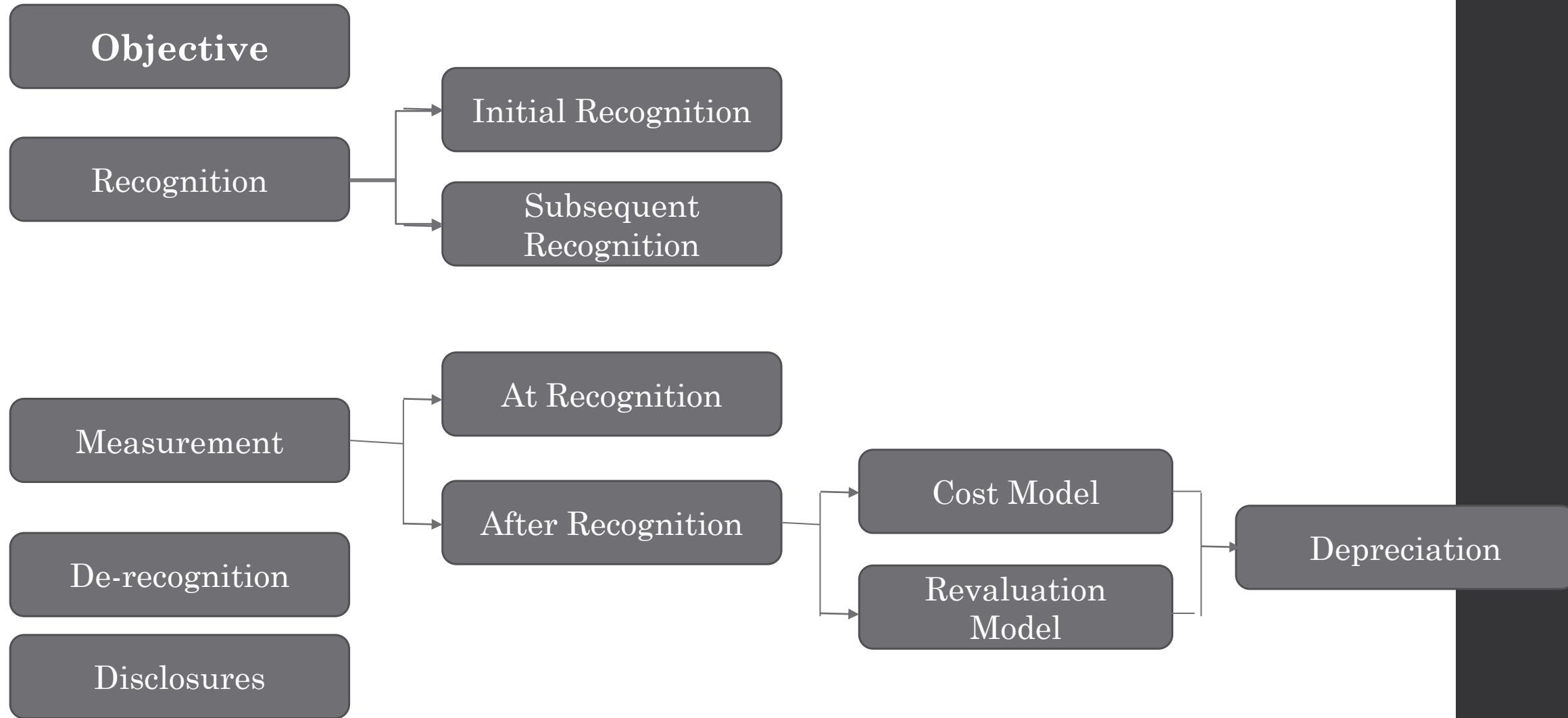


LAS-16

Property, Plant and Equipment(PPE)

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Overview of this session



Objectives

The objective of IAS 16 is to prescribe the accounting treatment for tangible non-current assets, collectively referred to as property, plant, and equipment (PPE).

Scope

This Standard Shall be applied in accounting for PPE except when another standard requires / permits different accounting treatment

Scope Exception:

- PPE which has been classified as Held For Sale – Ind AS 2
- Biological assets related to agricultural activity – Ind AS 41
- Exploration and evaluation assets – Ind AS 106
- Mineral rights and Mineral reserves such as oil & non generative resources

Definitions

- **PPE (IND AS 16)**

All tangible Items that are

- Held for the purpose of

Production or Supply of goods and services; or

for rental to others; or

for other administrative purposes; and

- Expected to be used during more than one period.

DEPRECIABLE AMOUNT

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

Carrying Amount

Amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses

Residual value

Estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal.

Recognition criteria

Recognition criteria of an asset

An item of property, plant and equipment should be recognised as an asset when:

- ❑ it is probable that future economic benefits associated with the asset will flow to the entity; and
- ❑ the cost of the asset can be measured reliably

Measurement at Recognition – At Cost

- An item of PPE that qualifies for recognition as an asset should be measured at its cost.

Hence, the initial cost of an item of property, plant, and equipment (PPE) includes the following **three elements**

- ❑ Purchase price excluding trade discounts and rebates **plus** irrecoverable taxes
- ❑ **plus** any direct attributable cost to bringing the asset into working condition for its intended use
- ❑ **plus** dismantling, removal cost.

■ **Directly attributable costs**

- ✓ Site preparation and clearance costs
- ✓ Installation, assembling and testing costs
- ✓ Professional fees, e.g. legal, architect fees
- ✓ Direct labour cost of self-produced assets, but exclude any abnormal costs such as wastage, mistakes and errors.

