

SLAS 18

Sri Lanka Accounting Standard SLAS 18

Property, Plant and Equipment

Contents

Sri Lanka Accounting Standard SLAS 18

Property, Plant and Equipment

Objective

Scope Paragraphs 1 - 6

Definitions 7

Recognition of Property, Plant and Equipment 8 - 14

Initial Measurement of Property, Plant and Equipment 15

 Components of Cost 16 - 21

 Exchanges of Assets 22 - 23

Subsequent Expenditure 24 - 28

Measurement Subsequent to Initial Recognition

 Benchmark Treatment 29

 Allowed Alternative Treatment 30

 Revaluations 31 - 42

SLAS 18

Depreciation	43 - 51
Review of Useful Life	52 - 54
Review of Depreciation Method	55
Recovery of the Carrying Amount	
Impairment	56 - 58
Subsequent Increase in Recoverable Amount - Benchmark Treatment	59
Subsequent Increase in Recoverable Amount - Allowed Alternative Treatment	60
Retirements and Disposals	61 - 65
Disclosure	66 - 71
Compliance with International Accounting Standards	72
Effective Date	73

Sri Lanka Accounting Standard SLAS 18

Property, Plant and Equipment

The standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the Preface to Sri Lanka Accounting Standards. Sri Lanka Accounting Standards are not intended to apply to immaterial items.

Objective

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges to be recognised in relation to them, and the determination and accounting treatment of other impairments to the carrying amounts.

This Standard requires an item of property, plant and equipment to be recognised as an asset when it satisfies the definition and recognition criteria for an asset in the Framework for the Preparation and Presentation of Financial Statements.

Scope

- 1. This Standard should be applied in accounting for property, plant and equipment except when another Sri Lanka Accounting Standard requires or permits a different accounting treatment.***
2. This Standard supersedes Sri Lanka Accounting Standard SLAS 8, Depreciation Accounting, with respect to depreciation of property, plant and equipment. While application of the principles contained in this Standard may also be appropriate for other assets such as long-term intangible assets, SLAS 8, Depreciation Accounting, continues to apply to such assets.

SLAS 18

3. This Standard does not apply to:

- (a) forests and similar regenerative natural resources; and
- (b) mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

However, this Standard does apply to property, plant and equipment used to develop or maintain the activities or assets covered in (a) or (b) but separable from those activities or assets.

4. In some circumstances Sri Lanka Accounting Standards permit the initial recognition of the carrying amount of property, plant and equipment to be determined using an approach different from that prescribed in this Standard. For example, under the allowed alternative treatment for negative goodwill, Sri Lanka Accounting Standard SLAS 25, Business Combinations, requires property, plant and equipment acquired in a business combination to be measured initially at fair value even when it exceeds cost. However, in such cases all other aspects of the accounting treatment for these assets, including depreciation, are determined by the requirements of this Standard.
5. Sri Lanka Accounting Standard SLAS 22, Accounting for Investments, permits an enterprise to treat investment properties as property, in accordance with this Standard, or as long-term investments, in accordance with Sri Lanka Accounting Standard SLAS 22, Accounting for Investments.
6. This Standard does not deal with certain aspects of the application of a comprehensive system reflecting the effects of changing prices. However, enterprises applying such a system are required to comply with all aspects of this Standard, except for those that deal with the measurement of property, plant and equipment subsequent to its initial recognition.

Definitions

7. *The following terms are used in this Standard with the meanings specified:*

Property, plant and equipment are tangible assets that:

- (a) *are held by an enterprise for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and*
- (b) *are expected to be used during more than one period.*

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Useful life is either:

- (a) *the period of time over which an asset is expected to be used by the enterprise; or*
- (b) *the number of production or similar units expected to be obtained from the asset by the enterprise.*

Cost is 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.

Residual value is the net amount which the enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

SLAS 18

Carrying amount is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon.

Recoverable amount is the amount which the enterprise expects to recover from the future use of an asset, including its residual value on disposal.

