LKAS 16 - Property, Plant and Equipment

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The standard shall not be applicable for:

- Non current assets held for sale (SLFRS 5)
- Discontinued operations (SLFRS 5)
- Biological assets (LKAS 41)
- Exploration of mineral assets (SLFRS 6)
- Mineral rights and reserves such as oil, gas

The standard shall be applied in accounting for PPE

Recognition:

- It is probable that future economic benefits associated with the item will flow to the entity and
- The cost of the item can be measured reliably

Both the above conditions should be met in order to recognise an item as an asset
Measurement at recognition:

- An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at cost.

PPE will be initially measured at cost.

Elements of cost:

- Purchase price and related taxes and duties
- Any cost directly attributable to bringing the asset to the location and the condition
- Initial estimate of the costs of dismantling and removing the item and restoring the site

Correctly identified elements of cost can be included in the cost of an asset.
Directly attributable costs:

- Costs of employee benefits arising due to construction
- Costs of site preparation
- Initial delivery costs
- Installation costs
- Costs of testing
- Professional fees

Directly attributable fees can be capitalised

Indirect costs which cannot be included:

- Costs of opening new facility
- Costs of introducing a new product
- Costs of conducting business in a new location
- Admin costs

Indirect costs should be charged to income statement
Other costs which cannot be included:

- Costs of running a plant at less than full capacity
- Initial operating losses
- Costs of re-locating

Start-up costs should be charged to income statement

Measurement of costs:

- The cost of an item of PPE is the cash price equivalent at the recognition date
- Specific borrowing costs should be capitalised in line with LKAS 23

Cash price should be identified at the time of recognition
Measurement after recognition:

1. Cost model
2. Re-valuation model

Cost model or re-valuation model should be selected for measurement after recognition

Cost model:

- After recognition as an asset, an item of PPE should be carried at cost less accumulated depreciation and any accumulated impairment losses

An asset is carried at cost less accumulated depreciation and impairment losses
Re-valuation model:

- After recognition as an asset, 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 the re-valuation) less accumulated depreciation and any accumulated impairment losses.

An asset is carried at fair value less accumulated depreciation and impairment losses.

Re-valuation model:

- Revaluations shall be made with sufficient regularity.
- Land and buildings - market based evidence.
- Assets with no market based evidence – use income or depreciated replacement cost method.
- General rule of frequency is 3-5 years.

Where possible use market based evidence and re-value every 3-5 years.
Depreciation:

- Significant components should be depreciated separately
- Useful life should be determined
- Land and buildings are separable assets

Significant components should be separately identified

Depreciation:

- Residual value should be determined
- Depreciation starts when asset is ready for use

Determine appropriate depreciation policy and rates
Depreciation amount:

- Depreciation charge should be included in income
- Depreciable amount should be allocated on a systematic basis over its useful life
- Residual value and useful life should be reviewed annually

Depreciation is a charge against income

Impairment:

- Apply LKAS 36 to determine an assets is impaired
- Compensation for impairment shall be recognised when compensation becomes receivable

Determine impairment using LKAS 36
De-recognition:
  • On disposal
  • When there is no future economic benefit

Gain or loss on de-recognition shall be included in income

Gains shall not be recognised as revenue

Apply de-recognition policy appropriately

Disclosure:
  • Detailed disclosure is required for each class of PPE
  • The existence and restrictions on title
  • Value of assets under construction
  • Contractual commitments
  • Compensation received and receivable

Detailed disclosure is required
Disclosures for each class of assets:
- Measurement bases to determine gross amount
- Depreciation methods
- Useful lives or depreciation rates
- Gross carrying amount b/f and c/f
- Reconciliation of carrying amount b/f and c/f
- Revaluations and Impairment losses
- Depreciation
- Net exchange differences

Detailed disclosure is required

Thank you.