IAS 16 — Property, Plant and Equipment

Overview

IAS 16 *Property, Plant and Equipment* outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.

IAS 16 was reissued in December 2003 and applies to annual periods beginning on or after 1 January 2005.

History of IAS 16

Date	Development	Comments
August 1980	Exposure Draft E18 *Accounting for Property, Plant and Equipment in the Context of the Historical Cost System* published	
March 1982	IAS 16 *Accounting for Property, Plant and Equipment* issued	Operative for financial statements covering periods beginning on or after 1 January 1983
1 January 1992	Exposure Draft E43 *Property, Plant and Equipment* published	
December 1993	IAS 16 *Property, Plant and Equipment* issued	Operative for financial statements

	(revised as part of the 'Comparability of Financial Statements' project)	covering periods beginning on or after 1 January 1995
April and July 1998	Amended to be consistent with IAS 22, IAS 36 and IAS 37	Operative for annual financial statements covering periods beginning on or after 1 July 1999
18 December 2003	IAS 16 *Property, Plant and Equipment* issued	Effective for annual periods beginning on or after 1 January 2005
22 May 2008	Amended by *Improvements to IFRSs* (routine sales of assets held for rental)	Effective for annual periods beginning on or after 1 January 2009
17 May 2012	Amended by *Annual Improvements 2009-2011 Cycle* (classification of servicing equipment)	Effective for annual periods beginning on or after 1 January 2013
12 December 2013	Amended by *Annual Improvements to IFRSs 2010–2012 Cycle* (proportionate restatement of accumulated depreciation under the revaluation method)	Effective for annual periods beginning on or after 1 July 2014
12 May 2014	Amended by *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)*	Effective for annual periods beginning on or after 1 January 2016
30 June 2014	Amended by *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*	Effective for annual periods beginning on or after 1 January 2016

Related Interpretations

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
- SIC-6 *Costs of Modifying Existing Software*. **SIC-6 was superseded by and**

incorporated into IAS 16 (2003).

- SIC-14 *Property, Plant and Equipment – Compensation for the Impairment or Loss of Items*. **SIC-14 was superseded by and incorporated into IAS 16 (2003).**
- SIC-23 *Property, Plant and Equipment - Major Inspection or Overhaul Costs*. **SIC-23 was superseded by and incorporated into IAS 16 (2003).**

Amendments under consideration by the IASB

- none

Summary of IAS 16

Objective of IAS 16

The objective of IAS 16 is to prescribe the accounting treatment for property, plant, and equipment. The principal issues are the recognition of assets, the determination of their carrying amounts, and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

IAS 16 applies to the accounting for property, plant and equipment, except where another standards requires or permits differing accounting treatments, for example:

- assets classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- biological assets related to agricultural activity accounted for under IAS 41 *Agriculture*
- exploration and evaluation assets recognised in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources*
- mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

The standard does apply to property, plant, and equipment used to develop or maintain the last three categories of assets. [IAS 16.3]

The cost model in IAS 16 also applies to investment property accounted for using the cost model under IAS 40 *Investment Property*. [IAS 16.5]

The standard does apply to bearer plants but it does not apply to the produce on bearer plants. [IAS 16.3]

Note: Bearer plants were brought into the scope of IAS 16 by *Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)*, which applies to annual periods beginning on or after 1 January 2016.

Recognition

Items of property, plant, and equipment should be recognised as assets when it is probable that: [IAS 16.7]

- 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 measured reliably.

This recognition principle is applied to all property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

IAS 16 does not prescribe the unit of measure for recognition – what constitutes an item of property, plant, and equipment. [IAS 16.9] Note, however, that if the cost model is used (see below) each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. [IAS 16.43]

IAS 16 recognises that parts of some items of property, plant, and equipment may require replacement at regular intervals. The carrying amount of an item of property, plant, and equipment will include the cost of replacing the part of such an item when that cost is incurred if the recognition criteria (future benefits and measurement reliability) are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of IAS 16.67-72. [IAS 16.13]

Also, continued operation of an item of property, plant, and equipment (for example, an aircraft) 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 property, plant, and equipment as a replacement if the recognition criteria are satisfied. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed. [IAS 16.14]

Initial measurement

An item of property, plant and equipment should initially be recorded at cost. [IAS 16.15] Cost includes all costs necessary to bring the asset to working condition for its intended use. This would include not only its original purchase price but also costs of site preparation, delivery and handling, installation, related professional fees for architects and engineers, and the estimated cost of dismantling and removing the asset and restoring the site (see IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*). [IAS 16.16-17]