Recognition of Property, Plant and Equipment

8. *An item of property, plant and equipment should be recognised as an asset when:*
 - (a) *it is probable that future economic benefits associated with the asset will flow to the enterprise; and*
 - (b) *the cost of the asset to the enterprise can be measured reliably.*
9. Property, plant and equipment is often a major portion of the total assets of an enterprise, and therefore is significant in the presentation of its financial position. Furthermore, the determination of whether an expenditure represents an asset or an expense can have a significant effect on an enterprise's reported results of operations.
10. In determining whether an item satisfies the first criterion for recognition, an enterprise needs to assess the degree of certainty attaching to the flow of future economic benefits on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits will flow to the enterprise necessitates an assurance that the enterprise will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the enterprise. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognised.
11. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. In the case of a self-constructed asset, a reliable measurement of the cost can be made from the transactions with parties external to the enterprise for the acquisition of the materials, labour and other inputs used during the construction process.

12. In identifying what constitutes a separate item of property, plant and equipment, judgement is required in applying the criteria in the definition to specific circumstances or specific types of enterprises. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value. Most spare parts and servicing equipment are usually carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the enterprise expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment and their use is expected to be irregular, they are accounted for as property, plant and equipment and are depreciated over a time period not exceeding the useful life of the related asset.
13. In certain circumstances, it is appropriate to allocate the total expenditure on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide benefits to the enterprise in a different pattern thus necessitating use of different depreciation rates and methods. For example, an aircraft and its engines need to be treated as separate depreciable assets if they have different useful lives.
14. Property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, while not directly increasing the future economic benefits of any particular existing item of property, plant and equipment may be necessary in order for the enterprise to obtain the future economic benefits from its other assets. When this is the case, such acquisitions of property, plant and equipment qualify for recognition as assets, in that they enable future economic benefits from related assets to be derived by the enterprise in excess of what it could derive if they had not been acquired. However, such assets are only recognised to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total recoverable amount of that asset and its related assets. For example, a chemical manufacturer may have to install certain new chemical handling processes in order to comply with environmental requirements on the production and storage of dangerous chemicals; related plant

SLAS 18

enhancements are recognised as an asset to the extent they are recoverable because, without them, the enterprise is unable to manufacture and sell chemicals.

Initial Measurement of Property, Plant and Equipment

15. An item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost.

Components of Cost

16. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:
- (a) the cost of site preparation;
 - (b) initial delivery and handling costs;
 - (c) installation costs; and
 - (d) professional fees such as for architects and engineers.
17. When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with the allowed alternative treatment in Sri Lanka Accounting Standard SLAS 20, Borrowing Costs.
18. Administration and other general overhead costs are not a component of the cost of property, plant and equipment unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar pre-production costs do not form

SLAS 18

part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognised as an expense.

19. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale (see Sri Lanka Accounting Standard SLAS 5, Inventories). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset. Sri Lanka Accounting Standard SLAS 20, Borrowing Costs, establishes criteria which need to be satisfied before interest costs can be recognised as a component of property, plant and equipment cost.
20. The cost of an asset held by a lessee under a finance lease is determined using the principles set out in Sri Lanka Accounting Standard SLAS 19, Leases.
21. The carrying amount of property, plant and equipment may be reduced by applicable government grants in accordance with Sri Lanka Accounting Standard SLAS 24, Accounting for Government Grants and Disclosure of Government Assistance.

Exchanges of Assets

22. An item of property, plant and equipment may be acquired in exchange or part exchange for a dissimilar item of property, plant and equipment or other asset. The cost of such an item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.
23. An item of property, plant and equipment may be acquired in exchange for a similar asset that has a similar use in the same line of business and which has a similar fair value. An item of property, plant and equipment may also be sold in exchange for an equity interest in a similar asset. In both cases, since the earnings process is incomplete, no gain or loss is

SLAS 18

recognised on the transaction. Instead, the cost of the new asset is the carrying amount of the asset given up. However, the fair value of the asset received may provide evidence of an impairment in the asset given up. Under these circumstances the asset given up is written down and this written down value assigned to the new asset. Examples of exchanges of similar assets include the exchange of aircraft, hotels, service stations and other real estate properties. If other assets such as cash are included as part of the exchange transaction this may indicate that the items exchanged do not have a similar value.

