



**IFRS AT A GLANCE**  
**IAS 16 *Property, Plant and Equipment***



# IAS 16 Property Plant and Equipment

## RECOGNITION AND MEASUREMENT

### Recognise when it is:

- ▶ Probable that the future economic benefits associated with the asset will flow to the entity; and
- ▶ The cost of the asset can be reliably measured.

### Measurement:

- ▶ Initially recorded at cost
- ▶ Subsequent costs are only recognised if costs can be reliably measured and these will lead to additional economic benefits flowing to the entity.

### Cost comprises:

- ▶ Purchase price plus import duties and taxes
- ▶ Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management
- ▶ The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

## SUBSEQUENT MEASUREMENT

### THE COST MODEL

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

### Depreciation

- ▶ The depreciable amount is allocated on a systematic basis over the asset's useful life
- ▶ The residual value, the useful life and the depreciation method of an asset are reviewed annually at reporting date
- ▶ Revenue based depreciation is prohibited.
- ▶ Depreciation method reflects the pattern in which future economic benefits are expected to be consumed.
- ▶ Changes in residual value, depreciation method and useful life are changes in estimates are accounted for prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- ▶ Depreciation is charged to profit or loss, unless it is included in the carrying amount of another asset
- ▶ Depreciation commences when the asset is available for use.

### THE REVALUATION MODEL

The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation, provided that fair value can be measured reliably.

- ▶ Revaluations should be carried out regularly (the carrying amount of an asset should not differ materially from its fair value at the reporting date - either higher or lower)
- ▶ Revaluation frequency depends upon the changes in fair value of the items measured (annual revaluation for volatile items or intervals between 3 - 5 years for items with less significant changes)
- ▶ If an item is revalued, the entire class of assets to which that asset belongs is required to be revalued
- ▶ Revalued assets are depreciated the same way as under the cost model
  - The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses
  - Accumulated depreciation is eliminated against the gross carrying amount.
- ▶ Transfer between reserves - depreciation on revaluation amount
- ▶ An increase in value is credited to other comprehensive income under the heading revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in this case the increase in value is recognised in profit or loss.



# IAS 16 *Property Plant and Equipment*

## SUBSEQUENT MEASUREMENT (continued)

### OTHER

#### Component accounting

- ▶ Significant parts/components are required to be depreciated over their estimated useful life
- ▶ Costs of replacing components are required to be capitalised
- ▶ Continued operation of an item of property, plant and equipment (PPE) may require regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied.

#### Spare parts, stand-by or servicing equipment

- ▶ Are classified as PPE when they meet the definition of PPE, and are classified as inventory when definition is not met.

#### Disposals

- ▶ Remove the asset from the statement of financial position on disposal or when withdrawn from use and no future economic benefits are expected from its disposal
- ▶ The gain or loss on disposal is the difference between the proceeds and the carrying amount and is recognised in profit or loss
- ▶ When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings. The transfer to retained earnings is not made through profit or loss.

### DISCLOSURE

Disclosures include but are not limited to (refer to paragraphs 73 - 79):












- ▶ Measurement bases used for determining the gross carrying amount
- ▶ Depreciation methods used
- ▶ Useful lives or the depreciation rates used
- ▶ Gross carrying amount and the accumulated depreciation at the beginning and end of the period
- ▶ A reconciliation of the carrying amount at the beginning and end of the period showing:
  - ▶ additions / assets classified as held for sale or included in a disposal group classified as held for sale / other disposals / acquisitions through business combinations / changes resulting from revaluations and from impairment losses recognised or reversed in other comprehensive / impairment losses recognised in profit or loss / impairment losses reversed in profit or loss / depreciation / exchange differences / other changes.
  - ▶ Existence and amounts of restrictions on title, and PPE pledged as security for liabilities
  - ▶ Contractual commitments for the acquisition of PPE.

# Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit [www.bdo.global](http://www.bdo.global) where you can find full lists of regional and country contacts.



