

# 29

PROPERTY, PLANT AND EQUIPMENT

BORROWING COSTS



ACCOUNTING  
STANDARDS  
BOARD

FINANCIAL REPORTING  
EXPOSURE DRAFT

For the convenience of respondents in compiling their responses, the text of the questions in the Preface on which particular comments are invited (pages 17 to 20) can be downloaded (in Word format) from the 'Property, plant and equipment and Borrowing costs' page in the Current Projects section of the ASB Website ([www.asb.org.uk](http://www.asb.org.uk)).

*For ease of handling, we prefer comments to be sent (in Word format) by email to*

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*Comments should be despatched so as to be received no later than 16 September 2002. All replies will be regarded as on the public record and may be copied to the IASB and other standard-setters, unless confidentiality is requested by the commentator.*

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**PROPERTY, PLANT AND EQUIPMENT**

**BORROWING COSTS**



**ACCOUNTING  
STANDARDS  
BOARD**



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## SUMMARY OF MAIN CHANGES PROPOSED BY THE IASB

## PREFACE

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- 1 This Financial Reporting Exposure Draft (FRED) is issued as part of the Accounting Standards Board's programme to bring about convergence between UK Accounting Standards and International Financial Reporting Standards (IFRSs<sup>\*</sup>). It sets out for comment two exposure drafts of UK accounting standards, based on proposed and existing IFRSs. They address accounting for property, plant and equipment and for borrowing costs.
- 2 The International Accounting Standards Board (IASB) has recently published for comment a proposed revision of IAS 16 'Property, Plant and Equipment'. The main changes to the present IAS 16 proposed by the IASB are summarised on pages 61 to 64. The exposure draft on property, plant and equipment is based on the proposed revised text. The exposure draft on borrowing costs is based on an existing IFRS, IAS 23 'Borrowing Costs'. The IASB has indicated that it does not intend to revise IAS 23 at present. The differences that the ASB proposes for the UK are summarised in paragraph 26 and are highlighted in the text.
- 3 The ASB proposes to issue UK standards based on these drafts, which will eventually replace FRS 15 'Tangible Fixed Assets'<sup>†</sup>. However, the IASB has not yet addressed accounting for revaluations, where FRS 15 differs in some significant respects from the international

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<sup>\*</sup> The IASB intends to designate its future standards as International Financial Reporting Standards, or IFRSs. Standards issued prior to 2002 are identified as International Accounting Standards, or IASs. In this Preface, the term IFRS is used to refer to both IFRSs and IASs.

<sup>†</sup> The capitalisation of finance costs is dealt with in FRS 15, whereas it is a separate IFRS.

exposure draft. The ASB is participating in a joint project with other national standard-setters that will provide recommendations to the IASB on a convergence model for revaluations that should be adopted internationally. As explained in paragraphs 28 to 31, the ASB proposes that the timing of the implementation of these standards should depend on whether, by the time the IASB issues the revised IAS 16 (which is expected in the first quarter of 2003), further changes to IAS 16 are likely to be promulgated by 2005.

### **Property, plant and equipment—main changes proposed to existing UK requirements**

- 4 The proposed revised IAS 16 and FRS 15 have much in common in terms of their scope and principles for initial measurement, valuation and depreciation of tangible fixed assets. Both standards also allow the optional policies of revaluing assets or keeping them at cost, subject to depreciation. IAS 16 uses different terminology, but ‘property, plant and equipment’ has a similar meaning to ‘tangible fixed assets’. However, there are also a number of differences between the standards, the more important of which are summarised below.

#### ***Exchanges of assets***

- 5 The exposure draft proposes a requirement that will be new to UK accounting standards. Where an item of property, plant and equipment is acquired in exchange for another item of property, plant and equipment or other asset, the international exposure draft requires the cost of the acquired asset to be measured at *fair value* (based on the fair value of the asset given up or, if more



clearly evident, the fair value of the asset received). The only exception to the requirement to use fair value (using instead the carrying amount of the asset given up) is where fair value cannot be determined reliably. At present IAS 16 has an exception for exchanges of similar assets that have a similar use in the same line of business and a similar fair value. Where the adoption of a fair value measurement represents a change of policy, it does not, however, apply retrospectively.\*

### ***Donated assets***

- 6 FRS 15 specifically addresses the treatment of donated assets received by charities. The international exposure draft does not address this issue.

### ***Depreciation***

- 7 The general principles in the proposed IAS 16 and FRS 15 as regards depreciation are broadly the same, with the following exception in respect of residual values. Where residual values are material, both standards require them to be reviewed at each balance sheet date. The proposed IAS 16 states that the residual value should be revised using current prices at the date of revision; FRS 15 generally requires prices at the date of acquisition or latest valuation to be used, in order to provide a consistent basis for the recomputation of depreciation.

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\* The IASB is also proposing, as a consequence of this proposal, that IAS 38, 'Intangible Assets', should be amended to require all exchanges of intangible assets to be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably.

- 8 IAS 16 and FRS 15 both state that subsequent expenditure on assets does not negate the need to recognise depreciation. However, FRS 15 requires annual impairment reviews to be carried out on assets where no depreciation is charged because it would be immaterial or where the remaining useful life is greater than 50 years. This requirement was introduced into FRS 15 because where either no depreciation is charged or the depreciation period is very long, there is a greater risk that the asset's recoverable amount will fall below the carrying amounts in the future. FRS 15 also gives guidance on when uncharged depreciation may be regarded as immaterial. IAS 16 does not include equivalent requirements and guidance.

### *Renewals accounting*

- 9 FRS 15 includes specific industry guidance as regards the use of renewals accounting as a method of estimating the depreciation that should be charged on certain infrastructure assets. IAS 16, in not addressing renewals accounting, does not allow any departure from the principle that the depreciation expense is determined by reference to an asset's depreciable amount (ie cost less residual value for assets carried at historical cost).

### *Revaluation of assets*

- 10 The international exposure draft and FRS 15 both give entities the option of revaluing property, plant and equipment assets. Where a policy of revaluation is adopted, both require all assets of the same class to be revalued and both require revaluations to be kept up to date. However, there are a number of differences between the requirements, as described below. It is beyond the scope of this preface to elaborate all the arguments supporting the positions taken in FRS 15; a fuller exposition can be found in Appendix IV to FRS 15 'The Development of the FRS'.

*Basis of valuation*

- 11 Perhaps the most important difference of principle is that the international exposure draft requires revaluation to *fair value*, whereas FRS 15 requires revaluation to *current value*.
- 12 IAS 16 states that the fair value of land and buildings, plant and equipment is usually its market value. Where there is no evidence of market value because of the asset's specialised nature, depreciated replacement cost should be used instead.
- 13 FRS 15, on the other hand, defines current value in terms of the 'value to the business' model, which is the valuation model that the ASB has preferred hitherto for including assets at current values. The value to the business model seeks to provide a value that is relevant to economic decision-making, being the loss that the entity would suffer if it were deprived of the asset. Under the value to the business model, current value is the lower of replacement cost and recoverable amount. FRS 15 reflects this valuation basis by requiring:
  - (a) non-specialised properties to be valued on the basis of existing use value (EUV), with the addition of notional directly attributable acquisition costs where material;
  - (b) specialised properties to be valued on the basis of depreciated replacement cost; and
  - (c) properties surplus to an entity's requirements to be valued on the basis of open market value (OMV), with a deduction, where material, for expected directly attributable selling costs.

Where OMV is materially different from EUV, the reasons for the difference should be disclosed in the notes to the accounts.

