



IAS 16 Property, Plant and Equipment

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Objective of IAS 16

- The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment. The principal issues are the timing of recognition of assets, the determination of their carrying amounts and the depreciation charges to be recognised in relation to them.

[Scope]

- While IAS 16 does not apply to biological assets related to agricultural activity (see IAS 41) or mineral rights and mineral reserves such as oil, natural gas and similar non regenerative resources, it does apply to property, plant and equipment used to develop or maintain such assets.
[IAS 16.3]

Definitions

- Carrying amount ...
- Cost ...
- Depreciable amount ...
- Depreciation ...
- Entity specific value ...
- Fair value ...
- Impairment loss ...
- Property, plant and equipment ...
- residual value
- Useful life ... [IAS 16]

[Recognition]

- Items of property, plant, and equipment should be recognised as assets when it is probable that: [IAS 16.7]
 - the future economic benefits associated with the asset will flow to the enterprise; and
 - the cost of the asset can be measured reliably.
- This recognition principle is applied to all property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

[What is PPE?]

- IAS 16 does not prescribe the unit of measure for recognition: what constitutes an item of property, plant, and equipment. [IAS 16.9]

[Initial Measurement]

- PPE should be initially recorded at cost. [IAS 16.15]
- The cost of an item of property, plant and equipment comprises:
 - ...
 - ...
 - [IAS 16.16+16.17]

[Non Allowable Costs]

- Examples of costs that are not costs of an item of property, plant and equipment are:
 - ...
 - ...
 - [IAS16.19]

Value of an Exchanged Asset

- If an asset is acquired in exchange for another asset (whether similar or dissimilar in nature), the cost will be measured at the 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. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. [IAS 16.24]

Classes of PPE

- A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations.

- The following are examples of separate classes:
 - (a) ...
 - (b) ...
 - (c) ...
 - (d) ...
 - (e) ...
 - (f) ...
 - (g) ...
 - (h) ... [IAS 16.37]

Measurement Subsequent to Initial Recognition

- IAS 16 permits two accounting models:
- **Cost Model.** The asset is carried at cost less accumulated depreciation and impairment. [IAS 16.30]
- **Revaluation Model.** The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation, provided that fair value can be measured reliably. [IAS 16.31]

[The Revaluation Model 1]

- Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. [IAS 16.31]
- If an item is revalued, the entire class of assets to which that asset belongs should be revalued. [IAS 16.36]
- Revalued assets are depreciated in the same way as under the cost model.

[The Revaluation Model 2]

- **revaluation increase** ... credited to equity as a *revaluation surplus* unless it's a reversal of a revaluation decrease of the same asset when it should be recognised as income. [IAS 16.39]
- **revaluation decrease** ... an expense ... [IAS 16.40]
- **revalued asset is disposed of** ... revaluation surplus ... directly to retained earnings or ... left in equity as revaluation surplus ... transfer to retained earnings should not be made through the income statement. [IAS 16.41]

Depreciation (Cost and Revaluation Models) 1

- The depreciable amount ... should be allocated on ... [IAS 16.50].
- The residual value and the useful life of an asset should be reviewed ... [IAS 16.51]

Depreciation (Cost and Revaluation Models) 2

- The depreciation method used should reflect ... [IAS 16.60];
- The depreciation method should be reviewed ... [IAS 16.61]
- Depreciation should be charged ... [IAS 16.48].

Depreciation Begins

- Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle. [IAS 16.55]

[Disclosure 1]

- For each class of property, plant, and equipment, disclose:
- basis for measuring carrying amount;
- depreciation method(s) used;
- useful lives or depreciation rates;
- gross carrying amount and accumulated depreciation and impairment losses; [IAS 16.73]

[Disclosure 2]

- reconciliation of the carrying amount at the beginning and the end of the period, showing:
 - additions;
 - disposals;
 - acquisitions through business combinations;
 - revaluation increases;
 - impairment losses;
 - reversals of impairment losses;
 - depreciation;
 - net foreign exchange differences on translation;
- other movements. [IAS 16.73]

[Disclosure 3]

- If property, plant, and equipment is stated at revalued amounts, certain additional disclosures are required:
 - the effective date of the revaluation;
 - whether an independent valuer was involved;
 - the methods and significant assumptions used in estimating fair values;
 - the extent to which 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;
 - 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 distribution restrictions. [IAS 16.77]

[Reference]

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