

SCOPE

This Standard is used to account for property, plant, and equipment (PPE), which are tangible items that are held for use in the production or supply of goods/services, for rental to others or for administrative purposes and are expected to be used for more than one period. This standard does not apply to: (a) PPE classified as held for sale, (b) biological assets for agricultural activity, (c) exploration and evaluation assets, (d) mineral rights and reserves. This standard should be used for investment property (IAS 40) accounted for using the cost model.

RECOGNITION

The cost of an item of PPE is recognized if:

- (i) It is probable that associated future economic benefits will flow to the entity, and
- (ii) The cost can be measured reliably.

• PPE costs include

- (i) Costs incurred to initially acquire or construct an item of PPE, and
- (ii) Costs to add to, replace or service it.

Elements of cost comprise:

- a. Its purchase price, including duties and taxes less 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
- c. The estimate of costs of dismantling and removing item and restoring site
- Recognition of costs ceases when the item is in location and condition necessary for it to be capable of operating in manner intended by management.
- Costs of regular major inspections and replacement of parts for some items of PPE are recognized in the item's carrying amount (CV) if the recognition criteria are met.
- Routine repairs and maintenance costs are not recognized in the CV of an item of PPE, they are recognized as expenses as incurred.

SUBSEQUENT MEASUREMENT

Apply the same model to the entire class of PPE

Cost Model

Carry at cost
LESS
accumulated
depreciation &
impairment

Revaluation Model

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 accumulated impairment losses.

- When the fair value of a revalued asset differs materially from the carrying amount it should be revalued.
- If an item of PPE is revalued, the entire PPE class to which it belongs shall be revalued.
- accumulated depreciation is either (i) adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses, or (ii) eliminated against the gross carrying amount of the asset.
- If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in OCI under the heading of revaluation surplus. However, the increase shall be recognized in the P&L to the extent that it reverses a revaluation decrease of the same asset previously recognized in the P&L.
- If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognized in the P&L. However, the decrease shall be recognized in OCI to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

INITIAL MEASUREMENT

The cost of an item of PPE is the cash price equivalent at the recognition date.

- If payment is deferred past normal credit terms interest is recognized over the credit period unless the interest is capitalised in accordance with IAS 23.
- Non-monetary exchanges are measured at fair value **unless**
 - (i) The transaction lacks commercial substance, or
 - (ii) Fair value of neither asset received, nor asset given up are reliably measurable.
- The carrying amount of an item may be reduced by government grants (see IAS 20).

Depreciation

- **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life
 - The depreciation charges each period shall be recognized in the P&L.
 - 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.
- **Depreciable amount** is the cost of an asset, or amount substituted for cost, less its residual value
 - Shall be allocated on a systematic basis over its useful life.
- The **residual value** of an asset is the estimated amount that an entity would currently obtain, after deducting estimated disposal costs, if the asset were already of the age and in condition expected at the end of its useful life.
- **Useful life** is (i) the period over which an asset is expected to be available for use by an entity, or (ii) the number of production or similar units expected to be obtained from the asset by an entity.
- The 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, the change(s) shall be accounted for as a change in accounting estimate.

Directly Attributable Costs

- Employee benefit costs arising directly from construction or acquisition of the item of PPE
- Costs of site preparation, initial delivery, installation, and assembly
- Costs of testing whether asset is functioning properly (after deducting net proceeds on sale of samples produced)
- Professional fees

Costs not Included in PPE

- Costs of opening new facility
- Costs of introducing new product or service (including advertising and promotion costs)
- Costs of conducting business in a new location or with a new customer
- Costs incurred while bringing PPE into use
- Administration and other general overhead
- Initial operating losses while demand builds
- Costs of relocating or reorganizing operations

DERECOGNITION

- The 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.
- The gain or loss arising from the derecognition of an item of PPE shall be included in profit or loss when the item is derecognized (unless IFRS 16 requires otherwise on a sale and leaseback). Gains shall **not** be recognized as revenue.
- The gain or loss arising from the derecognition of an item of PPE shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Impairment

- Apply IAS 36 to determine whether an item of PPE is impaired.