- 14 FRS 15, therefore, differs from IAS 16 in requiring non-specialised properties to be valued at EUV. IAS 16 states that fair value is usually ‘market value’, which many would take to be OMV. An important practical effect of the difference arises where OMV is greater than EUV because, say, it reflects the possibility of the property being developed for an alternative use. FRS 15 does not permit the higher value for alternative use to be reflected in an entity’s balance sheet (unless the property is surplus to the entity’s requirements), although it does require information about the higher value to be disclosed in the notes. IAS 16 does not restrict to EUV the value that is reflected in the balance sheet. It is also possible for OMV to be less than EUV, for example, where a property has been adapted to the needs of the current occupier and there is little prospect of finding a buyer in the market who could use those adaptations. In such a case, IAS 16 would require OMV to be used (unless the property were regarded as specialised, in which case, as explained above, depreciated replacement cost would be used).

### *Frequency of valuations*

- 15 IAS 16 and FRS 15 both reflect the objective that asset values should be current at each balance sheet date. FRS 15 requires 5-yearly full valuations, with interim updates in between. IAS 16 does not specify a maximum period between revaluations; it requires revaluations to be undertaken as frequently as is necessary to ensure that fair values do not differ materially from carrying values—although it does indicate that annual revaluation may be necessary for assets that experience significant and volatile changes in fair value and that revaluation every three or five years may be sufficient for assets that experience only insignificant changes in fair value.

16 However, IAS 16 contains less detailed requirements and guidance in respect of the basis for valuations. For example, the following specific guidance in FRS 15 is not reflected in the international exposure draft:

- the requirement to use an external valuer at least once every 5 years (although both IAS 16 and FRS 15 require the use of qualified valuers for property);
- detailed guidance regarding the process of performing full and interim valuations;
- guidance on an appropriate index for use by directors in valuing plant and machinery;
- the requirement to take account of notional directly attributable acquisition or selling costs in the valuation where material;
- detailed guidance on the valuation of properties valued on a trading basis and the treatment of specialised ‘adaptation works’.

*Reporting revaluation gains and losses*

17 Revaluation losses may in some cases be reported differently under the international exposure draft than they would be reported under FRS 15:

- (a) IAS 16 requires any revaluation loss that exceeds an existing revaluation surplus in respect of an asset to be recognised as an expense in the profit and loss account. FRS 15 requires a revaluation loss that exceeds an existing revaluation surplus in respect of an asset to be recognised in the statement of total recognised gains and losses to the extent that the asset’s recoverable amount is greater than its revalued amount (ie there is no impairment). The

IAS treatment has the advantage of being simpler to apply, although the UK's treatment is consistent with the value to the business model.

- (b) IAS 16 requires any revaluation loss to be charged to equity (equivalent to the statement of total recognised gains and losses) to the extent that there is an existing revaluation surplus in respect of the asset. FRS 15 requires any revaluation loss that is clearly caused by the consumption of economic benefits (ie an impairment) to be charged as an expense in the profit and loss account, regardless of whether there is an existing revaluation surplus in respect of the asset.
- 18 FRS 15 (paragraph 71) gives a special treatment to gains and losses on revaluation of assets held by insurance companies and insurance groups (including assets of the long-term business), as part of their insurance operations. For these, revaluation changes are required to be included in the profit and loss account rather than under the general revaluation rules. There is no corresponding special treatment in IAS 16. The ASB proposes, as a transitional measure, that the present exemption in FRS 15 should be retained in a new UK standard based on the international exposure draft pending the outcome of the IASB's projects on insurance and performance reporting.

### ***Transitional arrangements***

- 19 FRS 15 contained a special transitional arrangement for entities that had carried assets at values reflecting previous revaluations and elected not to adopt a policy of revaluation when they first applied FRS 15. FRS 15 permitted such entities to retain the (previously revalued) book amounts instead of restating the carrying amounts at depreciated historical cost. IAS 16 does not include any corresponding transitional arrangement. The ASB proposes to include in a new UK standard a

transitional arrangement equivalent to that in FRS 15; this would allow an entity that does not adopt a policy of revaluation and adopted the transitional arrangement on the first application of FRS 15 to continue to recognise its assets at the carrying amounts under that transitional arrangement. The ASB will review this proposal in the light of the IASB's separate work on the first-time application of IFRSs.\*

## **Borrowing costs—main changes proposed to existing UK requirements**

- 20 IAS 23 permits entities to choose whether or not to capitalise borrowing costs, provided the policy is applied consistently. In this it is consistent with FRS 15. The IASB has considered this issue as part of its 'Improvements project' and has indicated that for the purposes of improving IAS 23 and based on the conceptual arguments, it was inclined towards requiring all borrowing costs to be reported as an expense as incurred. However, the IASB also noted that requiring expense treatment would not achieve convergence between IAS 23 and the accounting standards of its partner national standard-setters. After discussing the issue with them, the IASB decided against dealing with the issue as part of the improvements project. The ASB has argued that the topic raises fundamental issues of measurement and accounting for finance costs and, therefore, supports maintaining the optional capitalisation of finance costs until an internationally acceptable approach is agreed. The IASB has indicated that it will consider, as part of its regular evaluation of potential agenda topics, a project that deals with how to measure an asset on initial recognition.

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\* The IASB indicated in the March 2002 edition of 'IASB Update' that it had tentatively agreed that an entity that has previously revalued items of property, plant and equipment to an amount that is broadly comparable to fair value determined under IFRSs may treat such amounts as deemed cost under IFRSs.

- 21 FRS 15's requirements in respect of the capitalisation of finance costs were modelled on IAS 23 and, therefore, the two standards are similar in most respects, even adopting much of the same wording. They both permit the optional capitalisation of interest. Although the style of the IFRS is to present the optional treatments as the 'benchmark treatment' and the 'allowed alternative treatment', this does not imply that one treatment is preferred to the other. There are, however, a number of differences between the standards.

### ***Definition of borrowing costs***

- 22 IAS 23's definition of borrowing costs (paragraph 5(e)) admits exchange differences arising from foreign currency borrowings "to the extent that they are regarded as an adjustment to interest costs". FRS 15's definition of finance costs does not include exchange differences. The ASB does not believe that capitalisation of exchange differences is appropriate and proposes to omit exchange differences from the UK standard's definition of borrowing costs.

### ***Scope***

- 23 The scope of IAS 23 is wider than that of FRS 15. IAS 23 applies to 'qualifying assets', ie assets that necessarily take a substantial period of time to get ready for their intended use or sale. Therefore, as well as covering interest capitalisation on tangible fixed assets, it also applies to certain inventories.

### ***Borrowing costs eligible for capitalisation***

- 24 IAS 23 (paragraphs 15 and 16) indicates that if specific borrowings are raised to fund a qualifying asset, the amount of borrowing costs eligible for capitalisation is the actual borrowing costs less any investment income received from the temporary reinvestment of unutilised borrowings. FRS 15 only permits the capitalisation of



the interest arising on the amount of borrowings that has been spent on the asset to date; interest paid and received on the unused and reinvested portion is recognised in the profit and loss account.

### ***Disclosures***

25 Where a policy of capitalisation of finance costs is adopted, FRS 15 requires two additional disclosures that IAS 23 does not:

- the aggregate amount of finance costs included in the cost of tangible fixed assets (this is also a requirement of the Companies Act 1985); and
- the amount of finance costs recognised in the profit and loss account during the period.

### **Differences between proposed UK requirements and proposed IFRSS**

26 The texts of the draft FRSS are the same as the proposed IAS 16 and IAS 23 with the following exceptions:

#### *Property, plant and equipment*

- (a) The [draft] FRS includes a paragraph on scope, applying the standard to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure), except that reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt.
- (b) The text in paragraphs 37 and 38 concerning the reporting of gains and losses on revaluation is revised to reflect the use of the statement of total recognised gains and losses in UK accounting standards.

- (c) Paragraph 39A has been added to preserve the present exemption in FRS 15 from the requirements concerning the reporting of gains or losses on revaluation in respect of certain assets held by insurance companies and insurance groups (see paragraph 18 above).
- (d) References to IFRSs have been deleted or replaced with references to relevant UK accounting standards.
- (e) A transitional provision has been added (paragraph 66B) relating to entities that do not adopt a policy of revaluation (see paragraph 19 above).

