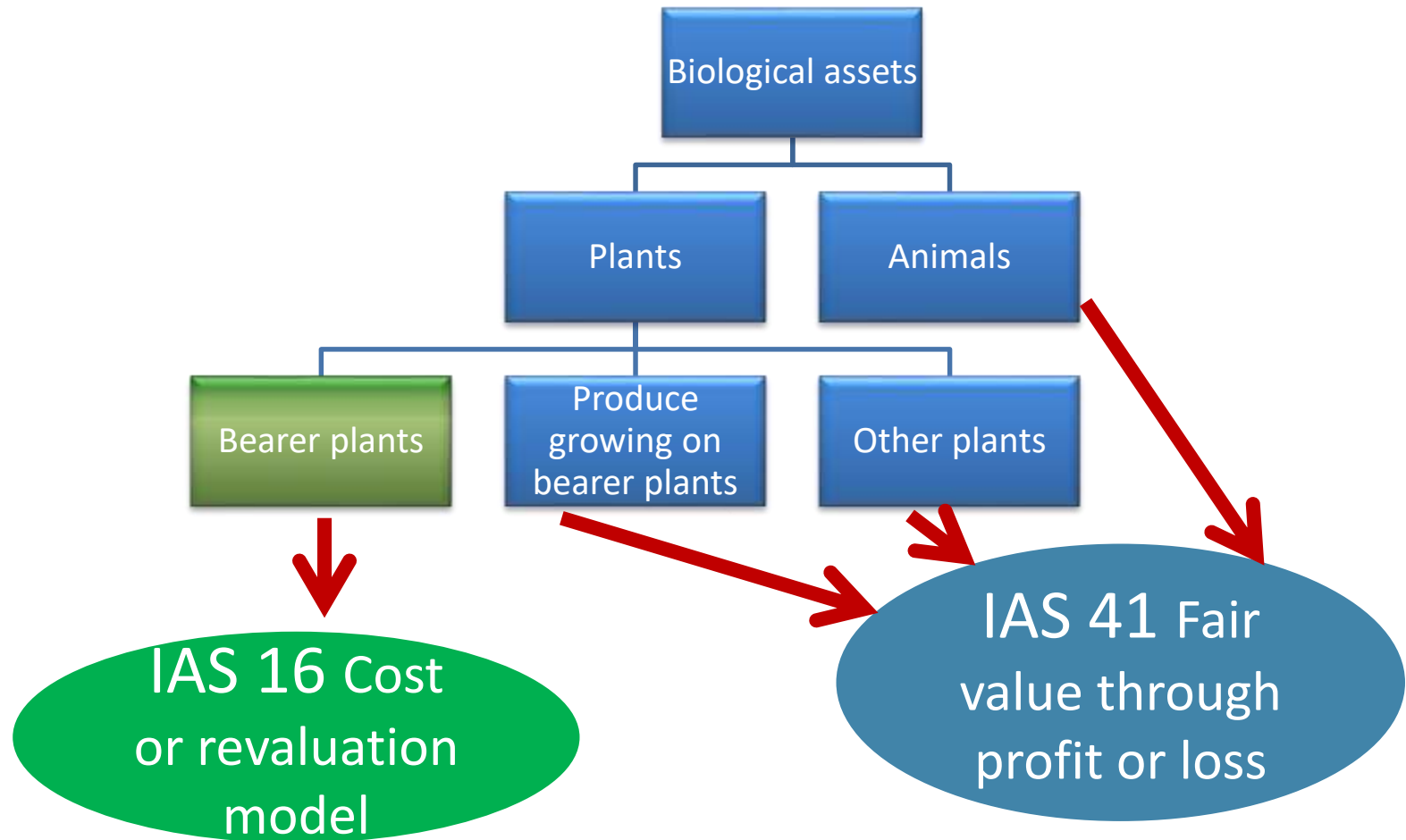
# Compensation for impairment, loss or surrender



## ◆ Separate economic events:



# Overview: new requirements



## Scope of the amendments

**A bearer plant is plant that meets all of the following:**

- used in production or supply of agricultural produce
- expected to bear produce for more than one period
- has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales
- **Examples:** Tea bushes, oil palms, rubber trees, grapevines.

# Scope of the amendments



## **The following are not bearer plants:**

- Plants to be harvested as agricultural produce
  - ✓ trees grown for lumber
- Plants held both to grow agricultural produce and to be harvested as agricultural produce (except scrap)
  - ✓ trees used for lumber and fruit
- Plants cultivated for sale only
  - ✓ potted plants
- Annual crops

# Summary of the amendments

## **Bearer plants to be included in IAS 16**

- Bearer plants shall be treated as property, plant and equipment (PPE) for which the accounting is prescribed in IAS 16
- Requirements of IAS 16 applied to bearer plants without modification, including:
  - ✓ cost accumulation model for bearer plants before they reach maturity (like self-constructed PPE)
  - ✓ revaluation model permitted
  - ✓ no additional disclosures for bearer plants

# 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 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
- Disclosures under IFRS 13

# Questions and comments

