



LKAS 16 - Property, Plant and Equipment

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The standard shall not be applicable for:

- **Non current assets held for sale (SLFRS 5)**
- **Discontinued operations (SLFRS 5)**
- **Biological assets (LKAS 41)**
- **Exploration of mineral assets (SLFRS 6)**
- **Mineral rights and reserves such as oil, gas**

The standard shall be applied in accounting for PPE



Recognition:

- **It is probable that future economic benefits associated with the item will flow to the entity and**
- **The cost of the item can be measured reliably**

Both the above conditions should be met in order to recognise an item as an asset

Measurement at recognition:

- **An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at cost.**

PPE will be initially measured at cost.

Elements of cost:

- **Purchase price and related taxes and duties**
- **Any cost directly attributable to bringing the asset to the location and the condition**
- **Initial estimate of the costs of dismantling and removing the item and restoring the site**

Correctly identified elements of cost can be included in the cost of an asset

Directly attributable costs:

- **Costs of employee benefits arising due to construction**
- **Costs of site preparation**
- **Initial delivery costs**
- **Installation costs**
- **Costs of testing**
- **Professional fees**

Directly attributable fees can be capitalised

Indirect costs which cannot be included:

- **Costs of opening new facility**
- **Costs of introducing a new product**
- **Costs of conducting business in a new location**
- **Admin costs**

Indirect costs should be charged to income statement

Other costs which cannot be included:

- **Costs of running a plant at less than full capacity**
- **Initial operating losses**
- **Costs of re-locating**

Start-up costs should be charged to income statement

Measurement of costs:

- **The cost of an item of PPE is the cash price equivalent at the recognition date**
- **Specific borrowing costs should be capitalised in line with LKAS 23**

Cash price should be identified at the time of recognition

Measurement after recognition:

- 1. Cost model**
- 2. Re-valuation model**

Cost model or re-valuation model should be selected for measurement after recognition

Cost model:

- After recognition as an asset, an item of PPE should be carried at cost less accumulated depreciation and any accumulated impairment losses**

An asset is carried at cost less accumulated depreciation and impairment losses

Re-valuation model :

- **After recognition as an asset, an item of PPE whose fair value can be measured reliably shall be carried at a revalued amount (being its fair value at the date of the re-valuation) less accumulated depreciation and any accumulated impairment losses**

An asset is carried at fair value less accumulated depreciation and impairment losses

Re-valuation model:

- **Revaluations shall be made with sufficient regularity**
- **Land and buildings - market based evidence**
- **Assets with no market based evidence – use income or depreciated replacement cost method**
- **General rule of frequency is 3-5 years**

Where possible use market based evidence and re-value every 3-5 years

Depreciation:

- **Significant components should be depreciated separately**
- **Useful life should be determined**
- **Land and buildings are separable assets**

Significant components should be separately identified

Depreciation:

- **Residual value should be determined**
- **Depreciation starts when asset is ready for use**

Determine appropriate depreciation policy and rates

Depreciation amount:

- **Depreciation charge should be included in income**
- **Depreciable amount should be allocated on a systematic basis over its useful life**
- **Residual value and useful life should be reviewed annually**

Depreciation is a charge against income

Impairment:

- **Apply LKAS 36 to determine an assets is impaired**
- **Compensation for impairment shall be recognised when compensation becomes receivable**

Determine impairment using LKAS 36

De-recognition:

- **On disposal**
- **When there is no future economic benefit**

Gain or loss on de-recognition shall be included in income

Gains shall not be recognised as revenue

Apply de-recognition policy appropriately

Disclosure:

- **Detailed disclosure is required for each class of PPE**
- **The existence and restrictions on title**
- **Value of assets under construction**
- **Contractual commitments**
- **Compensation received and receivable**

Detailed disclosure is required



Disclosures for each class of assets:

- **Measurement bases to determine gross amount**
- **Depreciation methods**
- **Useful lives or depreciation rates**
- **Gross carrying amount b/f and c/f**
- **Reconciliation of carrying amount b/f and c/f**
- **Revaluations and Impairment losses**
- **Depreciation**
- **Net exchange differences**

Detailed disclosure is required

Thank you.