*Borrowing costs*

- (f) Paragraph 5(e), which allows certain exchange differences to be included in borrowing costs eligible for capitalisation, has been removed (see paragraph 22 above).
- (g) The [draft] FRS includes a paragraph on scope, applying the standard to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure), except that reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt.
- (h) References to IFRSs have been replaced where applicable with references to relevant UK accounting standards.
- (i) The original transitional provisions in IAS 23 have been removed.

## Amendments to other UK standards

- 27 The replacement of FRS 15 by the standards set out in the exposure draft would require consequential amendments to FRS 11 ‘Impairment of Fixed Assets and Goodwill’ (concerning reporting impairment losses on revalued assets) in order to reflect the differences in reporting revaluation losses referred to in paragraph 17 above. Minor consequential changes would be required to UITF Abstracts 24 ‘Accounting for start-up costs’ and 29 ‘Website development costs’. UITF Abstract 23 ‘Application of the transitional rules in FRS 15’ would be withdrawn.

## Implementation

- 28 At the request of the IASB, the ASB is participating in a joint project with other national standard-setters from jurisdictions where the revaluation of fixed assets is permitted (referred to as the ‘Revaluation Group’<sup>★</sup>). The project is seeking to converge the approaches to accounting for revaluations in those jurisdictions. The Group will provide recommendations to the IASB on a convergence model that should be adopted internationally. However, the IASB has indicated that its timetable for the improvements project does not allow for any further changes to IAS 16 that may result from the Group’s project to be included in the IASB’s current revision of IAS 16.

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<sup>★</sup> *The Revaluation Group comprises representatives from the standard-setting bodies of Australia, New Zealand, South Africa and the UK and the IASB.*

- 29 As explained earlier, the *current value* model that is supported by the ASB and specified in FRS 15 differs in some significant respects from the *fair value* model that is specified in IAS 16 and in the accounting standards of other members of the Group. The ASB believes that it is appropriate to continue to argue the case for IAS 16 to be amended to incorporate principles of revaluation similar to those in FRS 15.
- 30 If, by the time the IASB issues the revised IAS 16, it becomes clear that further changes to the standard are unlikely in the near future, the ASB proposes to issue new UK standards, based on the revised IAS 16 and IAS 23, at that time.
- 31 However, if it becomes clear that further changes to IAS 16 are likely as a result of the revaluation project, the ASB would prefer to wait until that further revision was complete before issuing new standards. The ASB believes that it would be preferable if these IFRSs were incorporated into UK standards in their entirety, and in one step, rather than being adopted on a piecemeal basis by, say, adopting the standards minus the revaluation requirements as a first stage and adopting the revaluation requirements at a later stage.
- 32 The ASB would particularly welcome respondents' views on these implementation issues.

### **UK law, EU law and international standards**

- 33 EU Ministers have proposed that from 1 January 2005, all listed companies in the EU should prepare their consolidated financial statements in accordance with adopted international accounting standards. A draft Regulation to this effect is at a late stage of negotiation and EU Ministers are expected to approve it shortly. The intention is that IFRSs will form the basis of those adopted international accounting standards.

- 34 After wide discussion with interested parties, the ASB has indicated its intention to pursue a programme of work to align UK accounting standards with IFRSs wherever practicable. The effect of this is that the substance of IFRSs will apply in the UK not only to the group financial statements of listed companies but also to individual financial statements and unlisted companies. However, the ASB will consider the option of retaining a UK standard, or modifying an IFRS in its wider application, for example if it appears likely that the cost of extending an unmodified IFRS more widely would exceed the benefit.
- 35 The Government has said that it may wish to extend the Regulation to individual financial statements and unlisted companies from 2005 or later. Ministers intend to consult on this once the Regulation is agreed.
- 36 The legal requirements for UK and Irish companies relevant to accounting for property, plant and equipment are summarised in the Appendix to the [draft] FRS.

## **Questions for respondents**

- 37 The ASB is requesting comments on any aspect of the FRED by 16 September 2002—the same date as the IASB has set for comments on its proposed revisions to IAS 16.
- 38 The ASB would welcome comments in particular on the following:
  - ASB(i) Do you agree with the proposal to issue new UK standards on property, plant and equipment and borrowing costs when the IASB issues the revised IAS 16, unless it becomes clear that further changes to IAS 16 are likely by 2005 as a result of the revaluation project?

- ASB(ii) As explained in paragraph 7 above, the international exposure draft on property, plant and equipment proposes that residual values used in the calculation of depreciable amount should be reviewed at each balance sheet date and revised to reflect current estimates. FRS 15 generally requires prices at the date of acquisition or latest valuation to be used; hence, depreciation expense on a historical cost basis is not reduced by inflation in residual values. Do you agree or disagree with the proposed international approach?
- ASB(iii) IAS 16 does not address the use of renewals accounting in respect of certain infrastructure assets. Do you believe that the absence of the guidance in FRS 15 would prevent entities from using renewals accounting as a method of estimating depreciation? Should UK entities be permitted to continue to use renewals accounting?
- ASB(iv) What are your views on the differences between the requirements of FRS 15 and IAS 16 concerning revaluations as described in paragraphs 10 to 17 above?
- ASB(v) Are there any other aspects of the differences between the proposed standards and current UK accounting requirements that you wish to comment on?
- ASB(vi) Do you agree with the ASB's proposal, as a transitional measure (see paragraph 18 above), that the present exemption in FRS 15 in respect of insurance companies should be retained in a new UK standard based on IAS 16 revised pending the outcome of the IASB's projects on insurance and performance reporting?

- ASB(vii) The transitional arrangements for the first-time application of FRS 15 allowed an entity that does not adopt a policy of revaluation to retain carrying amounts reflecting previous revaluations instead of restating the carrying amounts to historical cost (see paragraph 19 above). Do you believe that a transitional arrangement should be included in a new UK standard to allow entities that adopted FRS 15's transitional arrangement to continue to recognise the carrying amounts under that arrangement?
- ASB(viii) Do you believe that ASB should consider any other transitional arrangements?
- ASB(ix) Are there any other aspects of the draft standard on property, plant and equipment that the ASB should request the IASB to review when finalising the revised IAS 16?
- ASB(x) Do you agree that the capitalisation of borrowing costs should remain optional? If you had to choose between mandatory capitalisation and prohibition of capitalisation, which would you support and why?
- ASB(xi) Do you agree that paragraph 5(e) of IAS 23, which allows certain exchange differences to be capitalised, should be deleted in the draft standard on borrowing costs?
- ASB(xii) What are your views on the difference between IAS 23 and FRS 15 referred to in paragraph 24 above concerning borrowing costs eligible for capitalisation?
- ASB(xiii) Do you have any comments on IAS 23 that you wish the ASB to bring to the IASB's attention?

39 The IASB has asked commentators to respond to the following questions on the proposed changes to IAS 16:

IASB(i) Do you agree that all exchanges of items of *property, plant and equipment* should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A of the [draft] FRS on property, plant and equipment)?

IASB(ii) Do you agree that all exchanges of *intangible assets* should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably?

IASB(iii) Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59 of the [draft] FRS on property, plant and equipment)?

The draft standards presented here are based on the IASB's texts. The revised IAS 16 proposed by the IASB will be available from its website, [www.iasb.org.uk](http://www.iasb.org.uk). It is presented here 'clean', ie without highlighting the IASB's proposed changes to the existing standard.

However, the ASB is proposing a small number of changes to the IASB's texts of both IAS 16 and IAS 23. These are highlighted by strikethrough of text to be deleted, by underlining of words to be added and by sidelining against altered text.



