

*IFRS: Accounting for Property Plant and  
Equipment  
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# Applicable IFRSs

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- **IAS 16**
- **IAS 36 (impairment)**
- **Highlight differences between US GAAP and IFRS for PPE.**

# Accounting issues

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1. the timing and initial recognition of assets
2. the determination of their carrying amounts
3. the depreciation charges to be recognized in relation to them.
4. Impairment (IAS 36)

# Similarities between US GAAP and IAS 16

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- **Similar with respect to**
  - **timing,**
  - **initial recognition,**
  - **choice of depreciation methods,**
  - **changes in estimates of residual value or useful life**

# Major difference between US GAAP and IAS16

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- **Measurement subsequent to the initial recognition**
- IAS 16 permits two accounting models
  - Cost model (same as US GAAP)
  - Revaluation model (Not allowed in US GAAP)

## Cost Model.

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- The asset is carried at cost less accumulated depreciation and impairment.

# Revaluation Model.

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- The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation,
  - provided that fair value can be measured reliably.
- Revaluation carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.

## Revaluation of entire class of assets required (no cherry picking)

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- If an item is revalued, the entire class of assets to which that asset belongs should be revalued.
- Revalued assets are depreciated in the same way as under the cost model

## If a revaluation results in an increase in value...

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- The surplus amount is credited to equity under the heading "revaluation surplus"
- If it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, then it should be recognized as income.

If revaluation results in a decrease in value...

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- Recognize as expense to the extent that it exceeds any amount previously credited to “revaluation surplus” account.

## Disposal of assets when a company uses revaluation method

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- When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under that heading.

## revaluation surplus.

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- The transfer to retained earnings can't be made through the income statement (that is, no "recycling" through profit or loss). [IAS 16.41]

## Example:

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- [IAS 16 Example of accounting for accumulated depreciation.doc](#)

# Depreciation (Cost and Revaluation Models)

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- The depreciable amount (cost less prior depreciation, impairment, and residual value) allocated on a systematic basis over the asset's useful life.
- The residual value and the useful life of an asset to be reviewed at least at each financial year-end
- If expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under IAS 8.

# Impairment testing: Recoverability of the Carrying Amount

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- IAS 36 requires impairment testing and, if necessary, recognition for property, plant, and equipment.
- An item of property, plant, or equipment shall not be carried at more than recoverable amount.
- Any claim for compensation from third parties for impairment is included in profit or loss when the claim becomes receivable.

## Recoverability test is different from US GAAP

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- **Recoverable amount is fair value less cost to sell (FVLCS), or, value-in-use, whichever is higher.**
- **Recoverable amount = Max {FVLCS, Value-in-use}**

## Fair value less cost to sale (FVLCS)

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- **From active markets if they exist**
- **Best estimate if no active market**
- **Cost to sell are direct costs only**
- **If FVCLS > Carrying value => No impairment**
- **If FVCLS < Carrying value, or, if FVLCS can't be determined, then determine Value-in-use.**

# Value-in-use

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- The **discounted present value** of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.
  - Different from US GAAP.
- Value-in-use calculated only if
  - FVLCS can't be determined, or
  - if FVLCS is less than carrying value.

# Guidance on estimating Value-in-use

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- **Use budgets and forecasts for projected cash flows for up to five years.**
- **For estimates of cash flows beyond five years, extrapolate budgets and forecasts**

Reversal of impairment loss is permitted!

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- **Impairment can be reversed [IAS 36.111], unlike US GAAP.**
- **Impairment reversal can't exceed:**
  - **What the carrying value would have been, had no impairment taken place.**
- **Not permitted:**
  - **Reversal due to unwinding of time-value of money is not permitted.**

# Additional disclosures if revaluation method is used

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- the effective date of the revaluation
- whether an independent valuer was involved
- the methods and significant assumptions used in estimating fair values
- Methods used to determine recoverable amount
- the carrying amount that would have been recognized had the assets been carried under the cost model
- the revaluation surplus, including changes during the period and distribution restrictions.