ACCAspace

Professional Accounting Education

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ACCA Research Institute

ACCA F7

Financial Reporting(INT.)

Chapter 2 Tangible Asset

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Tangible assets

1 **IAS 16 PP&E**

2 **Depreciation**

3 **IAS 40 Investment property**

3 **IAS 23 Borrowing cost**

IAS 16 Property,plant and equipment

Definition

Property, plant and equipment (IAS 16)

Property, plant and equipment are tangible items that:

(a) Are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) Are expected to be used during more than one period.

Recognition

Property, plant and equipment are recognised when the *Conceptual Framework* recognition criteria are met:

- It is **probable** that future economic benefits that are attributable to the asset will flow to the entity; and
- The cost of the asset can be **reliably measured.**

IAS 16 Property,plant and equipment

Initial Measurement :at cost

Purchase price

+direct attributable cost : delivery , installation

+cost of dismantling and removing

IAS 16 Property,plant and equipment

Subsequent measurement

Cost model:Cost-accumulated depreciation-impairment loss

Revaluation model:FV-accumulated dep.-I.L.

IAS 16 Property,plant and equipment

Binkie Co has an item of land carried in its books at $13,000. Two years ago a slump in land values led the company to reduce the carrying value from $15,000. This was taken as an expense in profit or loss. There has been a surge in land prices in the current year, however, and the land is now worth $20,000.

Account for the revaluation in the current year.

IAS 16 Property,plant and equipment

Let us simply swap round the example given above. The original cost was $15,000, revalued upwards to $20,000 two years ago. The value has now fallen to $13,000.

Account for the decrease in value.

Depreciation

Straight line method:

IAS 16 Property,plant and equipment

A lorry bought for a business cost $17,000. It is expected to last for five years and then be sold for scrap for $2,000. Usage over the five years is expected to be:

Year 1	200 days
Year 2	100 days
Year 3	100 days
Year 4	150 days
Year 5	40 days

- *Required*
- Work out the depreciation to be charged each year under:

IAS 16 Property,plant and equipment

(a) The straight line method

(b) The reducing balance method (using a rate of 35%)

(c) The machine hour method

(d) The sum-of-the digits method

IAS 16 Property,plant and equipment

IAS 16 Property,plant and equipment

IAS 40 Investment property

Investment property is property (land or building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

(a) Use in the production or supply of goods or services or for administrative purposes; or

(b) Sale in the ordinary course of business.

IAS 40 Investment property

Initial measurement

At cost

Subsequent measurement(FV model & cost model)

Cost model

The cost model of IAS 16 is applied, i.e. cost less accumulated depreciation and impairment losses.

FV model
Not depreciation.

IAS 23 Borrowing cost

Borrowing cost

IAS 23 borrowing costs :The interest expense can be capitalised as cost to the building.

IAS 23 Borrowing Costs

When

Start capititalisation: 1:start building

2.borrowing cost incurred

3.buy something

later

IAS 23 Borrowing Costs

Kaplow purchased a machine for $30,000 on 1 January 20X5 and assigned it a useful life of 12 years. On 31 March 20X7 it was revalued to $32,000 with no change in useful life.

What will be depreciation charge in relation to this machine in the financial statements of Kaplow for the year ending 31 December 20X7?

A $3,087
B $2,462
C $2,500
D $3,200

IAS 23 Borrowing Costs

Carter vacated an office building and let it out to a third party on 30 June 20X8. The building had an original cost of $900,000 on 1 January 20X0 and was being depreciated over 50 years. It was judged to have a fair value on 30 June 20X8 of $950,000. At the year end date of 31 December 20X8 the fair value of the building was estimated at $1.2 million.

Carter uses the fair value model for investment property.

What amount will be shown in revaluation surplus at 31 December 20X8 in respect of this building?

A $417,000
B $300,000
C $250,000
D $203,000

IAS 23 Borrowing Costs

A company has the following loans in place throughout the year ended 31 December 20X8.

	$m
10% bank loan	140
8% bank loan	200

On 1 July 20X8 $50 million was drawn down for construction of a qualifying asset which was completed during 20X9.

What amount should be capitalised as borrowing costs at 31 December 20X8 in respect of this asset?

A $5.6 million

B $2.8 million

C $4.4 million

D $2.2 million

IAS 16 Property,plant and equipment

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Thank You!