***[Draft] Financial Reporting Standard • ‘Property, plant and equipment’ is set out in paragraphs 1–68B.***

***The Statement of Standard Accounting Practice, which comprises the paragraphs set in bold type, should be read in the context of the Objective, the definitions set out in paragraph 6 and also of the Foreword to Accounting Standards and the Statement of Principles for Financial Reporting currently in issue.***

***The explanatory paragraphs contained in the [draft] FRS shall be regarded as part of the Statement of Standard Accounting Practice insofar as they assist in interpreting that statement.***

*This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comment received before being issued in final form.*

# [DRAFT] FINANCIAL REPORTING STANDARD: PROPERTY, PLANT AND EQUIPMENT

## Objective

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

*This Standard requires an item of property, plant and equipment to be recognised as an asset when it satisfies the definition and recognition criteria for an asset in the Framework for the Preparation and Presentation of Financial Statements.*

## Scope

**1. This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.**

**1A. This Standard applies to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure), except that reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt. [ASB].**

2. This Standard does not apply to:

- (a) biological assets related to agricultural activity ~~(see IAS 41, Agriculture)~~; and
- (b) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (a) and (b).

3. [Deleted]\*
4. An entity applies this Standard to property being constructed or developed for future use as investment property, because the property does not yet satisfy the definition of investment property in SSAP 19, Accounting for investment properties ~~IAS 40, Investment Property~~. Once the construction or development is complete, the property becomes investment property and the entity applies SSAP 19 ~~IAS 40~~. SSAP 19 ~~IAS 40~~ also applies to investment property that is being redeveloped for continued future use as investment property. ~~Using the cost model permitted for investment property under IAS 40 requires use of the benchmark treatment in this Standard.~~
5. [Deleted]

## Definitions

6. *The following terms are used in this Standard with the meanings specified:*

**Property, plant and equipment** *are tangible assets 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.*

**Depreciation** *is the systematic allocation of the depreciable amount of an asset over its useful life.*

**Depreciable amount** *is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.*

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\* Note: paragraphs that are identified as deleted in this manner identify paragraphs included in the existing version of IAS 16 that the IASB has proposed should be deleted as a consequence of their improvements project.

Useful life is either:

- (a) *the period of time over which an asset is expected to be used by the entity; or*
- (b) *the number of production or similar units expected to be obtained from the asset by the entity.*

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

The residual value of an asset is the estimated amount that the entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

## Recognition of Property, Plant and Equipment

7. *An item of property, plant and equipment shall be recognised as an asset when, and only when:*
  - (a) *it is probable that future economic benefits associated with the asset will flow to the entity; and*
  - (b) *the cost of the asset or, when the asset is carried at a revalued amount, the fair value of the asset, can be measured reliably.*

8. Property, plant and equipment is often a major portion of the total assets of an entity, and therefore is significant in the presentation of its financial position. Furthermore, the determination of whether an expenditure represents an asset or an expense can have a significant effect on an entity's profit or loss.
9. [Deleted]
10. [Deleted]
11. In identifying what constitutes a separate item of property, plant and equipment, judgement is required in applying the criteria in the definition to specific circumstances or specific types of entities. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value. Most spare parts and servicing equipment usually are carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment and their use is expected to be irregular, they are accounted for as property, plant and equipment and are depreciated over a period not exceeding the useful life of the related asset.
12. An entity allocates the amount initially recognised in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or provide benefits to the entity in a different pattern. In those circumstances, it is necessary to use different depreciation rates and methods. For example, the airframe and engines of an aircraft are treated as separate depreciable assets if they have different useful lives.
13. Property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment may be

necessary for the entity to obtain the future economic benefits from its other assets. When this is the case, such acquisitions of property, plant and equipment qualify for recognition as assets, because they enable future economic benefits from related assets to be derived by the entity in excess of what could be derived if they had not been acquired. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment under FRS 11, Impairment of Fixed Assets and Goodwill ~~IAS 36, Impairment of Assets~~. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements on the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because, without them, the entity is unable to manufacture and sell chemicals.

## **Initial Measurement of Property, Plant and Equipment**

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

### **Components of Cost**

15. The cost of an item of property, plant and equipment comprises:
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting any trade discounts and rebates; and
  - (b) any directly attributable costs to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced when bringing the asset to that location and condition (such as samples produced when testing equipment).

15A. Examples of directly attributable costs are:

- (a) costs of employee benefits (~~as defined in IAS 19, Employee Benefits~~) arising directly from the construction or acquisition of the item of property, plant and equipment;
- (b) costs of site preparation;
- (c) initial delivery and handling costs;
- (d) installation and assembly costs; and
- (e) professional fees.

16. When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between that amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with the allowed alternative treatment in the [draft] FRS ~~IAS 23~~, Borrowing Costs.

16A. If an item of property, plant and equipment is acquired in exchange for equity instruments of the entity, the cost of the item of property, plant and equipment is the fair value of the equity instruments issued. The fair value of the item received is used to measure its cost if it is more clearly evident than the fair value of the equity instruments issued.

17. Examples of costs that are not a component of the cost of property, plant and equipment are:

- (a) costs of opening a new facility;
- (b) costs of introducing a new product or service (including costs of advertising and promotional activities);
- (c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
- (d) administration and other general overhead costs.

These costs are excluded because they are not a part of the asset's purchase price, and cannot be attributed directly to bringing the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management.

17A. Because capitalisation of costs ceases when an item of property, plant and equipment is in the location and working condition necessary for it to be capable of operating in the manner intended by management, costs incurred in using or redeploying assets (as distinct from improving the assets' standard of performance) are excluded from the cost of those assets. For example, the following costs are excluded from the cost of property, plant and equipment:

- (a) costs incurred while assets capable of operating in the manner intended by management have yet to be brought into use or are operated at less than full capacity;
- (b) initial operating losses, such as those incurred while demand for the assets' outputs builds up; and
- (c) costs of relocating or reorganising part or all of the entity's operations.

17B. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction commences. Because incidental operations are not necessary to bring an asset to the location and working condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss for the period, and included in their respective classifications of income and expense in the income statement.



18. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale (see [draft] FRS ~~IAS 2~~, Inventories). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset. The [draft] FRS, ~~Borrowing Costs, IAS 23~~ establishes criteria that need to be satisfied before interest costs can be recognised as a cost of property, plant and equipment
19. The cost of an asset held by a lessee under a finance lease is determined using the principles set out in SSAP 21, Accounting for leases and hire purchase contracts ~~IAS 17, Leases~~.
20. The carrying amount of property, plant and equipment may be reduced by applicable government grants in accordance with SSAP 4, ~~Accounting for government grants IAS 20, Accounting for Government Grants and Disclosure of Government Assistance~~.

### **Costs to dismantle and remove an asset and restore its site**

- 20A. The cost of an item of property, plant and equipment under paragraph 15 includes the costs of dismantling and removing the asset and restoring the site on which that asset is located. Those costs may be incurred when the asset is initially acquired or in subsequent periods, and in either case are depreciated over the remainder of the asset's useful life. They are measured in accordance with FRS 12 ~~IAS 37~~, Provisions, Contingent Liabilities and Contingent Assets.
- 20B. In those situations in which the asset to be measured is land, the costs referred to in paragraph 20A are depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

## Exchanges of Assets

21. An item of property, plant and equipment may be acquired in exchange or part exchange for another item of property, plant and equipment or other asset. Except when paragraph 21A applies, the cost of such an item is measured at the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred. The fair value of the asset received is used to measure its cost if it is more clearly evident than the fair value of the asset given up.
- 21A. The cost of an item of property, plant and equipment acquired in exchange for a similar asset is measured at the carrying amount of the asset given up when the fair value of neither of the assets exchanged can be determined reliably. The entity will be unable to determine reliably the fair value of an item of property, plant and equipment when comparable market transactions are infrequent and alternative estimates of fair value (for example, based on discounted cash flow projections) cannot be calculated.
22. [Deleted]

## Replacing or Renewing a Component

- 22A. *Expenditure incurred in replacing or renewing a component of an item of property, plant and equipment shall be accounted for as the acquisition of a separate asset, and the carrying amount of the replaced or renewed component asset shall be written off.***
- 22B. Major components of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of usage, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. The components are accounted for as separate assets because they have useful lives different from those of the items of property, plant and equipment to which they relate. Therefore, provided the recognition criteria in paragraph 7 are satisfied, the expenditure incurred in replacing or renewing the component is accounted for as the acquisition of a separate asset and the carrying amount of the replaced asset is written off.

