Property Plant and Equipment (PPE)

Ind AS 16

Agenda

- Objective
- Scope
- Definition
- Recognition and Measurement
- Subsequent Cost and Subsequent Measurement
- Depreciation
- Component Accounting
- Disclosure Requirements

Objective

- **Objective of Ind AS 16 is to prescribe the** accounting treatment for property, plant and equipment.
- Ind AS 16 provides guidance on:
  - Recognition of the assets
  - Determination of the carrying amount
  - Accounting for depreciation
  - Recognition of decommissioning, restoration and similar liabilities

Scope

- Accounting for all property, plant and equipment unless another Standard requires or permits a different accounting treatment.
- Does not apply to:
  - Property Plant and Equipment classified as held for sale (Ind AS 105)
  - Biological assets related to agricultural activity (Ind AS 41) except bearer plants
  - Exploration and evaluation assets (Ind AS 106)
  - Mineral rights and mineral reserves

Definitions

Tangible items

Held for:

- Use In the production or supply of goods or services
- Rental to others
- Administrative purposes

Expected to be used during more than one period

Recognition and measurement

Property, plant and equipment shall be recognized as an asset when:

- Future economic benefits are probable
- Cost can be measured reliably

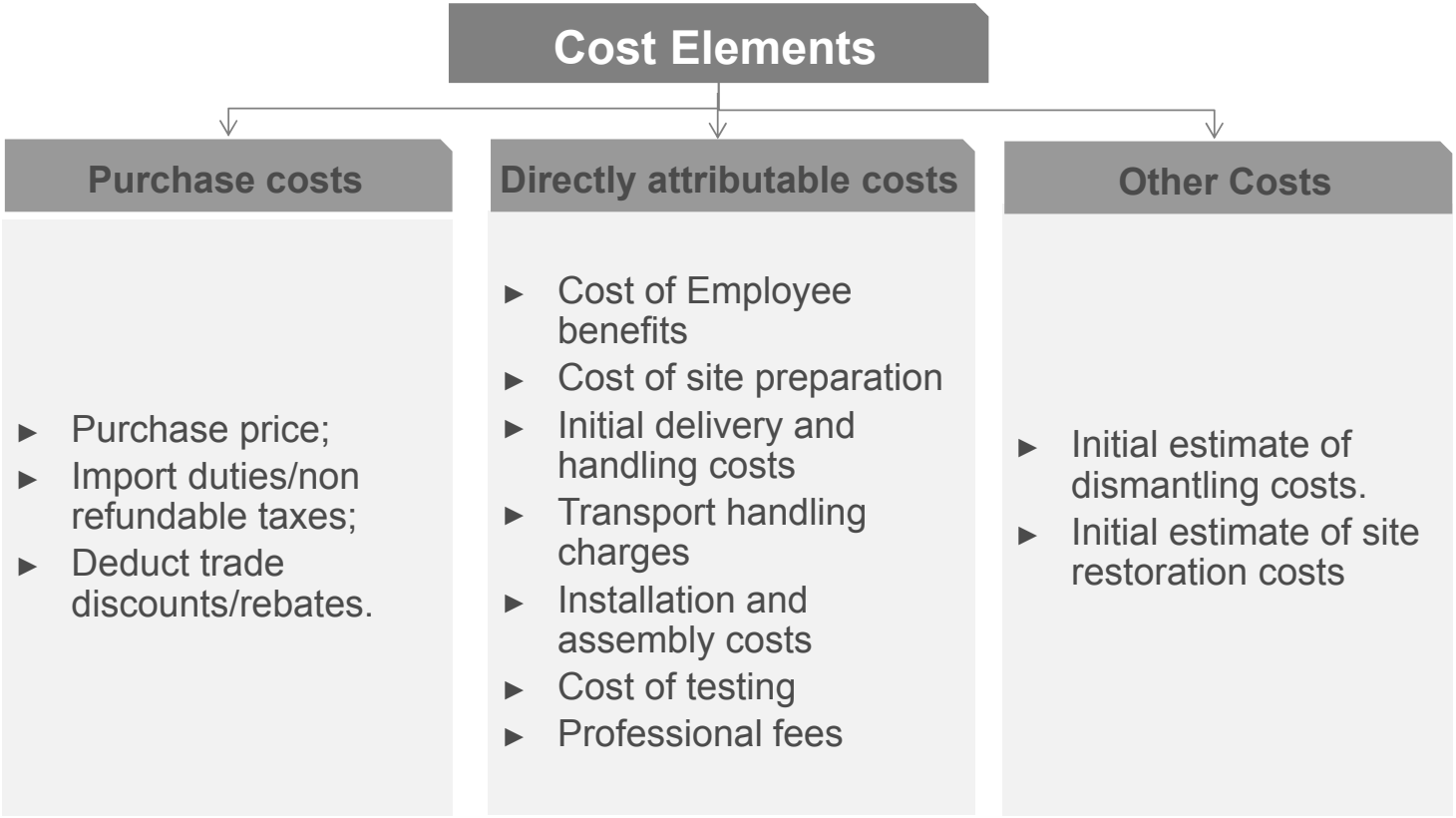
Criteria apply to all costs when incurred, including