## EUROPE

Anne Catherine Farlay	 France	<a href="mailto:annecatherine.farlay@bdo.fr">annecatherine.farlay@bdo.fr</a>
Jens Freiberg	 Germany	<a href="mailto:jens.freiberg@bdo.de">jens.freiberg@bdo.de</a>
Teresa Morahan	 Ireland	<a href="mailto:tmorahan@bdo.ie">tmorahan@bdo.ie</a>
Ehud Greenberg	 Israel	<a href="mailto:ehudg@bdo.co.il">ehudg@bdo.co.il</a>
Stefano Bianchi	 Italy	<a href="mailto:stefano.bianchi@bdo.it">stefano.bianchi@bdo.it</a>
Roald Beumer	 Netherlands	<a href="mailto:roald.beumer@bdo.nl">roald.beumer@bdo.nl</a>
Reidar Jensen	 Norway	<a href="mailto:reidar.jensen@bdo.no">reidar.jensen@bdo.no</a>
Leonid Sidelkovskiy	 Russia	<a href="mailto:L.Sidelkovskiy@bdo.ru">L.Sidelkovskiy@bdo.ru</a>
David Cabaleiro	 Spain	<a href="mailto:david.cabaleiro@bdo.es">david.cabaleiro@bdo.es</a>
René Füglistner	 Switzerland	<a href="mailto:rene.fueglistner@bdo.ch">rene.fueglistner@bdo.ch</a>
Moses Serfaty	 United Kingdom	<a href="mailto:moses.serfaty@bdo.co.uk">moses.serfaty@bdo.co.uk</a>




## SUB SAHARAN AFRICA



Theunis Schoeman	 South Africa	<a href="mailto:tschoeman@bdo.co.za">tschoeman@bdo.co.za</a>
------------------	--	--

## NORTH AMERICA & CARIBBEAN







Armand Capisciolto	 Canada	<a href="mailto:acapisciolto@bdo.ca">acapisciolto@bdo.ca</a>
Wendy Hambleton	 USA	<a href="mailto:whambleton@bdo.com">whambleton@bdo.com</a>


## LATIN AMERICA

Marcello Canetti	 Argentina	<a href="mailto:mcanetti@bdoargentina.com">mcanetti@bdoargentina.com</a>
Victor Ramirez	 Colombia	<a href="mailto:vramirez@bdo.com.co">vramirez@bdo.com.co</a>
Ernesto Bartesaghi	 Uruguay	<a href="mailto:ebartesaghi@bdo.com.uy">ebartesaghi@bdo.com.uy</a>

Arshad Gadit	 Bahrain	<a href="mailto:arshad.gadit@bdo.bh">arshad.gadit@bdo.bh</a>
Antoine Gholam	 Lebanon	<a href="mailto:agholam@bdo-lb.com">agholam@bdo-lb.com</a>

## ASIA PACIFIC

Aletta Boshoff	 Australia	<a href="mailto:aletta.boshoff@bdo.com.au">aletta.boshoff@bdo.com.au</a>
Hu Jian Fei	 China	<a href="mailto:hu.jianfei@bdo.com.cn">hu.jianfei@bdo.com.cn</a>
Fanny Hsiang	 Hong Kong	<a href="mailto:fannyhsiang@bdo.com.hk">fannyhsiang@bdo.com.hk</a>
Pradeep Suresh	 India	<a href="mailto:pradeepsuresh@bdo.in">pradeepsuresh@bdo.in</a>
Khoon Yeow Tan	 Malaysia	<a href="mailto:tanky@bdo.my">tanky@bdo.my</a>
Ng Kian Hui	 Singapore	<a href="mailto:kianhui@bdo.com.sg">kianhui@bdo.com.sg</a>



This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BV, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium with its statutory seat in Zaventem.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BV, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2021 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

[www.bdo.global](http://www.bdo.global)