- 22C. A condition of continuing to operate some items of property, plant and equipment (for example, an aircraft) is performing regular major inspections for faults regardless of whether components of the item are replaced. The costs of a major inspection of an item of property, plant and equipment may be a separate component of the cost of that item. In these circumstances, when each major inspection is performed, its cost is capitalised as a replacement component if the recognition criteria in paragraph 7 are satisfied, and any remaining carrying amount of the replaced component (the inspection component, as distinct from physical components) is written off.
- 22D. A separate component may be identified in respect of a major inspection regardless of whether the component was invoiced separately or identified specifically in the transaction in which the item was acquired or constructed. When necessary, the estimated cost of a future similar inspection may be used as an indication of the cost of the existing inspection component when the item was acquired or constructed.

## Subsequent Expenditure

23. *Subsequent expenditure relating to an item of property, plant and equipment that has been recognised, other than expenditure incurred in replacing or renewing a component of such an item, shall be added to the carrying amount of the asset when, and only when, it is probable that the expenditure increases the future economic benefits embodied in the asset in excess of its standard of performance assessed immediately before the expenditure was made.*
- 23A. *All subsequent expenditure that fails the criteria for capitalisation in paragraphs 22A and 23 shall be recognised as an expense in the period in which it is incurred.*
- 23B. Expenditure incurred in replacing or renewing a component of an item of property, plant and equipment is accounted for as the acquisition of a separate asset under paragraph 22A, and is not subsequent expenditure relating to an item of property, plant and equipment.

24. Examples of subsequent expenditure on property, plant and equipment that results in increased future economic benefits include:
  - (a) modification of an item of plant to extend its remaining useful life or to increase its capacity;
  - (b) upgrading machine parts to achieve a substantial improvement in the quality of output; and
  - (c) development of a new production process enabling a substantial reduction in operating costs.
25. Whether expenditure incurred subsequent to the acquisition of an item of property, plant and equipment increases the future economic benefits embodied in the asset depends on the circumstances taken into account in assessing the asset's standard of performance (including the level of maintenance assumed in the most recent estimate of its useful life) immediately before the expenditure. For example, when the carrying amount of the item of property, plant and equipment has been written down to recognise an impairment, the subsequent expenditure is capitalised to the extent that it causes the impairment loss to be reversed. Subsequent expenditure also is capitalised when the purchase price of an asset already reflects the entity's need to incur that expenditure to bring the asset to its working condition. An example of this is the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the asset's carrying amount.
26. Expenditure on immaterial replacements or renewals of property, plant and equipment may be treated as repairs and recognised as an expense when incurred.
27. [Deleted]

# Measurement Subsequent to Initial Recognition

## Benchmark Treatment

28. *Subsequent to initial recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.*

## Allowed Alternative Treatment

29. *Subsequent to initial recognition as an asset, an item of property, plant and equipment shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.*

## Revaluations

30. The fair value of land and buildings is usually its market value. This value is determined by appraisal normally undertaken by professionally qualified valuers.
31. The fair value of items of plant and equipment is usually their market value determined by appraisal. When there is no evidence of market value because of the specialised nature of the plant and equipment and because these items are rarely sold, except as part of a continuing business, they are valued at their depreciated replacement cost.
32. The frequency of revaluations depends upon the movements in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant movements in fair value. Instead, revaluation every three or five years may be sufficient.

33. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is either:
- (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost; or
  - (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. For example, this method is often used for buildings that are revalued to their market value.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is dealt with in accordance with paragraphs 37 and 38.

- 34. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.***

35. A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:
- (a) land;
  - (b) land and buildings;
  - (c) machinery;
  - (d) ships;
  - (e) aircraft;
  - (f) motor vehicles;
  - (g) furniture and fixtures; and
  - (h) office equipment.

36. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period of time and provided the revaluations are kept up to date.
37. *When an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in the statement of total recognised gains and losses ~~credited directly to equity under the heading of revaluation surplus~~ except that, to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, it shall be recognised ~~as income in the profit and loss account.~~*
38. *When an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in the statement of total recognised gains and losses until the carrying amount reaches its depreciated historical cost and, thereafter, in the profit and loss account ~~debited directly against any credit balance existing in the revaluation surplus in respect of that asset and, to the extent that the decrease exceeds that credit balance, it shall be recognised as an expense.~~*
39. The revaluation surplus ~~included in equity~~ in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised (that is, eliminated from the balance sheet). This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by the entity; in such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through the income statement.
- 39A. Paragraphs 37-39 do not apply to assets held by insurance companies and insurance groups (including assets of the long-term business), as part of their insurance operations, where revaluation changes are included in the profit and loss account. [ASB].**

40. The effects on taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with FRS 19, Deferred Tax ~~IAS 12, Income Taxes~~.

## Depreciation

41. *The depreciable amount of an item of property, plant and equipment shall be allocated on a systematic basis over its useful life. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. The depreciation charge for each period shall be recognised as an expense unless it is included in the carrying amount of another asset.*
42. As the future economic benefits embodied in an asset are consumed by the entity, the carrying amount of the asset is reduced to reflect this consumption, normally by recognising an expense for depreciation. Depreciation is recognised even if the value of the asset exceeds its carrying amount.
43. The future economic benefits embodied in an item of property, plant and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits that might have been expected to be obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:
- (a) the expected usage of the asset by the entity. Usage is assessed by reference to the asset's expected capacity or physical output;
  - (b) the expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme of the entity, and the care and maintenance of the asset while idle;



- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and
  - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.
44. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a certain proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the entity with similar assets.
45. Land and buildings are separable assets and are dealt with separately for accounting purposes, even when they are acquired together. With certain exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the useful life of the building.
46. The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and therefore is immaterial in the calculation of the depreciable amount. When the residual value is likely to be material, the residual value is estimated at the date of acquisition and is reviewed as at each balance sheet date. A change in the asset's residual value, other than a change reflected in an impairment loss recognised under FRS 11 IAS 36, Impairment of Assets, is accounted for prospectively as an adjustment to future depreciation. An estimate of an asset's residual value is based on the amount recoverable from disposal, at the date of the estimate, of similar assets that have reached the end of their useful lives and have operated under conditions similar to those in which the asset will be used.

47. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the sum-of-the-units method. Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The sum-of-the-units method results in a charge based on the expected use or output of the asset. The method used for an asset is selected based on the expected pattern of consumption of the future economic benefits embodied in the asset, and is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.
48. The depreciation charge for a period usually is recognised as an expense. However, in some circumstances, the future economic benefits embodied in an asset are absorbed by the entity in producing other assets, rather than giving rise to an expense. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see [draft] FRS ~~IAS 2~~, Inventories). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised under SSAP 13, Accounting for research and development~~IAS 38, Intangible Assets~~.

## Review of Useful Life

49. *The useful life of an item of property, plant and equipment shall be reviewed at least at each financial year end and, if expectations of useful life are different from previous estimates, the depreciation rate for the current and future periods shall be adjusted.*
50. During the life of an asset it may become apparent that the estimate of useful life is inappropriate. For example, the useful life may be extended by subsequent expenditure on the asset that improves the condition of the asset. Alternatively, technological changes or changes in the market for the products may reduce the useful life of the asset. In such cases, the useful life and, therefore, the depreciation rate are adjusted for the current and future periods.