- Initial acquisition or construction costs
- Subsequent costs

Property, plant and equipment is measured initially at cost

Elements of cost

All costs involved in bringing the asset to the present location and condition



Elements of cost

Exclusions

- Costs of opening a new facility;
- Costs of introducing a new product or service or conducting business in a new location or with a new class of customer;
- Administrative and other general overheads;

Case study

ABC is installing a new plant at its production facility. It has incurred these costs:

- Cost of the plant (cost per supplier's invoice plus taxes) $2,500,000
- Initial delivery and handling costs $200,000
- Cost of site preparation $600,000
- Consultants used for advice on the acquisition of the plant $700,000
- Interest charges paid to supplier of plant for deferred credit $200,000
- Present value of estimated dismantling costs to be incurred after 7 years $300,000
- Operating losses before commercial production $400,000

Please advise ABC on the costs that can be capitalized

Case study - solution

Costs to be capitalised	Amount
Cost of the plant	$2,500,000
Initial delivery and handling costs	$200,000
Cost of site preparation	$600,000
Consultants' fees	$700,000
Present value of estimated dismantling costs to be incurred after 7 years	$300,000
Total costs	$4,300,000

Interest charges paid on "deferred credit terms" to the supplier of the plant of CU200,000 cannot be capitalised since there is no qualifying asset. Also, operating losses before commercial production amounting to CU400,000 are not directly attributable costs and hence, cannot be capitalised.
These costs should be written off to the statement of profit and loss as and when incurred.

Exchange of assets

If Property Plant and Equipment is acquired in exchange for other non monetary asset or for a combination of monetary and non monetary asset

Measure cost at fair value, unless:

- the exchange transaction has no commercial substance, or
- fair value of neither the asset received nor given up can be reliably measured

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent measurement

Cost Model

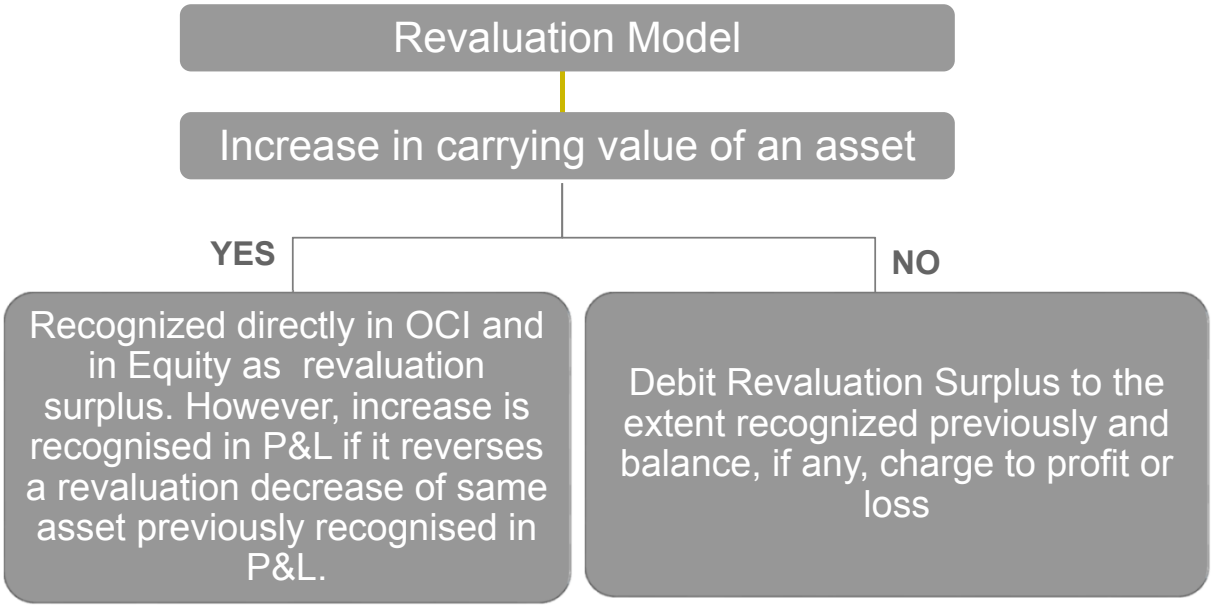
- Carried at
  - Cost less any accumulated depreciation and any accumulated impairment losses.
- Cost is depreciated over the useful life of the asset

