

## IFRS IN BRIEF

### IAS 16 Property, Plant and Equipment

#### SCOPE

Property, plant and equipment ("PP&E") are tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Bearer plants which are used to grow produce are within the scope of IAS 16.

Spare parts, stand-by equipment and servicing equipment are only recognised as PP&E when they meet the definition of PP&E. Otherwise, such items are classified as inventory.

#### RECOGNITION

An item of PP&E shall be recognised if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost can be measured reliably.

#### COMPONENT ACCOUNTING

Each part or component of an item of PP&E with a cost that is significant in relation to the total cost of the item is recognised separately.

Major inspections or overhauls can also be recognised as separate components. Cost of day-to-day servicing are however expensed as incurred.

#### INITIAL MEASUREMENT

An item of PP&E recognised at cost.

The cost of an item of PP&E comprises:

- purchase price including import duties, after deducting discounts and rebates.
- 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.
- initial estimate of costs of dismantling and removing the item and restoring the site in accordance with IAS 37 *Provisions, Contingent liabilities and contingent assets*
- Borrowing costs in accordance with IAS 23, *Borrowing Costs*.
- Reduced by government grants accounted for in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

#### SUBSEQUENT MEASUREMENT

Subsequent costs are only recognised if they separately meet the recognition requirements for PP&E.

Subsequent to initial recognition an entity shall choose as its accounting policy to be applied by class of PP&E to measure the PP&E at either:

- revaluation; or
- cost .

#### COST MODEL

An item of PPE is measured at its cost less any accumulated depreciation and any accumulated impairment losses.

#### REVALUATION MODEL

An item of PP&E is measured at its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent

accumulated impairment losses, provided that fair value can be measured reliably.

Revaluations should be carried out with regular sufficiency to ensure it approximates fair value, this frequency should be at most every three – five years.

Any surplus arising is recognised in OCI, unless reversing a previous decrease of same asset previously recognised as an expense, in which case, the credit to that extent is recognised in profit or loss. Any deficit arising on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case the deficit is recognised in OCI.

## DEPRECIATION

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life and should reflect the expected pattern of usage. A depreciation method based on revenue is not permitted.

Depreciation is recognised in profit or loss unless it is included in the carrying amount of another asset.

Useful life is the period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from the asset by an entity. The useful life of an asset may be shorter than its economic life.

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.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised.

## DERECOGNITION

Gains or losses arising from the derecognition of PP&E is the difference between the net proceeds received, and the carrying amount of the PP&E. The gain or loss is taken to profit or loss.

Any remaining surplus in the revaluation reserve for PP&E that has previously been revalued may be transferred to retained earnings. It is not reclassified to profit or loss.

## DISCLOSURES

Disclosure requirements include

- Information is required to be disclosed around valuation and depreciation methods
- Reconciliation of the movement in the carrying amount and accumulated Depreciation for the period associated with each class of PP&E

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