IFRS: Accounting for Property Plant and Equipment
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Applicable IFRSs

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

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

- 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

- 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.

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

• 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)

- 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...

- 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...

- 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

- 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.

- 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:

- IAS 16 Example of accounting for accumulated depreciation.doc
Depreciation (Cost and Revaluation Models)

- 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

- 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

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

- 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

- 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

- 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!

- 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

- 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.