CHAPTER 3
IAS 16
PROPERTY, PLANT AND EQUIPMENT

LEARNING OBJECTIVES

1. Definition
2. Recognition
3. Initial Measurement
4. Subsequent Expenditure
5. Subsequent Measurement
6. Depreciation

1. IAS 16 Property, plant and equipment

Definition:

Property, plant and equipment are tangible assets held by an entity for more than one accounting period for use in the production or supply of goods or services, for rental to others, or for administrative purchases.

Recognition:

- Cost of asset can be reliably measured
- Probable that future economic benefits associated with the assets will flow to the entity

Initial measurement:

✓ **Purchase price-**Price, Import duties, Non-refundable purchase taxes LESS Trade discounts/rebates

✓ **Directly attributable costs:** Site preparation, Delivery/handling, Testing and Professional fees

✓ **Other costs:** Estimate of dismantling/removal costs and site restoration (IAS 37) and Finance costs (IAS 23)

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Subsequent expenditure:

Same criteria as initial costs. Otherwise do not capitalise but charge to profit or loss. E.g the cost of an extension to a building should be capitalised (capital expenditure) as economic benefits will increase with greater space.

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Subsequent measurement:

IAS 16 allows a choice of accounting treatment for property, plant and equipment:

i. **Cost model-**

Cost less accumulated depreciation and accumulated impairment losses

ii. **Revaluation model-**

- ✓ Revalued amount (fair value at the date of revaluation) less subsequent accumulated depreciation and impairment Losses
- ✓ Revalue sufficiently regularly so carrying amount not materially different from fair Value
- ✓ All items of same class should be revalued

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Depreciation:

- Systematic basis over useful life reflecting pattern of use of asset's economic benefits

- Periodic review of useful life and depreciation method and any change accounted for as change in accounting estimate

Please See examples next documents.