Subsequent Expenditure

- 24. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.***
25. Subsequent expenditure on property, plant and equipment is only recognised as an asset when the expenditure improves the condition of the asset beyond its originally assessed standard of performance. Examples of improvements which result in increased future economic benefits include:
- (a) modification of an item of plant to extend its useful life, including an increase in its capacity;
 - (b) upgrading machine parts to achieve a substantial improvement in the quality of output; and
 - (c) adoption of new production processes enabling a substantial reduction in previously assessed operating costs.

26. Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset. As such, it is usually recognised as an expense when incurred. For example, the cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the originally assessed standard of performance.
27. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an item of property, plant and equipment depends on the circumstances which were taken into account on the initial measurement and recognition of the related item of property, plant and equipment and whether the subsequent expenditure is recoverable. For instance, when the carrying amount of the item of property, plant and equipment already takes into account a loss in economic benefits, the subsequent expenditure to restore the future economic benefits expected from the asset is capitalised provided that the carrying amount does not exceed the recoverable amount of the asset. This is also the case when the purchase price of an asset already reflects the enterprise's obligation to incur expenditure in the future which is necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.
28. Major components of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of usage or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. The components are accounted for as separate assets because they have useful lives different from those of the items of property, plant and equipment to which they relate. Therefore, provided the recognition criteria in paragraph 8 are satisfied, the expenditure incurred in replacing or renewing the component is accounted for as the acquisition of a separate asset and the replaced asset is written off.

SLAS 18

Measurement Subsequent to Initial Recognition

Benchmark Treatment

29. *Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation, subject to the requirement in paragraph 56 to write an asset down to its recoverable amount.*

Allowed Alternative Treatment

30. *Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation. Revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.*

Revaluations

31. The fair value of land and buildings is usually its market value for existing use which presupposes continued use of the asset in the same or a similar business. This value is determined by appraisal normally undertaken by professionally qualified valuers.
32. The fair value of items of plant and equipment is usually their market value determined by appraisal. When there is no evidence of market value because of the specialised nature of the plant and equipment and because these items are rarely sold, except as part of a continuing business, they are valued at their depreciated replacement cost.
33. In determining fair value, an item of property, plant and equipment is valued on the basis of its existing use. However, an asset for which a change in use is probable is valued on the same basis as other similar assets held for the same intended use. For example, it is inappropriate to value a factory and the equipment within it at their value in use, while valuing the factory site at the open market value of the land for redevelopment as a shopping centre.

SLAS 18

34. The frequency of revaluations depends upon the movements in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment may experience significant and volatile movements in fair value thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant movements in fair value. Instead, revaluation every three or five years may be sufficient.
35. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is either:
- (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of an index to its depreciated replacement cost; or
 - (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. For example, this method is used for buildings which are revalued to their market value.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount which is dealt with in accordance with paragraphs 39 and 40.

36. *When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.*
37. A class of property, plant and equipment is a grouping of assets of a similar nature and use in an enterprise's operations. The following are examples of separate classes:
- (a) land;

SLAS 18

- (b) land and buildings;
 - (c) machinery;
 - (d) ships;
 - (e) aircraft;
 - (f) motor vehicles;
 - (g) furniture and fixtures; and
 - (h) office equipment.
38. The items within a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements which are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period of time and provided the revaluations are kept up to date.
39. *When an asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to equity under the heading of revaluation surplus. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.*
40. *When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.*
41. The revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realised. The whole surplus may be realised on the retirement or disposal of the asset. However, some of the surplus may be realised as the asset is used by the enterprise; in such a case, the amount of the surplus realised is the difference between

depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. The transfer from revaluation surplus to retained earnings is not made through the income statement.