If payment for an item of property, plant, and equipment is deferred, interest at a market rate must be recognised or imputed. [IAS 16.23]

If an asset is acquired in exchange for another asset (whether similar or dissimilar in nature), the cost will be measured at the fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

[IAS 16.24]

Measurement subsequent to initial recognition

IAS 16 permits two accounting models:

- **Cost model.** The asset is carried at cost less accumulated depreciation and impairment. [IAS 16.30]
- **Revaluation model.** The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably. [IAS 16.31]

The revaluation model

Under the revaluation model, revaluations should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date. [IAS 16.31]

If an item is revalued, the entire class of assets to which that asset belongs should be revalued. [IAS 16.36]

Revalued assets are depreciated in the same way as under the cost model (see below).

If a revaluation results in an increase in value, it should be credited to other comprehensive income and accumulated in equity under the heading "revaluation surplus" unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised in profit or loss. [IAS 16.39]

A decrease arising as a result of a revaluation should be recognised as an expense to the extent that it exceeds any amount previously credited to the revaluation surplus relating to the same asset. [IAS 16.40]

When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings, or it may be left in equity under the heading revaluation surplus. The transfer to retained earnings should not be made through profit or loss. [IAS 16.41]

Depreciation (cost and revaluation models)

For all depreciable assets:

The depreciable amount (cost less residual value) should be allocated on a systematic basis over the asset's useful life [IAS 16.50].

The residual value and the useful life of an asset should be reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under IAS 8. [IAS 16.51]

The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the entity [IAS 16.60]; a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. [IAS 16.62A]

Note: The clarification regarding the revenue-based depreciation method was introduced by *Clarification of Acceptable Methods of Depreciation and Amortisation*, which applies to annual periods beginning on or after 1 January 2016.

The depreciation method should be reviewed at least annually and, if the pattern of consumption of benefits has changed, the depreciation method should be changed prospectively as a change in estimate under IAS 8. [IAS 16.61] Expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset. [IAS 16.56]

Note: The guidance on expected future reductions in selling prices was introduced by *Clarification of Acceptable Methods of Depreciation and Amortisation*, which applies to annual periods beginning on or after 1 January 2016.

Depreciation should be charged to profit or loss, unless it is included in the carrying amount of another asset [IAS 16.48].

Depreciation begins when the asset is available for use and continues until the asset is derecognised, even if it is idle. [IAS 16.55]

Recoverability of the carrying amount

IAS 16 *Property, Plant and Equipment* requires impairment testing and, if necessary, recognition for property, plant, and equipment. An item of property, plant, or equipment shall not be carried at more than recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Any claim for compensation from third parties for impairment is included in profit or loss when the claim becomes receivable. [IAS 16.65]

Derecognition (retirements and disposals)

An asset should be removed from the statement of financial position on disposal or when it is 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 should be recognised in profit and loss. [IAS 16.67-71]

If an entity rents some assets and then ceases to rent them, the assets should be transferred to inventories at their carrying amounts as they become held for sale in the ordinary course of business. [IAS 16.68A]

Disclosure

Information about each class of property, plant and equipment

For each class of property, plant, and equipment, disclose: [IAS 16.73]

- basis for measuring carrying amount
- depreciation method(s) used
- useful lives or depreciation rates
- gross carrying amount and accumulated depreciation and impairment losses

- reconciliation of the carrying amount at the beginning and the end of the period, showing:
  - additions
  - disposals
  - acquisitions through business combinations
  - revaluation increases or decreases
  - impairment losses
  - reversals of impairment losses
  - depreciation
  - net foreign exchange differences on translation
  - other movements

Additional disclosures

The following disclosures are also required: [IAS 16.74]

- restrictions on title and items pledged as security for liabilities
- expenditures to construct property, plant, and equipment during the period
- contractual commitments to acquire property, plant, and equipment
- compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in profit or loss.

IAS 16 also encourages, but does not require, a number of additional disclosures. [IAS 16.79]

Revalued property, plant and equipment

If property, plant, and equipment is stated at revalued amounts, certain additional disclosures are required: [IAS 16.77]

- the effective date of the revaluation
- whether an independent valuer was involved
- for each revalued class of property, the carrying amount that would have been recognised had the assets been carried under the cost model
- the revaluation surplus, including changes during the period and any restrictions on the distribution of the balance to shareholders.

> Entities with property, plant and equipment stated at revalued amounts are also required to make disclosures under IFRS 13 *Fair Value Measurement*.

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