IAS 16 PROPERTY, PLANT AND EQUIPMENT

FACT SHEET

This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard unless otherwise stated.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 16 was reissued in December 2003 and is applicable for annual reporting periods commencing on or after 1 January 2005.

OBJECTIVE

The objective of IAS 16 is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

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.

SCOPE

IAS 16 shall be applied in accounting for property, plant and equipment except for:

- property, plant and equipment classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- biological assets related to agricultural activity – refer IAS 41 *Agriculture*;
- recognition and measurement of exploration and evaluation assets – refer IFRS 6 *Exploration for and Evaluation of Mineral Resources*; or
- mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

RECOGNITION AND MEASUREMENT

Recognition and initial measurement

The cost of an item of property, plant and equipment is 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.

The costs of day-to-day servicing of an asset are not included in the carrying amount of the asset but expensed when incurred.

An item of property, plant and equipment that satisfies the recognition criteria is measured at cost.

The cost of an item of property, plant and equipment comprises:

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 by management; and

c. the initial estimate of the costs of dismantling and removing the items 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.

Measurement after recognition

After initial recognition, the entity may choose between the cost model and the revaluation model as its accounting policy. The policy chosen shall be applied to an entire class of property, plant and equipment.

Cost Model

Cost less any accumulated depreciation and any accumulated impairment losses.

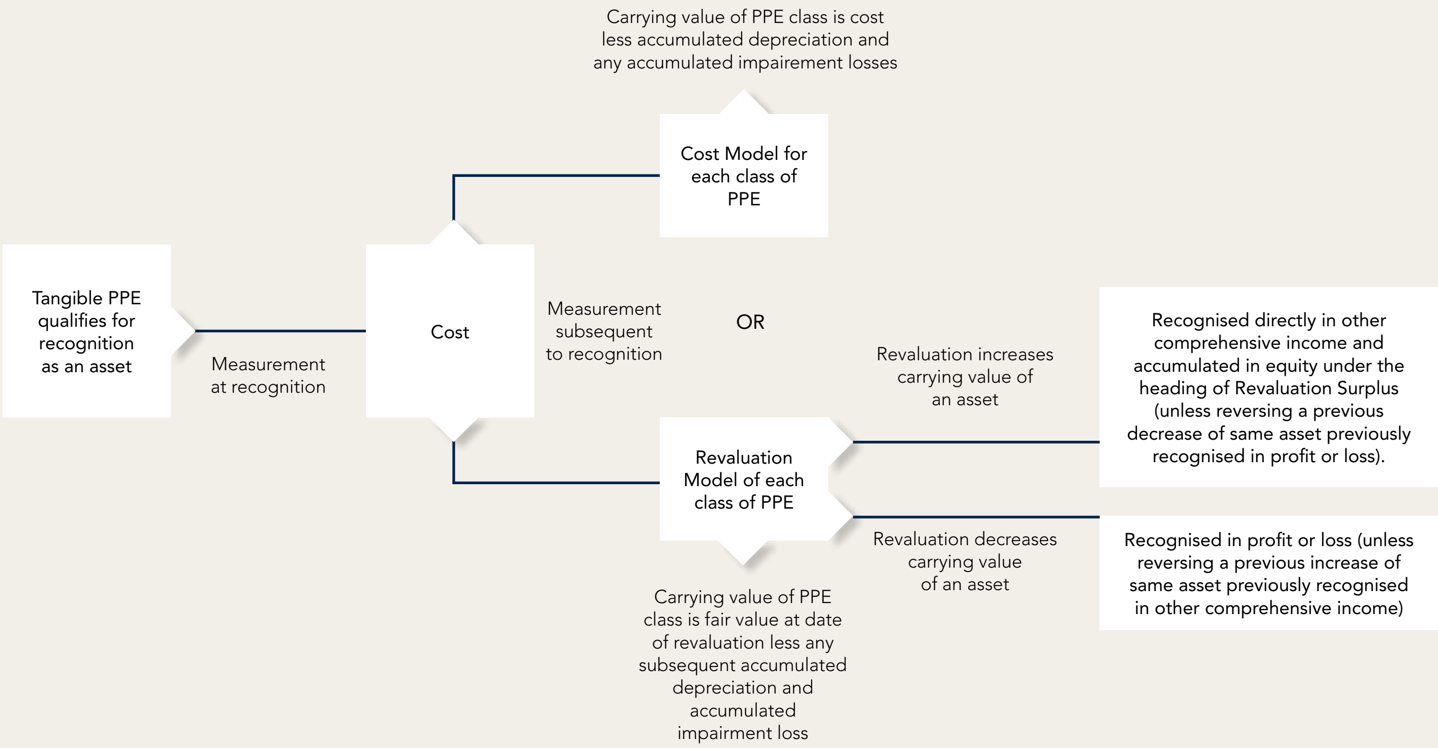
Revaluation Model

Fair value at the date of revaluation, less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are to be made with sufficient regularity that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued.

The accounting treatment prescribed by IAS 16 is summarised in Diagram 1.

