IAS 16

PROPERTY, PLANT AND EQUIPMENT

CONTENT

I OVERVIEW

In April 2001 the International Accounting Standards Board (Board) adopted IAS 16 Property, Plant and Equipment, which had originally been issued by the International Accounting Standards Committee in December 1993.

II OBJECTIVE

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

III SCOPE

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

- Assets classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
- Biological assets related to agricultural activity accounted for under IAS 41 *Agriculture*.

III SCOPE *(cont.)*

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

– Exploration and evaluation assets recognised in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

– Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

IV. CONTENT IAS 16

1. Initial recognition

2. Measurement after initial recognition

3. Depreciation

4. Impairment

5. Residual value and useful life

1. Initial recognition

Items of property, plant, and equipment should be recognized as assets when it is probable that:

– It is probable that the future economic benefits associated with the asset will flow to the entity;

– And the cost of the asset can be measured reliably.

An item of PPE that qualifies for recognition as an asset shall be measured at its cost.

1. Initial recognition *(cont.)*

The cost of an item of PPE comprises:

– Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

– Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

– The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

2. Measurement after initial recognition

IAS 16 allows two accounting models: the cost model and the revaluation model. The selected model should be applied to an entire class of property, plant, and equipment:

– Cost model: The asset is carried at cost less accumulated depreciation and impairment.

– Revaluation model: The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably.

3. Depreciation

IAS 16 requires an entity to determine the depreciation charge separately for each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item.

The depreciable amount of an asset 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.

Depreciation methods are applied consistently from period to period unless there is a change in the expected pattern of consumption of future economic benefit.

3. Depreciation *(cont.)*

Depreciation methods shall include:

- The straight-line method;
- The diminishing balance method; and
- Volume depreciation method.

4. Impairment

PPE is subject to impairment assessment. To determine whether an item of property, plant and equipment is impaired, an entity applies IAS 36 - Impairment of Assets. IAS 36 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 the recognition of, an impairment loss.

5. Residual value and useful life

Under IAS 16, the residual value and useful life is required to be reviewed at least at each financial year-end and if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate.

Build Trust
Create Value

V COMPARE IAS 16 AND VAS 03 – FIXED ASSETS

Comparative content:

- Scope
- Conditions
- Recognition of assets
- Depreciate each asset component

V

COMPARE IAS 16 AND VAS 03 – FIXED ASSETS

Comparative content:

- Historical cost
- Measurement after initial recognition
- Impairment
- Residual value and useful life

V COMPARE IAS 16 AND VAS 03 – FIXED ASSETS *(cont.)*

Content	IAS 16	VAS 03
Scope	IAS 16 does not apply to Biological Assets related to agricultural activities; Tangible fixed assets are classified as long-term assets held for sale.	No separate standards have been issued for these assets which follow VAS 03.
Conditions	It is probable that the future economic benefits associated with the asset will flow to the entity, And the cost of the asset can be measured reliably.	In addition to the 2 conditions like IAS 16, VAS 03 also adds 2 conditions: Estimated useful life over 1 year; and Meets value standards according to current regulations.
Recognition of assets	There is no minimum fixed asset recognition threshold.	The current minimum value requirement is VND 30 million.
Depreciate each asset component	Specific requirement to depreciate major components of an asset separately. May vary among the rest of that property.	VAS 03 does not require an entity to clearly set out the depreciation charge for each a significant part of PPE.

ICL Build Trust Create Value

V COMPARE IAS 16 AND VAS 03 – FIXED ASSETS *(cont.)*

Content	**IAS 16**	**VAS 03**
Historical cost	There are initial estimates of costs for destruction, asset transfer, site return and restoration of current status when purchasing assets that are included in the historical cost of PPE.	Not to mention the initial estimates of costs of destruction, asset transfer, site return and restoration of current status when purchasing assets are included in the historical cost of tangible fixed assets.
Measurement after initial recognition	IAS 16 allows two accounting models: **Cost model:** The asset is carried at cost less accumulated depreciation and impairment. **Revaluation model:** The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably.	VAS 03 only allows cost models. Assets are only allowed to be revalued in limited circumstances.

V COMPARE IAS 16 AND VAS 03 – FIXED ASSETS *(cont.)*

<table>
<tr><th>Content</th><th>IAS 16</th><th>VAS 03</th></tr>
<tr><td>Impairment</td><td>PPE is subject to impairment assessment.</td><td>Does not mention recording losses due to impairment of tangible fixed assets.</td></tr>
<tr><td>Residual value and useful life</td><td>Under IAS 16, the residual value and useful life is required to be reviewed at least at each financial year-end and if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate.</td><td>VAS 3 has no terms of the review of residual value at each financial year end, whereas it also requires the review of useful life at year end.</td></tr>
<tr><td>Depreciation</td><td colspan="2">The depreciable amount of an asset 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.

Depreciation methods are applied consistently from period to period unless there is a change in the expected pattern of consumption of future economic benefit.</td></tr>
</table>

CONTACT US

At ICL, we have many service packages to optimally meet the different needs of customers. In addition, we can flexibly adjust service packages to best suit customers' specific requirements.

If you need to provide a quote, or need to discuss more about your needs to receive advice on the most suitable solution package, please contact us according to the following instructions:

reanda-icla.com

info@reanda-icla.com

028 224 587 87

No. 06 - 07 Phan Ton street, Da Kao Ward, District 1, HCM City