Subsequent measurement

Revaluation Model

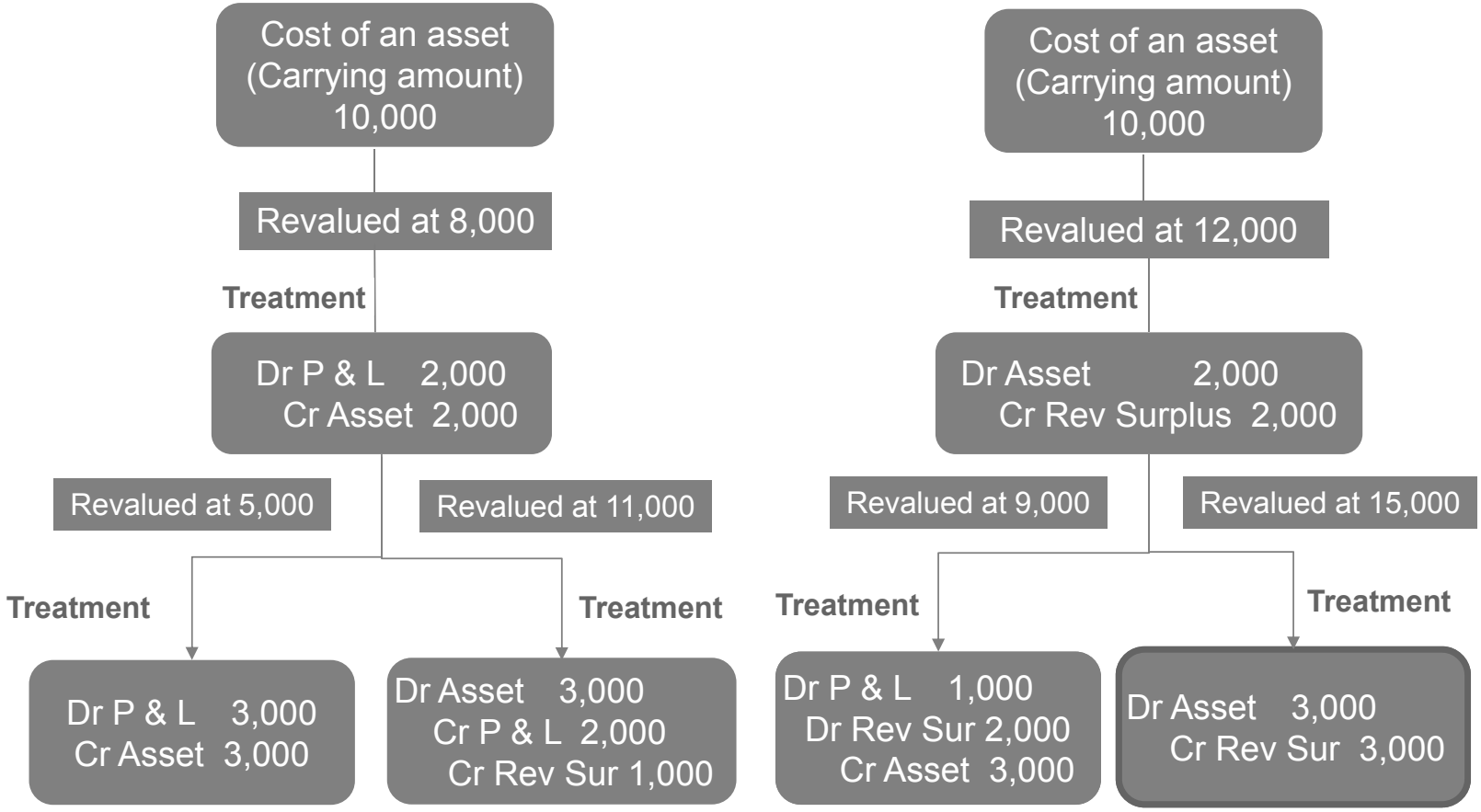
- Carried at
  - Revalued amount, that is, fair value at date of revaluation, less any accumulated depreciation and any accumulated impairment losses.
- The revalued amount is depreciated over the useful life