42. The effects on taxes on income, if any, resulting from the revaluation of property, plant and equipment are dealt with in Sri Lanka Accounting Standard SLAS 14, Accounting for Taxes on Income.

Depreciation

43. *The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. The depreciation charge for each period should be recognised as an expense unless it is included in the carrying amount of another asset.*
44. As the economic benefits embodied in an asset are consumed by the enterprise, the carrying amount of the asset is reduced to reflect this consumption, normally by charging an expense for depreciation. A depreciation charge is made even if the value of the asset exceeds its carrying amount.
45. The economic benefits embodied in an item of property, plant and equipment are consumed by the enterprise principally through the use of the asset. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:
- (a) the expected usage of the asset by the enterprise. Usage is assessed by reference to the asset's expected capacity or physical output;
 - (b) the expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used

SLAS 18

and the repair and maintenance programme of the enterprise, and the care and maintenance of the asset while idle;

- (c) technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and
 - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
46. The useful life of an asset is defined in terms of the asset's expected utility to the enterprise. The asset management policy of an enterprise may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the enterprise with similar assets.
47. Land and buildings are separable assets and are dealt with separately for accounting purposes, even when they are acquired together. Land normally has an unlimited life and, therefore, is not depreciated. Buildings have a limited life and, therefore, are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the useful life of the building.
48. The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and therefore is immaterial in the calculation of the depreciable amount. When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices. However, when the allowed alternative treatment is adopted, a new estimate is made at the date of any subsequent revaluation of the asset. The estimate is based on the residual value prevailing at the date of the estimate for similar assets which have reached the end of their useful lives and which have operated under conditions similar to those in which the asset will be used.

SLAS 18

49. When the purchase of an asset will involve the enterprise in significant dismantling, removal or restoration costs, at the end of the asset's useful life, those costs are recognised as an expense over the life of the asset either:
- (a) by deducting the estimated costs in determining the residual value of the asset and thereby increasing the annual depreciation charge. Any resulting negative carrying amount is recognised as a liability; or
 - (b) when the estimated costs are not deducted in determining the residual value, by recognising the costs as a separate expense over the life of the asset such that the liability for these costs is fully provided for at the end of the asset's useful life.
50. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the sum-of-the-units method. Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The sum-of-the-units method results in a charge based on the expected use or output of the asset. The method used for an asset is selected based on the expected pattern of economic benefits and is consistently applied from period to period unless there is a change in the expected pattern of economic benefits from that asset.
51. The depreciation charge for a period is usually recognised as an expense. However, in some circumstances, the economic benefits embodied in an asset are absorbed by the enterprise in producing other assets rather than giving rise to an expense. In this case, the depreciation charge comprises part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see Sri Lanka Accounting Standard SLAS 5, Inventories). Similarly, depreciation of property, plant and equipment used for development activities may be included in development costs which are capitalised in accordance with Sri Lanka Accounting Standard SLAS 37, Intangible Assets.

SLAS 18

Review of Useful Life

52. *The useful life of an item of property, plant and equipment should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.*
53. During the life of an asset it may become apparent that the estimate of the useful life is inappropriate. For example, the useful life may be extended by subsequent expenditure on the asset which improves the condition of the asset beyond its originally assessed standard of performance. Alternatively, technological changes or changes in the market for the products may reduce the useful life of the asset. In such cases, the useful life and, therefore, the depreciation rate is adjusted for the current and future periods.
54. The repair and maintenance policy of the enterprise may also affect the useful life of an asset. The policy may result in an extension of the useful life of the asset or an increase in its residual value. However, the adoption of such a policy does not negate the need to charge depreciation.