51. The repair and maintenance policy of the entity may also affect the useful life of an asset. The policy may result in an extension of the useful life of the asset or an increase in its residual value. However, the adoption of such a policy does not negate the need to recognise depreciation.

## **Review of Depreciation Method**

- 52. *The depreciation method applied to property, plant and equipment shall be reviewed at least at each financial year end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in those assets, the method shall be changed to reflect the changed pattern. When such a change in depreciation method is necessary, the change shall be accounted for as a change in an accounting estimate and the depreciation charge for the current and future periods shall be adjusted.***

- 52A. A change in the depreciation method is a change in the technique used to apply the entity's accounting policy to recognise depreciation as an asset's future economic benefits are consumed. Therefore, it is a change in an accounting estimate.

## **Recoverability of the Carrying Amount — Impairment Losses**

53. To determine whether an item of property, plant and equipment is impaired, an entity applies FRS 11 ~~IAS 36, Impairment of Assets~~. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss.

## **Compensation for Impairments, and Related Replacements**

- 53A. *Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall, in the period in which it is received, be:***

- (a) *included in profit or loss for that period; and***
- (b) *disclosed separately on the face of the income statement or in the notes.***

53B. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

- (a) impairments of items of property, plant and equipment are recognised under FRS 11 ~~IAS 36~~; retirements or disposals of items of property, plant and equipment are recognised under paragraphs 55-59 of this Standard;
- (b) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss for the period in which it is received; and
- (c) the cost of assets restored, purchased or constructed as a replacement is determined under paragraphs 14-20A and paragraphs 22A-22D of this Standard.

## **Business Combinations**

~~54. IAS 22, Business Combinations, explains how to deal with an impairment loss recognised before the end of the first annual accounting period beginning after a business combination that is an acquisition.~~

## **Retirements and Disposals**

**55. *An item of property, plant and equipment shall be derecognised on:***

- (a) *disposal; or***
- (b) *when no future economic benefits are expected from its use or disposal.***

**56. *Gains or losses arising from the retirement or disposal of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset. They shall be included in profit or loss for the period in which the retirement or disposal occurs (unless SSAP 21 ~~IAS 17, Leases~~, requires otherwise on a sale and leaseback).***

57. [Deleted]

~~58. The disposal of an item of property, plant and equipment may occur by sale or by entering into a finance lease. In determining the date of disposal of such an item, an entity applies the criteria in IAS 18, Revenue, for recognising revenue from the sale of goods. IAS 17, Leases, applies to a disposal by a sale and leaseback.~~

58A. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at fair value. If payment for such an item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue ~~under IAS 18~~ according to the effective yield on the receivable.

59. Depreciation of an item of property, plant and equipment does not cease when it becomes temporarily idle or is retired from active use and held for disposal unless the asset's depreciable amount has been allocated fully. At least at each financial year end, an entity tests such an asset for impairment under ~~FRS 11 IAS 36, Impairment of Assets~~, and recognises any impairment loss accordingly.

## Disclosure

**60. *The financial statements shall disclose, for each class of property, plant and equipment:***

- (a) *the measurement bases used for determining the gross carrying amount. When more than one basis has been used for a class, the gross carrying amount for each basis adopted within the class shall be disclosed;***
- (b) *the depreciation methods used;***
- (c) *the useful lives or the depreciation rates used;***
- (d) *the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;***

- (e) *a reconciliation of the carrying amount at the beginning and end of the period showing:*
  - (i) *additions;*
  - (ii) *disposals;*
  - (iii) *acquisitions through business combinations;*
  - (iv) *increases or decreases during the period resulting from revaluations under paragraphs 29, 37 and 38 and from impairment losses recognised or reversed in the statement of total recognised gains and losses directly in equity under FRS 11 IAS 36, Impairment of Assets;*
  - (v) *impairment losses recognised in the profit and loss account income statement during the period under FRS 11 IAS 36;*
  - (vi) *impairment losses reversed in the profit and loss account income statement during the period under FRS 11 IAS 36;*
  - (vii) *depreciation;*
  - (viii) *the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and*
  - (ix) *other movements.*

**61. The financial statements shall also disclose:**

- (a) *the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;*
- (b) *the amount of expenditures capitalised in respect of property, plant and equipment in the course of construction; and*

***(c) the amount of contractual commitments for the acquisition of property, plant and equipment.***

62. Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

- (a) depreciation allocated, whether recognised as an expense or as a part of the cost of other assets, during a period; and
- (b) accumulated depreciation at the end of that period.

63. An entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods ~~in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors~~. Such disclosure may arise from changes in estimate with respect to:

- (a) residual values;
- (b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;
- (c) useful lives; and
- (d) depreciation method.

***64. When items of property, plant and equipment are stated at revalued amounts the following shall be disclosed:***

- (a) the basis used to revalue the assets;***
- (b) the effective date of the revaluation;***
- (c) whether an independent valuer was involved;***

- (d) the methods and significant assumptions applied in estimating the assets fair values;*
  - (e) the extent to which the assets fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;*
  - (f) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the benchmark treatment in paragraph 28; and*
  - (g) the revaluation surplus, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.*
65. An entity discloses information on impaired property, plant and equipment under FRS 11 ~~IAS 36, Impairment of Assets~~, in addition to the information required by paragraph 60(e)(iv)-(vi).
66. Financial statement users may also find the following information relevant to their needs:
- (a) the carrying amount of temporarily idle property, plant and equipment;
  - (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
  - (c) the carrying amount of property, plant and equipment retired from active use and held for disposal; and
  - (d) when the benchmark treatment is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.



## Transitional Provisions

**66A.** *The amendments to the initial measurement of assets acquired in exchanges of assets specified in paragraphs 21 and 21A shall be applied prospectively.*

~~66B. If an exchange of assets was measured on the basis of the carrying amount of the asset given up under paragraph 22 of IAS 16 (revised 1998), the entity does not restate the carrying amount of the asset acquired to reflect the fair value of the consideration given. Therefore, on adoption of this Standard, an entity does not apply the general treatment of changes in accounting policies in IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.~~

**66C.** *Where, on implementation of this Standard for the first time, an entity does not adopt a policy of revaluation, but the carrying amount of its property, plant and equipment reflects previous revaluations, it may:*

*(a) retain the book amounts. In these circumstances the entity should disclose the fact that the transitional provisions of this Standard are being followed and that the valuation has not been updated and give the date of the last revaluation; or*

*(b) restate the carrying amount of the tangible fixed assets to historical cost (less restated accumulated depreciation), as a change in accounting policy. [ASB]*

**66D.** *The transitional arrangement set out in paragraph 66C is available only on the first application of this Standard. [ASB]*

## Effective Date

~~67. *The accounting practices set out in this Standard should be regarded as standard in respect of accounting periods ending on or after [date to be inserted after exposure]. Earlier adoption is encouraged. This Standard becomes operative for annual financial statements covering periods beginning on or after 1 January 2003. Earlier adoption is encouraged. If earlier adoption affects the financial statements, an entity shall disclose that fact.*~~

68. [Deleted]

## Withdrawal of FRS 15 and amendments to other standards

~~68A. *This Standard (together with the [draft] FRS Borrowing Costs) supersedes FRS 15 Tangible Fixed Assets [following publication in final form]. [ASB]*~~

68B. FRS 11 Impairment of Fixed Assets and Goodwill is amended as follows:

(a) the text of paragraph 63 is replaced by:

*An impairment loss on a revalued asset should be recognised in the statement of total recognised gains and losses until the carrying amount of the asset reaches its depreciated historical cost and thereafter in the profit and loss account.*

(b) paragraphs 64 and 65 are deleted. [ASB]

# APPENDIX

## NOTE ON LEGAL REQUIREMENTS

### *Great Britain*

- 1 In Great Britain, the statutory requirements relating to accounting for tangible fixed assets are set out in the Companies Act 1985. The main requirements that are directly relevant to property, plant and equipment and the requirements of the [draft] FRS are set out in Schedules 4 and 4A and are summarised below.
- 2 Schedule 4 does not apply to banking and insurance companies or groups. Requirements equivalent to those of Schedule 4 are contained in Schedule 9 (for banking companies and groups) and in Schedule 9A (for insurance companies and groups).