Revaluation model



- Entire class of property, plant and equipment shall be revalued
- Revaluation shall be done with sufficient regularity
- The revaluation surplus may be transferred to retained earnings when the asset is derecognised or as it is used by the entity

Revaluation model



Assumption: No depreciation for the sake of simplicity

Subsequent costs

Part Replacement

- Some items require regular replacement at different intervals and have different useful lives.
- Recognize the cost of replacing a part in the carrying amount, if recognition criteria are met.
- The carrying amount of replaced parts is derecognized
- For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe

Subsequent costs

Major inspection/Overhaul Costs

- Performing regular major inspections for faults, regardless of parts being replaced or not, may be a condition of continuing to operate an item of Property Plant and Equipment.
- Cost of each major inspection performed is recognized in carrying amount, as a replacement, if the recognition criteria are met.
- Any remaining carrying amount of the cost of the previous inspection is derecognized

Depreciation

- All assets with a finite useful life must be depreciated and depreciation begins when the asset is available for use & continues until the asset is derecognized or classified as held for sale.

- 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

- The residual value & the useful life of an asset **shall** be reviewed at least at each financial year end ,and if expectations are, the change shall be accounted for as a change in accounting estimates

- Depreciation shall be allocated on a systematic basis over its useful life.

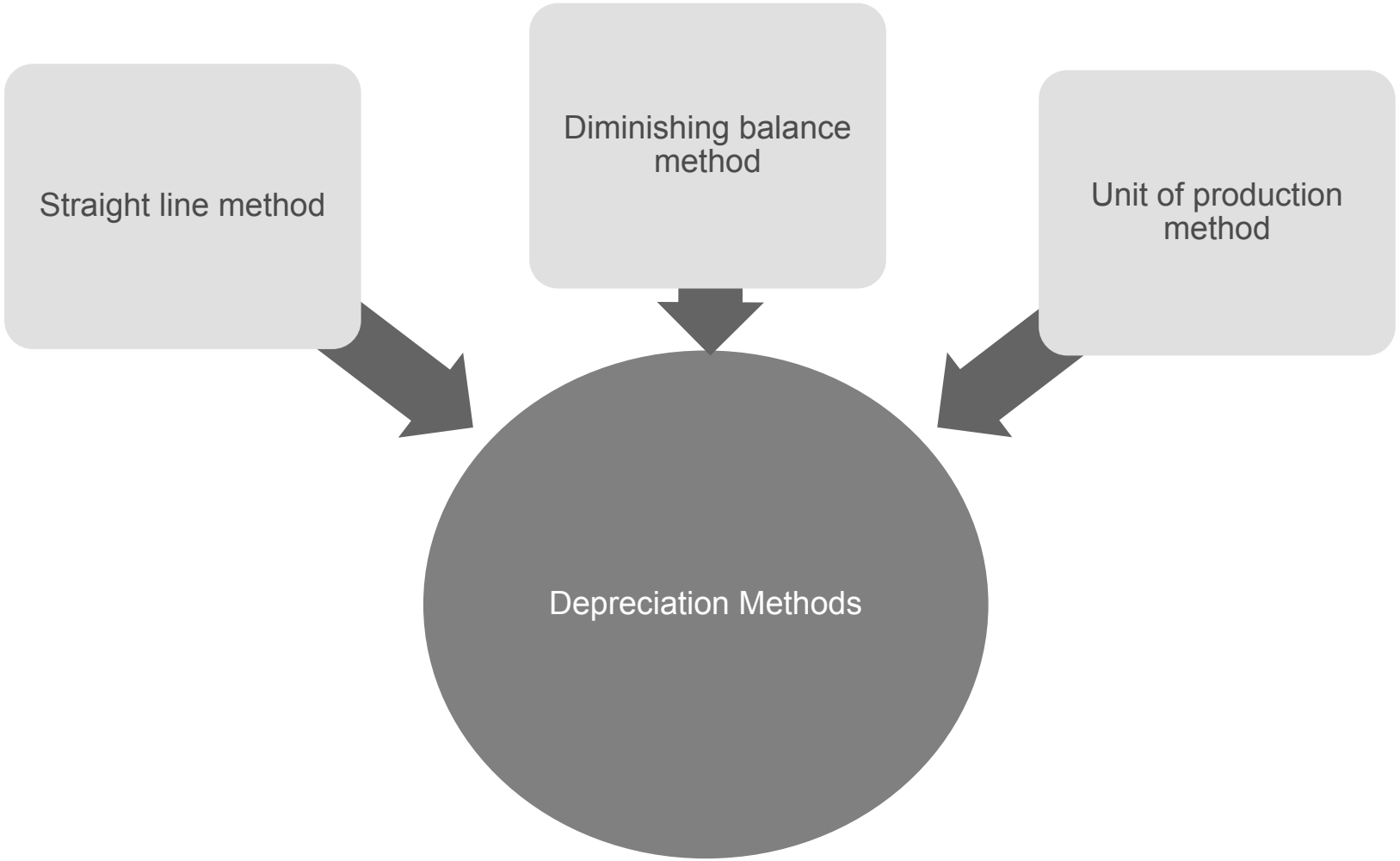
Depreciable Amount = Cost –Residual Value

