

IPSAS 17 PROPERTY PLANT & EQUIPMENT

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Introduction

- Objective of IPSAS 17
- Principal issues

Objective of IPSAS 17

- To prescribe the accounting treatment for PPE so that users of FS can discern information about an entity's investment in its PPE and any changes in such investments.

- Principal issues
 - recognition of the assets
 - Determination of their carrying amounts
 - Depreciation charges
 - Impairment losses to be recognized in relation to the assets

IPSAS 17

- i. Definition**
- ii. Recognition Criteria**
- iii. Measurement**
 - *Initial*
 - *Subsequent*
- iv. Disclosure**

Definition

- **PPE are tangible items that:**
 - **Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**
 - **Are expected to be used during more than one reporting period.**

Scope

- *Property, plant and equipment including:*
 - *Specialist military equipment*
 - *Infrastructure assets*
 - *Heritage assets*
 - *Service concession arrangement assets*
(IPSAS 32)

Recognition Criteria

An item of PPE should be recognized as an asset only if

- *It is probable that future economic benefits or service potential associated with the asset will flow to the enterprise; and*
- *the cost or fair value of the asset can be measured reliably.*

Recognition

Initial – at cost

Note - acquisition of items that generate future economic benefits indirectly (= PPE)

Subsequent Costs

Recognize cost of PPE if recognition criteria met

Costs of day-to-day servicing (repairs & maintenance) of PPE are not recognized as cost of PPE

Note: Major Inspection Costs (aircraft) is recognized as cost of PPE

Example

The costs incurred were as follows:

	RM'000
Invoice price	2,500
Installation costs	25
Cost of site preparation	30
Testing costs	25
Import duties	50

Trade discount of RM20,000. Sale of samples produced when testing the machine for RM5,000. Dismantling costs RM50,000.

Initial Costs

	RM'000	RM'000
Invoice price		2,500
Trade discounts		(20)
Installation costs		25
Cost of site preparation		30
Testing costs	25	
Proceeds from the sale of sample	(5)	20
Import duties		50
Dismantling costs		30
		<hr/> 2,635

Measurement

- i. Initial – At cost
(note: asset acquired through non- exchange transaction is measured at FV at acquisition date) .
- ii. Subsequent
 - Cost Model (at cost less accumulated depreciation and any accumulated impairment losses)
 - Revaluation Model (at revalued amount, fair value at revaluation date, less subsequent acc depreciation and subsequent acc impairment losses)

Revaluation Model

Accounting treatment of revaluation surplus and deficit

Initial

Surplus – recognise directly to revaluation reserve
(transfer to retained earnings in each period)
Deficit – recognise as expense

Subsequent

Surplus or Deficit – reverse previous deficit or surplus
where applicable

Example

In 20x1, IPTA A bought a piece of freehold land for RM110 million.

In line with the volatile changes in the fair value of the land, the company revalues the land annually.

In 20x2, the property market was good and as a result, the building was revalued to RM130 million.

In 20x3, the property market crashed and the building was revalued to RM105 million. In 20x4, the property market experienced a turnaround and the piece of land was revalued to RM135 million.

Date	Particulars	RM'000 Debit	RM'000 Credit
20x1	Land Cash (Land purchased recorded at cost at initial recognition)	110,000	110,000
20x2	Land Asset revaluation reserve (Revaluation surplus on land revalued)	20,000	20,000
20x3	Revaluation reserve Income statement Land (Deficit on revaluation reversed to the revaluation reserve and the balance recognised in income statement)	20,000 5,000	25,000
20x4	Land Income statement Asset revaluation reserve (Surplus on revaluation reversed to the income statement and the balance recognised in surplus on revaluation account)	30,000	5,000 25,000

REVALUATION MODEL

Realisation of Reserves

The surplus on revaluation may be realised on disposal or retirement of a revalued asset. When this happens, the balance in the revaluation reserve will be transferred directly to the ***retained earnings***.

Part of the reserve may be realised and transferred to retained earnings during the period when the asset is ***used*** by the entity.

REVALUATION MODEL

If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.

Examples of a grouping of assets of a similar nature or function in an entity's operations as separate classes:

- (a) Land;
- (b) Operational buildings;
- (c) Roads;
- (d) Machinery;
- (e) Electricity transmission networks;
- (f) Ships;
- (g) Aircraft;
- (h) Specialist military equipment; (i) Motor vehicles;
- (j) Furniture and fixtures; (k) Office equipment; and (l) Oil rigs.

