

Objective

IAS 16 outlines the accounting treatment for property, plant, and equipment (PPE) to ensure that assets are recorded at a fair value and matched with related economic benefits.

Company Goal

PPE ↑

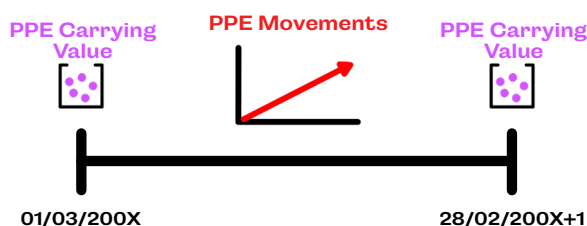
Depreciation ↓

Revaluation/Fair Value ↑

Recognition

An item of PPE should be recognized as an asset if:

- Probable future economic benefits will flow to the Entity AND
- The cost of the asset can be measured reliably.



Key Risks

- Inaccurate Estimates
- Fully depreciated assets still in use
- Capitalisation vs Expenditure

Disclosures

1. General Disclosure:

- The measurement basis used for determining the gross carrying amount (e.g., cost model or revaluation model).
- The depreciation methods used (e.g., straight-line, reducing balance).
- The useful lives or depreciation rates used for each class of asset.
- The carrying amount of each class of PPE (e.g., buildings, machinery, vehicles).
- The existence and amounts of any restrictions on title or assets pledged as security for liabilities.

2. Reconciliation of Carrying Values (Movement Grid)

3. Other Disclosures

- Assets under construction
- Impairment indicators
- Changes in estimates
- Revaluation disclosures
- Major inspection costs
- Restoration provisions

Financial Line Items

- PPE – Cost (BS) [P]
- PPE – Accumulated Depreciation (BS) [P]
- Depreciation (IS) [I]
- Fair Value Movement (IS) [I]
- Revaluation Reserve (BS) [P]

Scope

IAS 16 applies to all items of PPE, except for:

- Assets classified as held for sale (IFRS 5).
- Biological assets (IAS 41).
- Exploration and evaluation assets (IFRS 6).
- Investment property (IAS 40).

Measurement

Initial Measurement

PPE should initially be measured at cost, which includes:

- Purchase price (including import duties and non-refundable taxes).
- Directly attributable costs (costs of bringing the asset to its intended location and condition).
- Dismantling and restoration costs (if there is a legal obligation).

Subsequent Measurement

1. Cost Model (Depreciation)
2. Revaluation Model

Depreciation

- Depreciable amount = Cost (or revalued amount) – Residual value
- Depreciation methods:
 - Straight-line
 - Reducing balance
 - Units of production
- Review of useful life and residual value:
 - At least annually
 - Changes are treated prospectively.

Movement	Buildings (CU)	Machinery (CU)	Vehicles (CU)	Total (CU)
Opening Balance	500,000	300,000	100,000	900,000
Additions	50,000	100,000	30,000	180,000
Disposals (Net)	-	(20,000)	(10,000)	(30,000)
Depreciation	(25,000)	(60,000)	(20,000)	(105,000)
Impairment Losses	-	-	(5,000)	(5,000)
Revaluation Surplus	80,000	-	-	80,000
Closing Balance	605,000	320,000	95,000	1,020,000