IAS 16

Property, plant and equipment.

Property, plant and equipment are non-current assets that:

- are expected to be used over more than one period
- are for use in production/supply of services, rental or admin

Assets are defined in the Framework

Assets: are a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity.

The criteria for recognition of an asset are defined in the Framework

Items should be recognised if:

PROBABLE: probable that future economic benefit will flow to the entity.

RELIABLE MEASUREMENT: costs and revenues can be measured reliably.

IAS 16 defines the following:

- cost
- residual value
- fair value
- carrying amount
- recoverable amount

Cost includes:

- purchase price
- directly attributable costs
    - delivery
    - professional fees
    - acquisition costs

- import duty
- assembly costs
- wages and salaries if constructing the item

You cannot include advertising, staff training or general admin costs.

Subsequent expenditure can be added to the carrying value providing that it improves the asset hence generating increased economic benefit. Normal repairs do not fall into this category.

Residual Value is the value of the item at the end of its useful life.

Fair Value is normally market value. It is defined as 'the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.'

Carrying value is the cost or valuation less accumulated depreciation and accumulated impairment losses. IAS 16 states that the carrying value must not differ materially from the fair value (ie market value).

Revaluation

Assets can be recorded using the cost model or the revaluation model.

Cost model: cost less accumulated depreciation.

Revaluation model: fair value less subsequent depreciation and impairment losses.

Make sure that you can work out carrying value to compare to market value so that you can calculate the revaluation amount.

When an item of plant, property and equipment is revalued the whole class to which it belongs must be revalued.

Increase in value: Dr Asset (to new value)
Dr Accumulated depreciation (to remove depreciation)
Cr revaluation surplus

Decrease in value: Dr expense or
Dr revaluation surplus (if possible)
Cr Asset

Depreciation

Depreciable amount = cost less residual value (or revalued amount)

Depreciate over useful life

Depreciation method reflects pattern of consumption of economic benefit

Depreciation charge is an expense.

Depreciation method should be reviewed regularly. You need to know straight line, reducing balance and units of production methods.

Disclosure

Disclosure is required, the following information must be provided for each class of asset:

- Measurement basis (ie. Cost or revaluation)
- Depreciation method
- Useful life or depreciation rate
- Gross carrying amount and accumulated depreciation for beginning and end of period
- Reconciliation of carrying amount at beginning and end of period. Include
  - Additions
  - Disposals
  - Revaluations
  - Impairment losses (IAS 39)
  - Depreciation

	Total	Land and Buildings	Plant and Machinery
Cost or valuation			
At 1 Jan 20X4	50000	40000	10000
Revaluation surplus	12000	12000	-
Additions in year	4000	-	4000
Disposals in year	(1000)	-	(1000)
At 31 Dec 20X4	65000	52000	13000
Depreciation			
At 1 Jan 20X4	16000	10000	6000
Charge for year	4000	1000	3000
Elimination on revaluation	-	(10000)	-
Elimination on disposals	(500)	-	(500)
At 31 Dec 20X4	9500	1000	8500
Net book value			
At 31 Dec 20X4	55500	51000	4500
At 1 Jan 20X4	34000	30000	4000