Review of Depreciation Method

55. *The depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.*

Recovery of the Carrying Amount

Impairment

- 56. The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to equity in accordance with paragraph 40.*
57. The cost or revalued amount of an item of property, plant and equipment is normally recovered on a systematic basis over the useful life of the asset. If the usefulness of an item or a group of identical items is impaired, for example by damage or technological obsolescence or other economic factors, the recoverable amount may be less than the carrying amount of the asset. In such circumstances, a write-down of the asset is necessary. A write-down may also be necessary when an item of property, plant and equipment remains idle for a considerable period either prior to it being put into use or during its useful life.
58. The recoverable amount of individual assets or a group of identical, assets is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all the plant and equipment in a factory is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount. This Standard does not require or preclude the discounting of cash flows in determining the recoverable amount.

Subsequent Increase in Recoverable Amount - Benchmark Treatment

SLAS 18

59. *A subsequent increase in the recoverable amount of an asset, dealt with in accordance with the benchmark treatment described in paragraph 29, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back should be reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.*

Subsequent Increase in Recoverable Amount - Allowed Alternative Treatment

60. *A subsequent increase in the recoverable amount of an asset, dealt with in accordance with the allowed alternative treatment described in paragraph 30, should be accounted for in accordance with paragraph 39.*

Retirements and Disposals

61. *An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.*
62. *Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the income statement.*
63. When an item of property, plant and equipment is exchanged for a similar asset, under the circumstances described in paragraph 23, the cost of the acquired asset is equal to the carrying amount of the asset disposed of and no gain or loss results.
64. Sale and leaseback transactions are accounted for in accordance with Sri Lanka Accounting Standard SLAS 19, Leases.

65. Property, plant and equipment which is retired from active use and held for disposal is carried at the lower of its carrying amount and net realisable value.

Disclosure

66. *The financial statements should disclose, in respect of each class of property, plant and equipment:*
- (a) the measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;*
 - (b) the depreciation methods used;*
 - (c) the useful lives or the depreciation rates used;*
 - (d) the gross carrying amount and the accumulated depreciation at the beginning and end of the period;*
 - (e) a reconciliation of the carrying amount at the beginning and end of the period showing:*
 - (i) additions;*
 - (ii) disposals;*
 - (iii) acquisitions through business combinations;*
 - (iv) increases or decreases resulting from revaluations in accordance with paragraphs 30, 39, 40 and 60;*
 - (v) reductions in carrying amount in accordance with paragraph 56;*
 - (vi) amounts written back in accordance with paragraph 59;*
 - (vii) depreciation;*

SLAS 18

(viii) the net exchange differences arising on the translation of the financial statements of a foreign entity; and

(ix) other movements.

67. The financial statements should also disclose:

(a) whether, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values;

(b) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(c) the accounting policy for restoration costs relating to items of property, plant and equipment;

(d) the amount of expenditures on account of property, plant and equipment in the course of construction; and

(e) the amount of commitments for the acquisition of property, plant and equipment.

68. The selection of the depreciation method and the estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information which allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reasons, it is necessary to disclose the depreciation allocated in a period and the accumulated depreciation at the end of that period.

69. An enterprise discloses the nature and effect of a change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods in accordance with Sri Lanka Accounting Standard SLAS 10, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. Such disclosure may arise from changes in estimate with respect to:

- (a) residual values;
- (b) dismantling, removal or restoration costs;
- (c) useful lives; and
- (d) depreciation method.

70. *When items of property, plant and equipment are stated at revalued amounts the following should be disclosed:*

- (a) the basis used to revalue the assets;*
- (b) the effective date of the revaluation;*
- (c) whether an independent valuer was involved;*
- (d) the nature of any indices used to determine replacement cost;*
- (e) the carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation; and*
- (f) the revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.*

71. Financial statement users also find the following information relevant to their needs:

- (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 held for disposal; and

SLAS 18

- (d) when the benchmark treatment is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, enterprises are encouraged to disclose these amounts.

Compliance with International Accounting Standards

- 72. Compliance with this SLAS ensures compliance in all material respects with International Accounting Standard IAS 16, Property, Plant and Equipment.

Effective Date

- 73. *This Sri Lanka Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January 1996.*