Dismantling and removal cost

Estimated cost of leaving the land in the condition as it was acquired

Subsequent Measurement

- **1. COST MODEL**
- **2. REVALUATION MODEL**

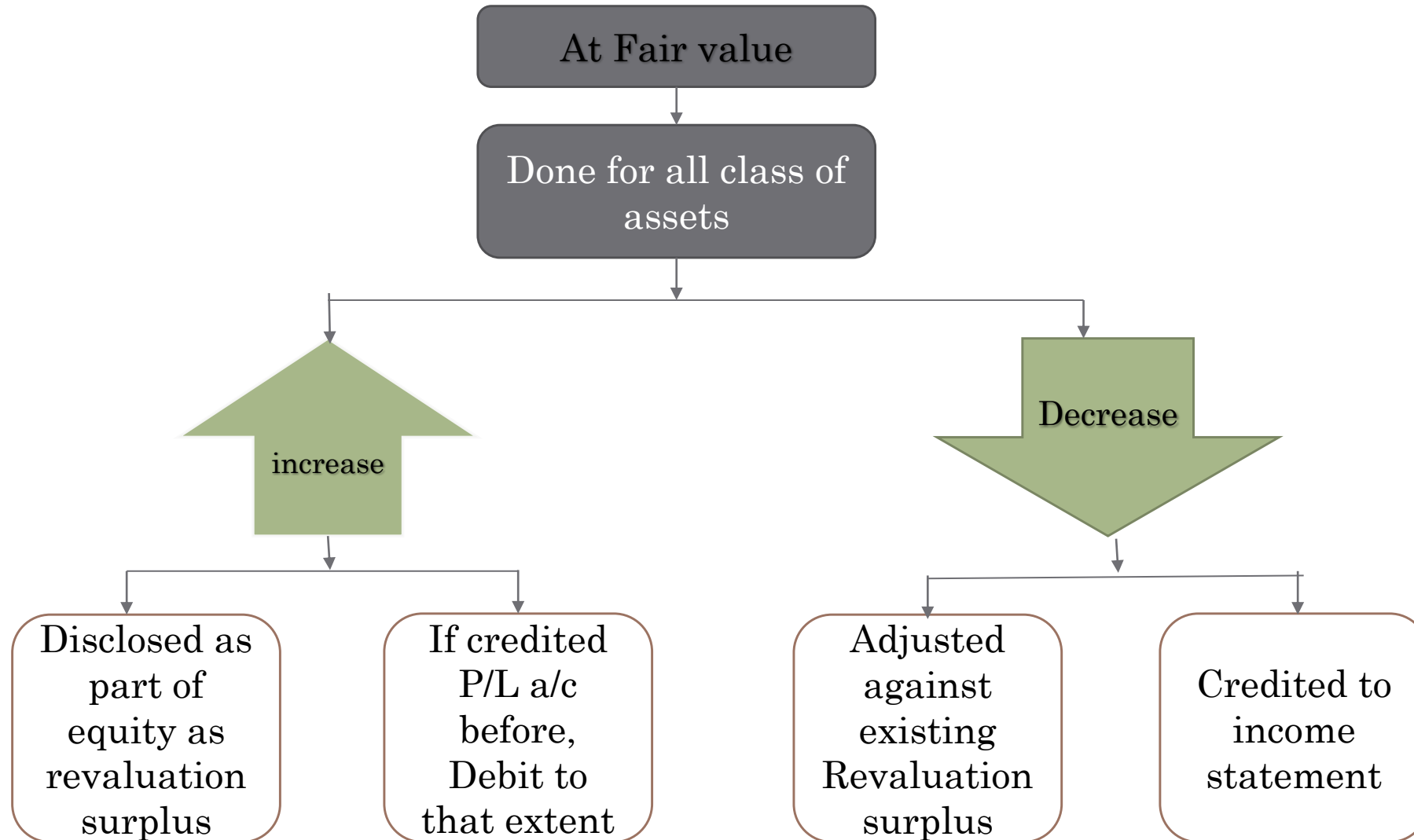
COST MODEL

- **Cost-accumulated
Depreciation-accumulated
Impairment Losses**

REVALUATION MODEL

- FAIR VALUE-ACCUMULATED
DEPRECIATION-ACCUMULATED
IMPAIRMENT LOSSES

Revaluation Model



Depreciation

- Systematic allocation of the depreciable amount of an asset over its useful life.
- Depreciable Amount = Cost – Residual Value
- Useful Life = Period or Production
- Systematic Basis = Depreciation Method (SLM, WDV or Units)
- Residual value and useful life to be reviewed at end of each financial year

Depreciation (conti)

Component Approach

- ◦ Each part of an item of PPE with a cost that is significant to total cost shall be depreciated separately.
- ◦ An entity shall allocate total cost to significant parts of an asset and depreciates separately each such part.
- ◦ More than one significant parts can have same useful life and depreciation method such parts may be grouped in determining the depreciation charge.

Depreciation (conti)

- The depreciation charge for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset”.
- Depreciation begins when the asset is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

De-recognition

- Upon disposal (Sold or Entering into Finance Lease) OR
- When no future economic benefits are expected from its use or disposal

Resultant gain or loss is included in the profit and loss statement.

Disclosures

- basis for measuring carrying amount –Cost or Revaluation
- ◦ depreciation method(s) used
- ◦ useful lives or depreciation rates
- ◦ gross carrying amount and accumulated depreciation and impairment losses
- ◦ Additions / disposals
- ◦ Acquisitions through business combinations
- ◦ Revaluation increases or decreases
- ◦ Impairment losses / reversals of impairment losses
- ◦ Depreciation
- ◦ Net foreign exchange differences on translation
- ◦ Other movements