

## PROPERTY, PLANT AND EQUIPMENT: ASPE 3061

### Definition

Property, plant and equipment (PPE) are tangible assets that:

- a) are held for use to produce/supply goods and services, for rental to others, or for administrative purposes; and
- b) are expected to be used during more than one period.

### Recognition

The cost of PPE are recognized as assets only when:

- a) probable that future economic benefits associated with the item will flow to the entity; and
  - b) the cost of the item can be measured reliably
- spare parts/servicing equipment = inventory
  - major spare parts/stand-by equipment = PPE when expected to be used more than one period or it can be used only in connection with an item of PPE

### Measurement at recognition

- PPE is initially measured at cost
- Cost includes the following:
  - **Purchase price** import duties and non-refundable taxes, **net of discounts and rebates**
  - Any costs **directly attributable** to bringing the asset to the **location and condition** necessary for it to be capable of operating in the manner intended by management.
  - Estimate costs of dismantling, removing, or restring the site on which the PPE is located (Asset Retirement Obligation)
- **Directly attributable costs** include the following:
  - costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment;
  - costs of site preparation;
  - initial delivery and handling costs;
  - installation and assembly costs;
  - costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
  - professional fees (legal, accounting)
- The cost of each item of PPE as part of a basket purchase is determined by allocating the price paid for the basket to each item on the basis of its relative fair value at the time of acquisition
- the following are **not capitalized**:
  - costs of opening a new facility;
  - costs of introducing a new product or service (including costs of advertising and promotional activities);

- costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- administration and other general overhead costs.
- **Incidental Operations**
  - **Incidental operations** = not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management
  - Net revenue or expense derived from an item of PPE **prior** to substantial completion is capitalized
- **Borrowing Costs**
  - Interest costs directly attributable to a PPE can be capitalized when that PPE is acquired, constructed, or developed over time
  - Capitalizing interest is a policy choice (it is optional)
  - Capitalization of interest stops when PPE is substantially complete and ready for use

### Measurement after recognition

- **Carrying value** = cost less any accumulated depreciation and any accumulated impairment losses

### Deprecation

- **Amortization expense** is the **greater of**:
  - **(Cost – salvage value)/life of asset; and**
  - **(Cost – residual value)/useful life of asset**
    - Life of asset = total life the asset can last (without regard to usefulness to entity)
    - Useful life = period asset will be available for use **or** units expected to be obtained from the asset
    - Salvage value = net realizable value @ end of its life
    - Residual value = net realizable value @ end of useful life
    - The residual value and the useful life of an asset shall be reviewed on a **regular basis** (any changes accounted for as change in estimate)
- Depreciation of an asset begins when it is **available for use**; i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- Depreciation does not stop when the **asset becomes idle or is retired from active use** unless the asset is fully depreciated (when the asset becomes held for sale, depreciation stops)
- Depreciation stops when Carrying Value ≤ Residual Value
- Depreciation methods
  - Depreciation method should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity
  - The depreciation method applied to an asset shall be reviewed at least at each financial year-end and (changes are accounted for as a change in estimate)
  - Examples of methods
    - straight-line method,
    - declining balance method
    - units of production method

### Depreciation of significant components/parts

- Each separable component part of a property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately when:
  - Practicable; **and**
  - estimates can be made of the lives of the separate components.
- If both criteria are met, an entity allocates the cost of a PPE to its significant parts and depreciates each significant part separately
- Example: Airplane (separately depreciate engine, airframe, cabin); Building (roof, windows)

### Subsequent Costs

#### Betterment:

- Betterment = enhance the service potential of a PPE
- Service potential may be enhanced when
  - there is an increase in the output or service capacity
  - operating costs are lowered
  - useful life is extended
  - the quality of output is improved
- Betterments are capitalized
- Under ASPE there is no requirement to de-recognize the remaining carrying value of the item replaced

#### Repair:

- Repairs are expensed  
Repair = cost incurred to maintain the service potential of a PPE
- If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the asset

### Comparison to ASPE:

- incidental operations; under IFRS income from incidental operations are always included in the income statement
- IFRS allows revaluation model
- Amortization calculation is different under IFRS
- Under IFRS, significant components are separately amortized regardless of if it is practicable and the useful life of the significant component is estimable
- IFRS doesn't use betterments vs. repairs in determining subsequent capitalization
- Under IFRS must derecognize the carrying value of the items replaced