



## IAS 16 Property, plant and equipment

IAS 16 should be followed when accounting for **property, plant and equipment** unless another international accounting standard requires a different treatment.

IAS 16 does not apply to the following.

- (a) Biological assets related to agricultural activity, apart from bearer biological assets (see below)
- (b) Mineral rights and mineral reserves, such as oil, gas and other non-regenerative resources

However, the standard applies to property, plant and equipment used to develop these assets.



## Definition of PPE

Property, plant and equipment are tangible assets that:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes
- Are expected to be used during more than one period



## Recognition of PPE

The recognition of property, plant and equipment depends on two criteria:

- (a) It is **probable that future economic benefits** associated with the asset will flow to the entity
- (b) The cost of the asset to the entity can be **measured reliably**



# Initial measurement

## Components of cost

Purchase price, less any trade discount or rebate

- Import duties and non-refundable purchase taxes
- Directly attributable costs of bringing the asset to working condition for its intended use, eg:
  - ✓ The cost of site preparation
  - ✓ Initial delivery and handling costs
  - ✓ Installation costs
  - ✓ Testing
  - ✓ Professional fees (architects, engineers)
- Initial estimate of the unavoidable cost of dismantling and removing the asset and restoring the site on which it is located



## Initial measurement

- Initial estimate of the unavoidable cost of dismantling and removing the asset and restoring the site on which it is located

Dr PPE       XXX  
    Cr Provision XXX

Use present value of dismantling cost



## Initial measurement

On 1 October 20X3 Xplorer commenced drilling for oil from an undersea oilfield. The extraction of oil causes damage to the seabed which has a restorative cost (ignoring discounting) of \$10,000 per million barrels of oil extracted. Xplorer extracted 250 million barrels in the year ended 30 September 20X4.

Xplorer is also required to dismantle the drilling equipment at the end of its five year licence. This has an estimated cost of \$30 million on 30 September 20X8. Xplorer's cost of capital is 8% per annum and \$1 has a present value of 68 cents in five years' time.

What is the total provision (extraction plus dismantling) which Xplorer would report in its statement of financial position as at **30 September 20X4** in respect of its oil operations?



## subsequent expenditure

Expenditure incurred in replacing or renewing a component of an item of property, plant and equipment must be recognised in the carrying amount of the item. The carrying amount of the replaced or renewed component must be derecognised.



## subsequent measurement

### Revaluation surplus

IAS 16 requires the increase to be credited to a revaluation surplus (ie part of owners' equity), unless the increase is reversing a previous decrease which was recognised as an expense. To the extent that this offset is made, the increase is recognised as income; any excess is then taken to the revaluation surplus.

The credit to the revaluation surplus will be shown under 'other comprehensive income'.





## subsequent measurement

### Depreciation

- The **depreciable amount** of an item of property, plant and equipment should be allocated on a systematic basis over its useful life.
- The **depreciation method** used should reflect the pattern in which the asset's economic benefits are consumed by the entity.
- The **depreciation charge** for each period should be recognised as an expense unless it is included in the carrying amount of another asset.

## ACCAspace F7 Note

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1. Please try to define the following concepts

Property, plant and equipment  
depreciable amount  
depreciation method  
depreciation charge

2. The recognition of property, plant and equipment depends on two criteria:

- a)
- b)