### *Initial cost*

- 3 Paragraph 17 of Schedule 4 requires the amount to be included in respect of any fixed asset to be its purchase price or production cost. The purchase price is to be determined by adding to the actual price any expenses incidental to its acquisition (paragraph 26(1) of Schedule 4). Paragraph 26(2) requires the cost of production of an asset to comprise the purchase price of raw materials and consumables used and the amount of costs incurred by the company that are directly attributable to the production of that asset. In addition, paragraph 26(3) allows the inclusion of:
  - (a) indirectly attributable costs incurred by the company relating to the period of production; and
  - (b) interest on capital borrowed to finance the production of the asset. (However, the amount of the interest capitalised is required to be disclosed in the notes to the accounts.)

- 4 Where there is no record of the purchase price or production cost of any asset of a company, paragraph 28 of Schedule 4 requires the asset value to be determined using the earliest available record of the value of the asset on or after its acquisition or production by the company. Such earliest available records may also be used where there are no relevant prices, expenses or costs against which the purchase price may be determined or where the record of such purchase price cannot be obtained without unreasonable expense or delay.

### *Valuation*

- 5 The alternative accounting rules set out in paragraph 31(2) of Schedule 4 permit tangible fixed assets to be included at a market value determined as at the date of their last valuation or at their current cost.
- 6 Where the alternative accounting rules set out in paragraph 31(2) of Schedule 4 are adopted by a company, the following additional information is required to be included in the company's accounts:
  - (a) the assets revalued and the basis of valuation (paragraph 33(2) of Schedule 4).
  - (b) either the comparable amounts determined according to the historical cost accounting rules or the differences between those amounts and the revalued amounts (paragraph 33(3) of Schedule 4).
  - (c) the year and amount of the valuation (paragraph 43(a) of Schedule 4).
  - (d) in the case of assets that have been valued during the financial year, the names of the persons who valued them or particulars of their qualifications for doing so and the bases of valuation used by them (paragraph 43(b) of Schedule 4).

*Reporting revaluation gains and losses*

- 7 Paragraph 34(1) of Schedule 4 requires a profit or loss calculated under the alternative accounting rules to be credited or debited to a separate reserve (the revaluation reserve). Paragraph 34(3) of Schedule 4 allows an amount to be transferred from the revaluation reserve to the profit and loss account, if the amount was previously charged to that account.

*Depreciation*

- 8 Where a fixed asset has a limited useful economic life, paragraph 18 of Schedule 4 requires its purchase price or production cost less its estimated residual value to be written off systematically over the period of the asset's useful economic life.
- 9 Paragraph 19(2) of Schedule 4 requires provisions for diminution in value to be made in respect of any fixed asset that has diminished in value if the reduction in its value is expected to be permanent. The amount to be included in respect of the asset must be reduced accordingly. Any provisions that are not shown in the profit and loss account must be disclosed (either separately or in aggregate) in a note to the accounts.
- 10 Paragraph 32(1) of Schedule 4 requires the depreciation of revalued assets to be calculated on the basis of their latest valuations. Paragraph 32(3) allows a company to include under the relevant profit and loss account heading provisions for depreciation for the revalued assets based only on their historical cost, provided that the difference between that and the provision for depreciation calculated on the revalued amount is shown separately either in the profit and loss account or in the notes.

*Disclosure requirements*

- 11 In addition to the disclosures mentioned in paragraph 6 above in connection with the revaluation of tangible fixed assets, the following disclosures are required:
- (a) Paragraph 36 of Schedule 4 requires the disclosure of the accounting policies adopted by a company (including the policies regarding the depreciation and diminution in value of assets).
  - (b) Paragraph 26(3) requires the disclosure of the amount of interest capitalised, where such a policy is adopted.
  - (c) Paragraph 42 details the disclosures required of the movement on tangible fixed asset balances for the items under each of the headings set out in the balance sheet formats in Schedule 4, as follows:
    - 1. Land and buildings
    - 2. Plant and machinery
    - 3. Fixtures, fittings, tools and equipment
    - 4. Payments on account and assets in the course of construction.
  - (d) Paragraph 1(2) of Schedule 7 requires disclosure, in the directors report, of the difference, with such precision as is practicable, between the carrying amount and market value of interests in land, where, in the opinion of the directors, it is of such significance that it needs to be drawn to the attention of the members of the entity.

*Northern Ireland*

- 12 The statutory requirements in Northern Ireland are set out in the Companies (Northern Ireland) Order 1986. They are identical to and parallel the references in the legislation for Great Britain cited above.

***Republic of Ireland***

- 13 The statutory requirements in the Republic of Ireland that correspond to those cited above for Great Britain are shown in the following table.

***Great Britain***

Schedule 4 to the Companies Act 1985:  
 paragraph 17  
 paragraph 18  
 paragraph 19(2)  
 paragraph 26(1), (2) and (3)  
 paragraph 28  
 paragraph 31(2)  
 paragraph 32(1) and (3)  
 paragraph 33(2) and (3)  
 paragraph 34(1) and (3)  
 paragraph 36  
 paragraph 42  
 paragraph 43(a) and (b)

Schedule 4A to the Companies Act 1985

Schedule 7 to the Companies Act 1985, paragraph 1(2)

Schedule 9 to the Companies Act 1985

Schedule 9A to the Companies Act 1985

***Republic of Ireland***

The Schedule to the Companies (Amendment) Act 1986:  
 paragraph 5  
 paragraph 6  
 paragraph 7(2)  
 paragraph 14(1), (2) and (3)  
 paragraph 16  
 paragraph 19(2)  
 paragraph 20(1) and (3)  
 paragraph 21(2) and (3)  
 paragraph 22(1) and (4)  
 paragraph 24  
 paragraph 29  
 paragraph 30(a) and (b)

European Communities (Companies: Group Accounts) Regulations 1992

No specific requirement

European Communities (Credit Institutions: Accounts) Regulations 1992

European Communities (Insurance Undertakings: Accounts) Regulations 1996

***[Draft] Financial Reporting Standard Ƴ Borrowing Costs is set out in paragraphs 1-31.***

***The Statement of Standard Accounting Practice, which comprises the paragraphs set in bold type, should be read in the context of the Objective, the definitions set out in paragraph 4 and also of the Foreword to Accounting Standards and the Statement of Principles for Financial Reporting currently in issue.***

***The explanatory paragraphs contained in the [draft] FRS shall be regarded as part of the Statement of Standard Accounting Practice insofar as they assist in interpreting that statement.***

*This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comment received before being issued in final form.*



# [DRAFT] FINANCIAL REPORTING STANDARD: BORROWING COSTS

## Objective

The objective of this Standard is to prescribe the accounting treatment for borrowing costs. This Standard generally requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

## Scope

1. *This Standard should be applied in accounting for borrowing costs.*
2. ~~This Standard supersedes IAS 23, Capitalisation of Borrowing Costs, approved in 1983.~~
3. This Standard does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability.
- 3A. *This Standard applies to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure), except that reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt. [ASB]*

## Definitions

4. *The following terms are used in this Standard with the meanings specified:*

*Borrowing costs* are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

*A qualifying asset* is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

5. Borrowing costs may include:
  - (a) interest on bank overdrafts and short-term and long-term borrowings;
  - (b) amortisation of discounts or premiums relating to borrowings;
  - (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
  - (d) finance charges in respect of finance leases recognised in accordance with SSAP 21, Accounting for leases and hire purchase contracts~~IAS 17, Leases; and~~
  - ~~(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.~~
6. Examples of qualifying assets are inventories that require a substantial period of time to bring them to a saleable condition, manufacturing plants, power generation facilities and investment properties. Other investments, and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

## Borrowing Costs - Benchmark Treatment

### Recognition

7. *Borrowing costs should be recognised as an expense in the period in which they are incurred.*
8. Under the benchmark treatment borrowing costs are recognised as an expense in the period in which they are incurred regardless of how the borrowings are applied.