DIAGRAM 1: ACCOUNTING FOR PPE



Depreciation

- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- Depreciation of an asset begins when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset such as inventory conversion costs (IAS 2 *Inventories*) or the cost of an intangible asset (IAS 38 *Intangible Assets*).
- The depreciable amount of an asset is allocated on a systematic basis over its useful life.
- The method of depreciation used should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity (these methods include the straight-line method, the diminishing balance method and the units of production method).
- The residual value and the useful life of an asset shall be reviewed at least at the end of each annual reporting period and, if expectations differ from previous estimates, the changes shall be accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impairment

IAS 36 *Impairment of Assets* is applied in determining whether an item of property, plant and equipment is impaired and the determination of its recoverable amount.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal; or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from a derecognition is included in profit or loss when the derecognition occurs. Gains are not be classified as revenue.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IAS 16 disclosure requirements.

DEFINITIONS

Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Entity-specific value	The present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Impairment loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Property, plant and equipment	Tangible items that are: • held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; • expected to be used during more than one period.
Recoverable amount	The higher of an asset's fair value less costs to sell and its value in use.
Residual value	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.
Useful life	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.

RELATED INTERPRETATIONS

- IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- IFRIC 18 *Transfers of Assets from Customers*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- SIC 29 *Service Concession Arrangements: Disclosures*

IFRIC 18 and IFRIC 20 are relatively more significant than the others.

IFRIC 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. It also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment (PP&E) and the entity must then use the item of PP&E either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The interpretation addresses the following issues:

- Is the definition of an asset met?
- If the definition of an asset is met, how should the transferred item of PP&E be measured on initial recognition?
- If the item of PP&E is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a transfer of cash from its customer?

IFRIC 20 clarifies that the costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a surface mine must be capitalised as inventories under IAS 2 *Inventories* if the benefits from stripping activity is realised in the form of inventory produced. On the other hand, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met (as an addition to, or enhancement of, an existing asset).

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 116 *Property, plant and equipment* is applicable for annual reporting periods commencing on or after 1 January 2005. The equivalent Australian interpretations are:

- Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- Interpretation 18 *Transfers of Assets from Customers*
- Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
- *Interpretation 129 Service Concession Arrangements: Disclosures*

MEASUREMENT CRITERIA FOR NOT-FOR-PROFIT ENTITIES

When a not-for-profit entity acquires an asset for nil or nominal cost; the cost to be recorded on the statement of financial position is its fair value as at the date of acquisition.

REVALUATION MODEL

For not-for-profit entities, changes in the carrying amount of an asset due to a revaluation are accounted for as follows:

- an increase in a **class of assets**' carrying amount is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus unless the increase reverses a previously recognised revaluation decrease of the same **class of assets**, in which case the increase is recognised in profit or loss to the extent it reverses the previous profit or loss recognition.
- a decrease in carrying amount of a **class of assets** is recognised in profit and loss unless the decrease reverses a previously recognised revaluation increase of the same **class of assets**, in which case the decrease is debited to other comprehensive income under the heading of revaluation surplus to the extent that it reverses the previous revaluation increment.
- revaluation increases and decreases relating to individual assets within a class of property, plant and equipment are offset against one another within the class but are not offset in respect of assets in different classes.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

RELATED INTERPRETATIONS

- AASB 1030 *Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods*
- AASB 1055 *Accounting for Road Earthworks*

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 16.73	Is the following information disclosed for each class of property, plant and equipment: a. the measurement bases used for determining the gross carrying amount; b. the depreciation methods used; c. the useful lives or the depreciation rates used; d. the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and e. a reconciliation of the carrying amount at the beginning and end of the period showing: – additions; – assets classified as held for sale or included in a disposal group classified as 'held for sale' in accordance with IFRS 5 and other disposals; – acquisitions through business combinations; – increases or decreases during the period resulting from revaluations (under IAS 16 paragraphs 31, 39, 40) and from impairment losses recognised or reversed directly in other comprehensive income under IAS 36; – impairment losses recognised in profit or loss in accordance with IAS 36; – impairment losses reversed in profit or loss in accordance with IAS 36; – depreciation; – the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; – other changes?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 16.74	Has the following information been disclosed: a. the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities; b. the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction; c. the amount of contractual commitments for the acquisition of property, plant and equipment; and d. if it is not disclosed separately in the statement of comprehensive income, the amount of 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 16.77	When items of property, plant and equipment are stated at revalued amounts, has the following information been disclosed: a. the effective date of the revaluation; b. whether an independent valuer was involved; c. for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and d. the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders?		
IAS 16.79	The following disclosures are encouraged but not required: a. the carrying amount of temporarily idle property, plant and equipment; b. the gross carrying amount of any fully depreciated property, plant and equipment that is still in use; c. the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with AASB 5; and d. when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.		

AUSTRALIAN DISCLOSURE REQUIREMENTS

In respect of not-for-profit entities, for each revalued class of property, plant and equipment, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.

In addition to the requirements of paragraph 73 of IAS 16, in respect of not-for-profit entities, the reconciliation of the carrying amount at the beginning and end of the period needs to show the increases or decreases resulting from revaluations under paragraphs Aus 39.1, Aus 40.1 and Aus 40.2.

ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

CODE		YES / NO / N/A	EXPLANATION (*If required*)
AASB 116.RDR 73.1	An entity applying RDR is not required to disclose the reconciliation specified in paragraph 73(e) for prior periods		

OTHER MATTERS

LEGAL NOTICE

DISCLAIMER

LIMITATION OF LIABILITY

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