Others

- Depreciation – per item, each part of an item of PPE.
- Impairment – IPSAS 21 *and* IPSAS 26
- *Derecognition of assets*
 - *On disposal*

 - *When no future economic benefits are expected from its use or disposal*
- Disclosure

Disclosure for Each Class of PPE

- a. The measurement bases used for determining the gross carrying amount;
- b. The depreciation methods used;
- c. The useful lives or the depreciation rates used;
- d. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

Disclosure for Each Class of PPE

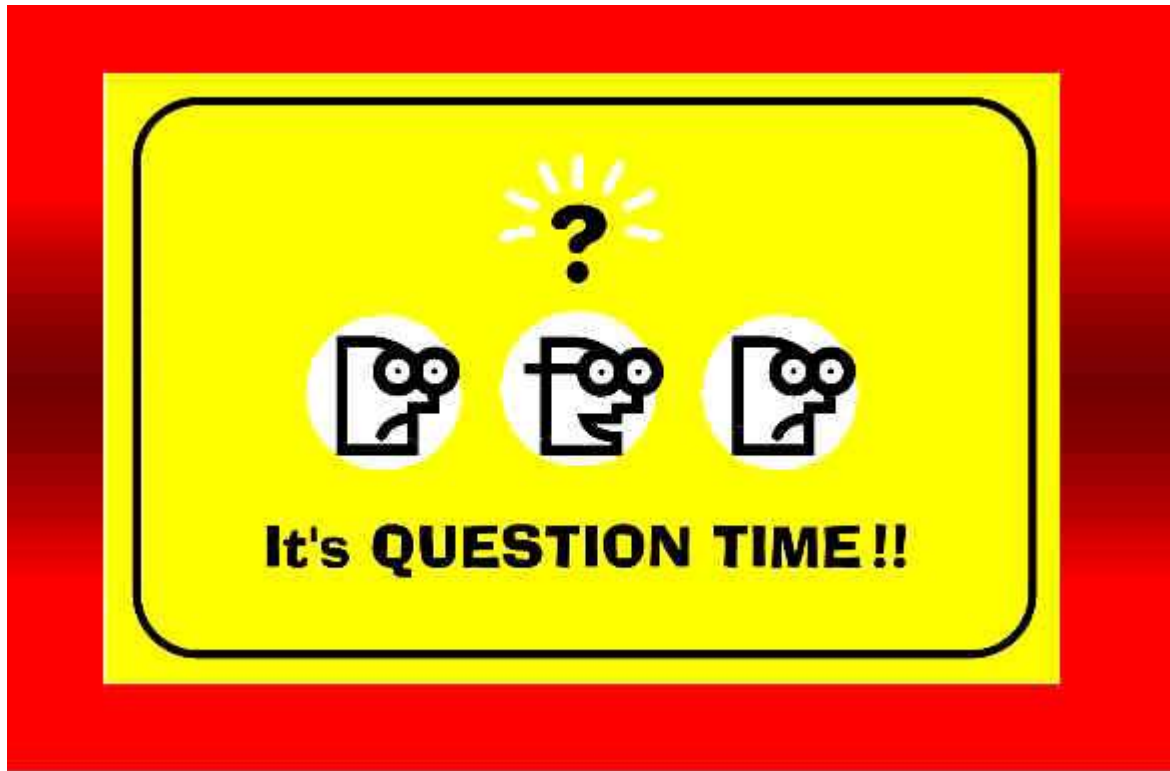
- e. A reconciliation of the carrying amount at the beginning and end of the period showing:
- (i) Additions;
 - (ii) Disposals;
 - (iii) Acquisitions through entity combinations;
 - (iv) Increases or decreases resulting from revaluations

Disclosure for Each Class of PPE

- (v) Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;
- (vi) Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;
- (vii) Depreciation;
- (viii) The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
- (ix) Other changes.

Summary and Conclusions

- ✓ Opportunity to create PPE register (recognition of PPE item)
- ✓ Enhanced accountability re management of assets
- ✓ Managing PPE strategies – balancing current financial position and future financial performance
- ✓ Transition provisions – exemptions and opportunities
- ✓ Convergence strategy for PPE



Thank you

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