## Disclosure

- 9. *The financial statements should disclose the accounting policy adopted for borrowing costs.***

## Borrowing Costs - Allowed Alternative Treatment

### Recognition

- 10. *Borrowing costs should be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 11.***
- 11. *Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard.***
12. Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction or production of an asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

### *Borrowing Costs Eligible for Capitalisation*

13. The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an enterprise borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

14. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an enterprise is co-ordinated centrally. Difficulties also arise when a group uses a range of debt instruments to borrow funds at varying rates of interest, and lends those funds on various bases to other enterprises in the group. Other complications arise through the use of loans denominated in or linked to foreign currencies, when the group operates in highly inflationary economies, and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition of a qualifying asset is difficult and the exercise of judgement is required.
15. *To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.*
16. The financing arrangements for a qualifying asset may result in an enterprise obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditure on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any investment income earned on such funds is deducted from the borrowing costs incurred.
17. *To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.*

18. In some circumstances, it is appropriate to include all borrowings of the parent and its subsidiaries when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each subsidiary to use a weighted average of the borrowing costs applicable to its own borrowings.

*Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount*

19. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other ~~International~~ Accounting Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other ~~International~~ Accounting Standards.

*Commencement of Capitalisation*

- 20. *The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when:***

- (a) expenditures for the asset are being incurred;***
- (b) borrowing costs are being incurred; and***
- (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.***

21. Expenditures on a qualifying asset include only those expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest-bearing liabilities. Expenditures are reduced by any progress payments received and grants received in connection with the asset (see SSAP 4, Accounting for government grants~~IAS 20, Accounting for Government Grants and Disclosure of Government Assistance~~). The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

22. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

### *Suspension of Capitalisation*

**23. *Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted.***

24. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period needed for inventories to mature or the extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

### *Cessation of Capitalisation*

**25. *Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.***

26. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.
27. ***When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.***
28. A business park comprising several buildings, each of which can be used individually is an example of a qualifying asset for which each part is capable of being usable while construction continues on other parts. An example of a qualifying asset that needs to be complete before any part can be used is an industrial plant involving several processes which are carried out in sequence at different parts of the plant within the same site, such as a steel mill.

## Disclosure

29. ***The financial statements should disclose:***
- (a) the accounting policy adopted for borrowing costs;***
  - (b) the amount of borrowing costs capitalised during the period; and***
  - (c) the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation.***
30. [Deleted]\*

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\* Paragraph 30 contained the original transitional provisions of IAS 23.

## Effective Date

31. *The accounting practices set out in this Standard should be regarded as standard in respect of accounting periods ending on or after [date to be inserted after exposure]. Earlier adoption is encouraged. This International Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January 1995.*



## **SUMMARY OF MAIN CHANGES PROPOSED BY THE IASB**

The main changes proposed to IAS 16 are:

- to amend the definition of residual value in paragraph 6 for greater consistency with the guidance in the last sentence of paragraph 46. The amended definition would require an entity to use current prices for assets of a similar age and condition to the estimated age and condition of the asset when it reaches the end of its useful life.
- to amend paragraph 12 to clarify that a component approach to depreciation and to the treatment of expenditure to replace or renew a component of an item of property, plant and equipment is applied to all such items. Under a component approach, each material component of an asset with a different useful life or different pattern of depreciation is depreciated separately and expenditure on replacing or renewing the component is capitalised. This amendment would achieve greater consistency with paragraph 27 of IAS 16 (see paragraph 22B).
- to insert in paragraph 15 additional guidance that the directly attributable costs included in the cost of an item of property, plant and equipment:
  - are those to bring the asset to the location and working condition necessary for it to be capable of operating in the manner intended by management (including those to test whether the asset is functioning properly); and
  - are determined after deducting the net proceeds from selling any items produced when bringing the asset to that location and condition.
- to add paragraph 17B to provide guidance on the treatment of income and related expenses of operations that are incidental to the construction or development of an item of property, plant and equipment.
- to include paragraphs 20A and 20B to provide additional guidance on the principle that the cost of an item of property, plant and equipment includes the costs of dismantling and removing the asset and restoring the site on which that asset is located (this principle was stated in paragraph 15(e) of IAS 16).

- to amend paragraphs 21 and 22 to specify that exchanges of items of property, plant and equipment (regardless of whether the assets are similar) are measured at fair value, except that when the fair value of neither of the assets exchanged can be determined reliably, the cost of the asset acquired in the exchange is measured at the carrying amount of the asset given up. For the purpose of applying this requirement, amended paragraph 21 indicates that the fair value of the asset received is used to measure its cost if it is more clearly evident than the fair value of the asset given up. This would amend the requirement in paragraph 22 to measure the cost of the asset acquired at the carrying amount of the asset given up in respect of the following exchanges:
  - an acquisition of an item of property, plant and equipment in exchange for a similar asset that has a similar use in the same line of business and a similar fair value; and
  - a sale of an item of property, plant and equipment in exchange for an equity interest in a similar asset.

As a consequence, paragraph 11 of SIC-13, Jointly Controlled Entities — Non-Monetary Contributions by Venturers, would be deleted.

- to add paragraph 22A to specify that a component approach is applied to depreciation and to the treatment of expenditure to replace or renew a component of an item of property, plant and equipment.
- to add paragraphs 22C and 22D to provide guidance that the component approach specified in paragraph 22A is applied when a separate component of an item of property, plant and equipment is identified in respect of a major inspection to enable the continued use of the item. As a result, the section including paragraphs 22A-22D incorporates the Consensus in SIC-23, Property, Plant and Equipment — Major Inspection or Overhaul Costs, and SIC-23 will be withdrawn.
- to amend paragraph 23 to replace the originally assessed standard of performance with the standard of performance assessed immediately before the expenditure was made as part of the criterion for determining whether subsequent expenditure relating to an item of property, plant and equipment should be capitalised. Accordingly, SIC-6, Costs of Modifying Existing Software, will be withdrawn.

- to amend paragraph 46 to require the residual value of an asset to be reviewed as at each balance sheet date, regardless of whether the asset is measured under the benchmark treatment or the allowed alternative treatment. A change in the asset's residual value, other than a change reflected in an impairment loss recognised under IAS 36, Impairment of Assets, would be accounted for prospectively as an adjustment to future depreciation.
- to amend paragraphs 49 and 52 to clarify that the requirement to review periodically the useful life and depreciation method of an item of property, plant and equipment means that such reviews must occur at least at each financial year end.
- to add paragraphs 53A and 53B to specify that compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall, in the period in which it is received, be:
  - included in profit or loss for that period; and
  - disclosed separately.

Paragraphs 53A and 53B incorporate the Consensus in SIC-14, Property, Plant and Equipment — Compensation for the Impairment or Loss of Items. SIC-14 will be withdrawn.

- to include guidance in paragraph 59 that depreciation of an item of property, plant and equipment does not cease when it becomes temporarily idle or is retired from active use and held for disposal.
- to remove the exemption in paragraph 60 from disclosing comparative information for the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment.
- to remove paragraph 61(b), which requires disclosure of the accounting policy for the estimated costs of restoring the site of items of property, plant and equipment (this policy is specified in IAS 37, Provisions, Contingent Liabilities and Contingent Assets).

- to amend paragraph 64(d) and add paragraph 64(e) to require disclosure of the following for items of property, plant and equipment stated at revalued amounts:
  - the methods and significant assumptions applied in estimating the assets' fair values; and
  - the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques.