Useful life of asset- key factors

All the following factors are considered in determining the useful life of an asset:

- Expected usage of the asset.
- Expected physical wear and tear depending on operational factors
- Technical or commercial obsolescence arising from:
  - ► Changes or improvements in production; or
  - ► Change in market demand for product
- Legal or similar limits on the use (e.g. expiry dates of related leases)
- Asset management policy may involve disposal of assets after a specified time therefore useful life may be shorter than economic life.
- Repair and maintenance policies may also affect useful life

Depreciation method



Depreciation method

- The method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- The method shall be reviewed at least at each financial year-end.
- If significant change in expected pattern of consuming future economic benefits
  - Method shall be changed to reflect new pattern
  - Change shall be treated as change in an accounting estimate and accounted for as per Ind AS 8

Case study - change in useful life

XYZ purchased an asset on 1st January 20X0 for $ 100,000 and the asset had an estimated useful life of 10 years and a residual value of nil. The entity has charged depreciation using the straight line method at $ 10,000 per annum. On 1st January 20X4, when the asset's net book value is $ 60,000, the directors review the estimated life and decide that the asset will probably be useful for a further 4 years and, therefore, the total life is revised to 8 years.

How the company should account for the revision in useful life of the asset?

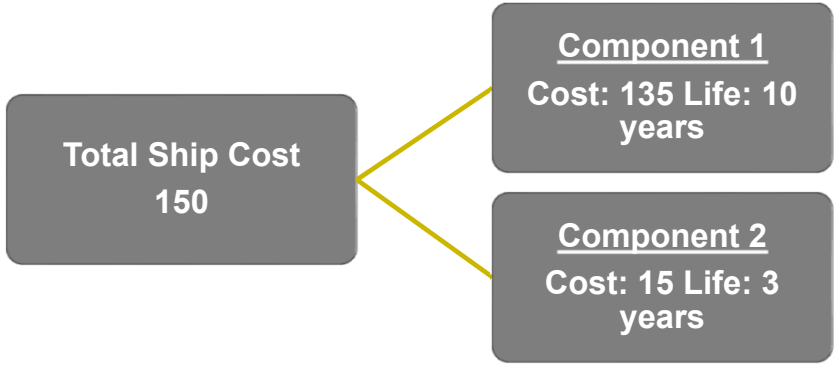
XYZ should amend the annual provision for depreciation to charge the unamortised cost (namely $ 60,000) over the revised remaining life of 4 years. Consequently, it should change depreciation for the next 4 years at $15,000 p.a..

