

International Accounting Standard 16

Presentation by:

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Objective



The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment.

The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them. [IAS 16,1]

Scope



This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment, e.g.

1. IFRS 5, PPE are classified as held for sale, biological assets
2. IAS 41- Biological assets related to agricultural activity
3. IFRS 6 exploration for and evaluation of minerals resources, IAS 17 leases. [IAS 16 2-3]
4. mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

Recent development



30 June 2014 - Amended by *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*

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Definition



Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Definition cont'd



- ***Recoverable amount*** is the higher of an asset's fair value less costs to sell and its value in use.

The ***residual value*** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Definition cont'd



Useful life is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity. [IAS 16,6]

Recognition



An item of property, plant and equipment shall be recognised as an asset if, and only if:

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

(b) the cost of the item can be measured reliably.

Measurement at Recognition



Elements of cost are;

(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. Direct costs include site preparation, initial delivery, installation & assembling, employee benefits, arising from direct construction (as defined by IAS 19), testing and professional fees.

Measurement at Recognition cont'd



- 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. [IAS 16, 16-17]

Measurement at Recognition cont'd



Note

Recognition of initial costs ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. For example initial operating losses, initial cost incurred before the item is capable of full operation, costs of relocating or reorganising part or all of an entity's operation [IAS 16, 20]

Measurement of cost



The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with IAS 23. [IAS 16, 23]

Measurement of cost cont'd



If an assets is acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, the cost of such an item is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. [IAS 16, 24]

Measurement after cost



IAS 16 permits 2 accounting models:

- **Cost model.** An asset is carried at its cost less any accumulated depreciation and any accumulated impairment losses. [IAS 30]
- **Revaluation model.** An asset is 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 provided that fair value is measured reliably. [IAS 31]

Revaluation Model



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 end of the reporting period. [IAS 16 31]

When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. However where the change in fair value is insignificant, frequent revaluation is unnecessary instead this can be carried every three or five years. IAS 16, 34]

Revaluation Model cont'd



- 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. Examples of separate classes are : land; land and buildings; machinery; ships; aircraft; motor vehicles; furniture and fixtures; office equipment. [IAS 16 36-37]

Revaluation Model cont'd



Upward Valuation

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. [IAS 16, 39]

Revaluation Model cont'd



Downward Valuation

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus. [IAS 16, 40]

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 financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 (Accounting policies) [IAS 50 -51]

Depreciation Cont'd



The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the entity [IAS 16.60]; a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. [IAS 16.62A]

Depreciation Cont'd



Note:

The clarification regarding the revenue-based depreciation method was introduced by *Clarification of Acceptable Methods of Depreciation and Amortisation*, which applies to annual periods beginning on or after 1 January 2016

Depreciation Cont'd



The depreciation method should be reviewed at least annually and, if the pattern of consumption of benefits has changed, the depreciation method should be changed prospectively as a change in estimate under IAS 8. [IAS 16.61] Expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset. [IAS 16.56]

Depreciation Cont'd



- The guidance on expected future reductions in selling prices was introduced by *Clarification of Acceptable Methods of Depreciation and Amortisation*, which applies to annual periods beginning on or after 1 January 2016.
- Depreciation should be charged to profit or loss, unless it is included in the carrying amount of another asset [IAS 16.48].
- Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle. [IAS 16.55]

Recoverability of carrying amount



- [IAS 16](#) *Property, Plant and Equipment* requires impairment testing and, if necessary, recognition for property, plant, and equipment. An item of property, plant, or equipment shall not be carried at more than recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.
- Any claim for compensation from third parties for impairment is included in profit or loss when the claim becomes receivable. [IAS 16.65]

Derecognition (Retirement and Disposals)



- An asset should be removed from the statement of financial position on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in profit and loss. [IAS 16.67-71]
- If an entity rents some assets and then ceases to rent them, the assets should be transferred to inventories at their carrying amounts as they become held for sale in the ordinary course of business. [IAS 16.68A]

Disclosure



The financial statements shall disclose, for each class of property, plant and equipment:

- (a) basis for measuring carrying amount;
- (b) the depreciation methods;
- (c) The useful lives/depreciation rates;
- (d) the gross carrying amount and the accumulated depreciation and impairment losses
- (e) a reconciliation of the carrying amount at the beginning and the end of the period, showing:

Disclosure Cont'd



- additions
- disposals
- acquisitions through business combinations
- revaluation increases or decreases
- impairment losses
- reversals of impairment losses
- depreciation
- net foreign exchange differences on translation
- Other movements

Additional disclosures



The following disclosures are also required: [IAS 16.74]

- restrictions on title and items pledged as security for liabilities
- expenditures to construct property, plant, and equipment during the period
- contractual commitments to acquire property, plant, and equipment

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Additional disclosures Cont'd



- compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in profit or loss.

IAS 16 also encourages, but does not require, a number of additional disclosures. [IAS 16.79]

Disclosures on Revaluation of PPE [IAS 16.77]



- the effective date of the revaluation
- whether an independent valuer was involved
- for each revalued class of property, the carrying amount that would have been recognised had the assets been carried under the cost model
- the revaluation surplus, including changes during the period and any restrictions on the distribution of the balance to shareholders.

Bearer Plants



Introduction

This Standard clarifies that an entity is required to apply the principles of this Standard to **bearer plants as well as** to items of property, plant and equipment used to develop or maintain

- (a) biological assets and
- (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

Bearer Plants – Cont'd



Scope

Defines a bearer plant as a plant that is used in the production or supply of agricultural produce, that is expected to bear produce for more than one period and that is not intended to be sold as a living plant or harvested as agricultural produce, except for incidental scrap sales.

Note

The produce growing on the bearer plants will be a biological asset measured at fair value in accordance with IAS 41.

	Current Requirements	New Requirements
At initial Recognition	<p>Measured together with any agricultural produce attached (i.e., one unit of account)</p> <p>Measured at fair value less costs to sell</p>	<p>Measured separately from any agricultural produce attached (i.e., two units of account)</p> <p>Measured at cost, accumulated until maturity</p>
Subsequent Measurement	<p>Measured together with the agricultural produce until the point of harvest (i.e., one unit of account until the point of harvest)</p> <p>Measured at the end of each reporting period at fair value less costs to sell, with changes recognised in profit or loss</p>	<p>Measured at:</p> <p>Cost, less any subsequent accumulated depreciation and impairment, with changes recognised in profit or loss</p> <p>Or</p> <p>Fair value at each revaluation date, less any subsequent accumulated depreciation and impairment. Revaluation adjustments (and impairment, to the extent it reverses previous revaluation increases) recognised in other comprehensive income; all other changes recognised in</p>



Q & A