Component accounting

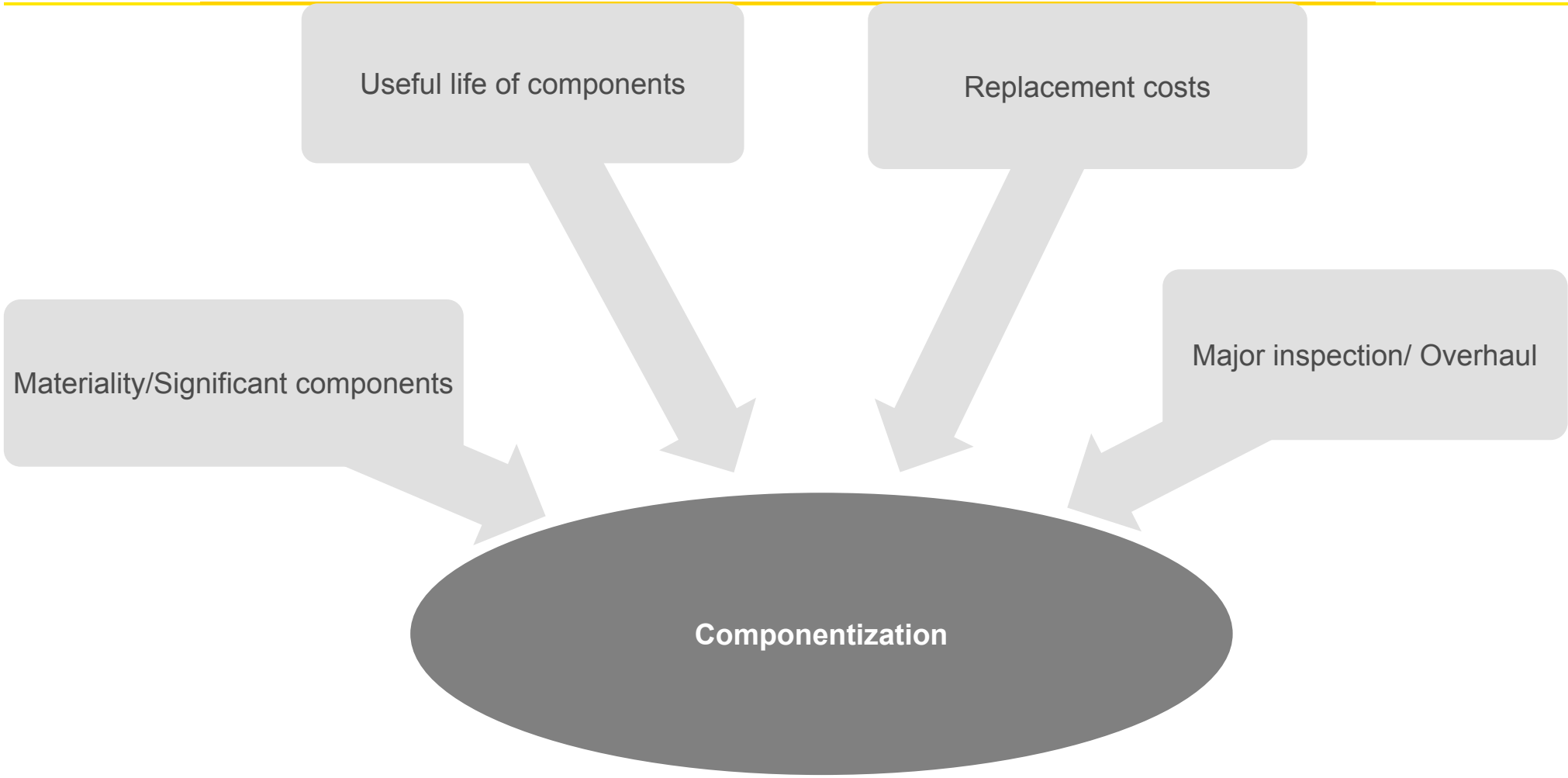
- Cost of each significant item of Property Plant and Equipment to be recognised and depreciated separately even though it may not have different useful life
- Item of PPE means parts having a cost that is significant to total cost
- Identification of such parts required to recognise replacement cost, if required

Example:

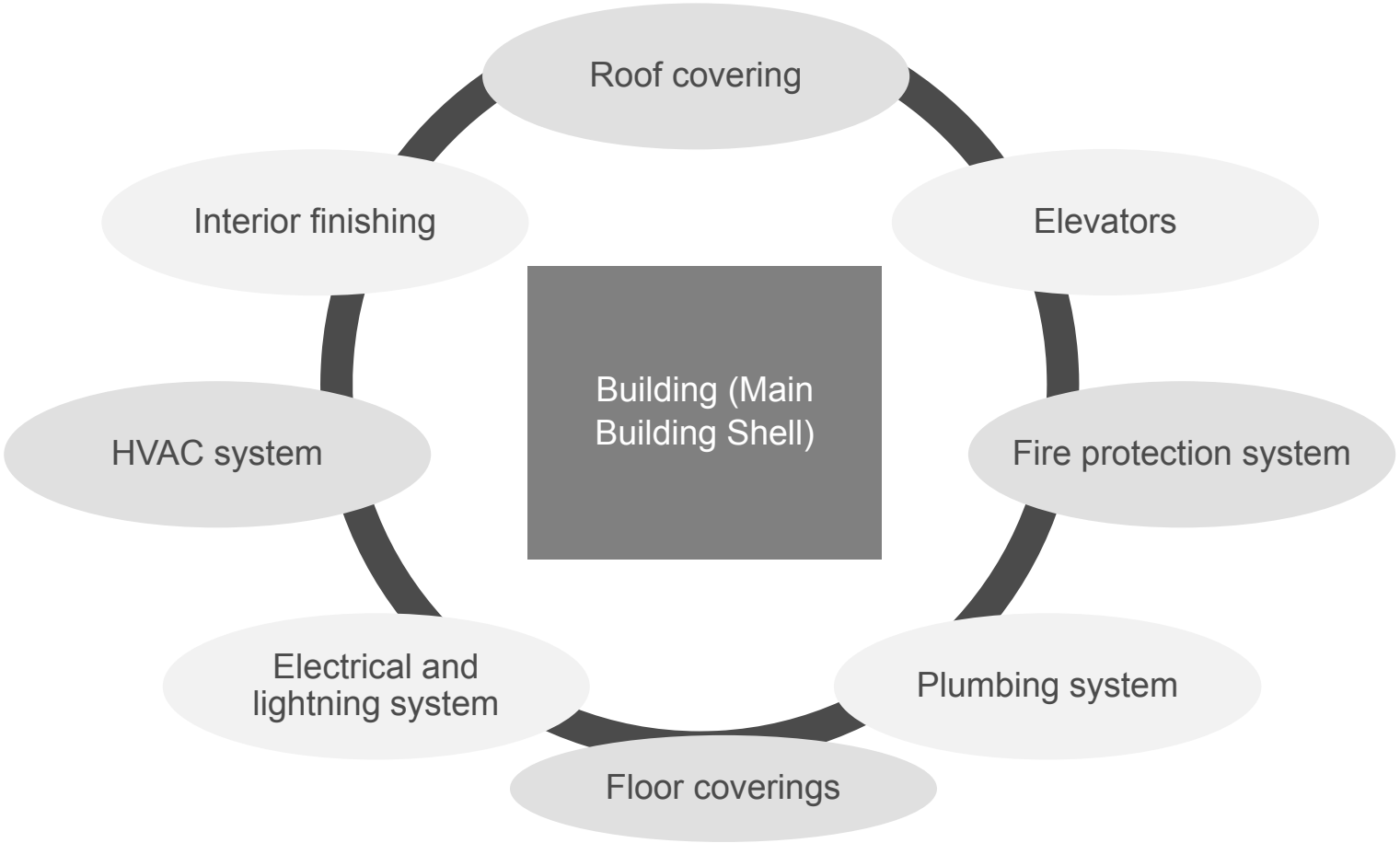
Ship costs ` 150, useful life 10 years,
Estimated docking cost ` 15, planned after 3 years



Componentization- key considerations



Example: components of a building



Derecognition of property, plant, and equipment

- Derecognise the carrying amount:
  - On disposal; or
  - When no future benefits are expected from its use

- Any gain or loss arising from the Derecognition i.e., difference between carrying amount and net proceeds from disposal to be included in profit or loss.

- Gains (or proceeds) are not classified as revenue

Disclosures

- Measurement basis
- Depreciation methods used
- Useful lives or depreciation rates used
- 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
- Existence and amounts of restrictions on title to assets
- Property Plant and Equipment pledged as security for liabilities

Disclosures

- Amount of expenditures recognised in the course of construction
- Contractual commitments for acquisition of Property Plant and Equipment
- Amount of compensation from third parties for items of Property Plant and Equipment

Disclosure for revalued assets

- Effective date of revaluation
- Whether an independent valuer was involved
- Carrying amount of each class of revalued Property Plant and Equipment if the cost model had been applied
- Revaluation surplus, including movement and any restrictions on distribution of balance to shareholders

Thank You