IAS 16 Property, Plant & Equipments

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.

Scope

IAS 16 does not apply to

1) assets classified as held for sale in accordance with IFRS 5
2) exploration and evaluation assets (IFRS 6)
3) biological assets related to agricultural activity (see IAS 41) or
4) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources

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

Recognition

Items of property, plant, and equipment should be recognised as assets when it is probable that: [IAS 16.7]
1) it is probable that the future economic benefits associated with the asset will flow to the entity, and
2) the cost of the asset can be measured reliably.

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

If the cost model is used, each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. [IAS 16.43]

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

Also, continued operation of an item of property, plant, and equipment (for example, an aircraft) may require regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed. [IAS 16.14]

Initial Measurement

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

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

If an asset is acquired in exchange for another asset (whether similar or dissimilar in nature), the cost will be measured at the fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. [IAS 16.24]
Measurement Subsequent to Initial Recognition

IAS 16 permits two accounting models:

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

The Revaluation Model

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

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

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

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

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

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

Depreciation (Cost and Revaluation Models)

For all depreciable assets:

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

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

The depreciation method used should reflect the pattern in which the asset’s economic benefits are consumed by the entity [IAS 16.60];
The depreciation method should be reviewed at least annually and, if the pattern of consumption of benefits has changed, the depreciation method should be changed prospectively as a change in estimate under IAS 8. [IAS 16.61]

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

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

Recoverability of the Carrying Amount

IAS36 requires impairment testing and, if necessary, recognition for property, plant, and equipment. An item of property, plant, or equipment shall not be carried at more than recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

Derecognition (Retirements and Disposals)

An asset should be removed from the balance sheet on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in the income statement. [IAS 16.67-71]

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

Disclosure

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

1) basis for measuring carrying amount
2) depreciation method(s) used
3) useful lives or depreciation rates
4) gross carrying amount and accumulated depreciation and impairment losses
5) reconciliation of the carrying amount at the beginning and the end of the period, showing:
   a. additions
   b. disposals
   c. acquisitions through business combinations
   d. revaluation increases or decreases
   e. impairment losses
   f. reversals of impairment losses
   g. depreciation
   h. net foreign exchange differences on translation

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i. other movements

Also disclose: [IAS 16.74]

1) restrictions on title
2) expenditures to construct property, plant, and equipment during the period
3) contractual commitments to acquire property, plant, and equipment
4) compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in profit or loss

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

1) the effective date of the revaluation
2) whether an independent valuer was involved
3) the methods and significant assumptions used in estimating fair values
4) the extent to which 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
5) for each revalued class of property, the carrying amount that would have been recognised had the assets been carried under the cost model
6) the revaluation surplus, including changes during the period and any restrictions on the distribution of the balance to shareholders
Scope of IAS 16

- Applies in accounting for PPE except
  a) PPE classified as held for sale as per IFRS 5
  b) Biological Assets as per IAS 41
  c) Recognition and Measurement of exploration and evaluation assets
  d) Mineral rights and mineral reserves

  Applies to PPE used to develop or maintain the assets in (b) to (d)

- IAS 17 Leases?
Property, Plant and Equipment?

- Tangible items that are
  - Held for use
  - In the production or supply of goods or services, for rental to others, or for administrative purposes
  - Expected to be used during more than one period

Recognition Principle

- To be recognised if
  - It is probable that FEB associated with the item will flow to the entity
  - Reliable measurement of the cost of the item

- Safety/Environmental Equipments
Spare parts & Servicing Equip.

If expected to be used for Less than one period
- Carried as Inventory and expensed as consumed

If expected to be used for More than one period
- Included in the cost of PPE
- To be depreciated over the period that does not exceed useful life of related asset

If to be used only in connection with PPE

Cost of Acquired or Self-Constructed Assets

**INCLUDES**
- Purchase price (including import duties and non-refundable purchase taxes)
- Less
  - any discounts or rebates deducted
  - implicit interest in deferred payment
  - borrowing costs in the case of “qualifying assets” (refer IAS 23)
  - any other directly attributable costs (e.g. employee benefits, site preparation, initial delivery and handling costs etc.)
  - initial estimate of costs of dismantling & removing the item & restoring the site on which it is located

**EXCLUDES**
- Costs related to
  - Abnormal amounts of wasted material, labour and other resources
  - Opening a new facility
  - introducing a new product or service (including costs of advertising and promotional activities)
  - Conducting business in a new location or with a new class of customer (including costs of staff training)
  - Administration & other general overhead costs
  - Using or redeploying an item
  - Certain incidental operations
  - Period when construction is interrupted, unless certain criteria are met

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Quick Check?

- Installation or erection charges?
- Testing cost?
- Administration and general overheads?
- Initial operating loss while demand for item’s output builds up?
- Sale of samples during trial run?
- Cost of relocating or re-organising?

Issues / Examples

• A Ltd. is constructing a building on a particular site. A Ltd. uses that part of the site pending for construction as a car park. A Ltd. had reduced the cost of the building by the income received from car park. Is the treatment given by A Ltd. proper?
Component Accounting

Issues involved

- Identification of components
- How much detailed
- Maintaining Fixed Assets Register
- Subjectivity

Subsequent Costs

- Day-to-day servicing cost
- Major inspection and Replacement
Acquired in Exchange of Another Asset

- Cost of exchanged asset is measured at fair value unless
  - Exchange transaction lacks commercial substance, or
  - Fair value of neither asset received nor given up can be measured reliably

Cost of PPE acquired in exchange of another Asset

Fair value of asset given up is used, unless fair value of asset received is more clearly evident

If not measured at fair value, carrying amount of the asset given up becomes the new cost

Subsequent Measurement

- Cost Model
  - At component cost
- Revaluation Model
  - Entire class of PPE to be revalued
  - Methods of Revaluation
    - Gross Adjustment Method
    - Net Adjustment Method
  - Revaluation surplus to be transferred directly to retained earnings, when the asset is derecognised.
Treatment of Revaluation Reserve

- Increase in carrying amount (on disposal)
  - Increase in OCI (under revaluation reserve)
  - Increase in PL to the extent of previous debit to PL

- Decrease in carrying amount (on disposal)
  - Decrease in PL
  - Decrease in OCI to the extent of previous credit balance in OCI

Revaluation reserve transferred to retained earnings when it is realized.

Under no circumstances can the revaluation reserve, or part thereof, be credited to the income statement.

Depreciation

- Component depreciation to be recognised in IS
- Begins when the asset is available for use
- Annual review of Useful Life, Residual Value and Depreciation Method
- Treatment of changes in Useful Life, Residual Value and Depreciation Method
- Ceases at the earlier of
  - Classification as Held for Sale
  - Date of derecognition of the Asset
Derecognition

• To be derecognised
  – On disposal or
  – When no FEBs are expected from its use
• Gain or loss on de-recognition to be recognised in Income Statement
• Gain not to be classified as revenue

Disclosures

• For each class of PPE
  – Measurement bases used
  – The depreciation methods used
  – Useful lives or the depreciation rates used
  – Reconciliation of Carrying Amount
IAS 38 Intangible Assets

(A) Objective
The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

(B) Scope
IAS 38 applies to all intangible assets other than: [IAS 38.2-3]
- Financial assets
- Exploration and evaluation assets (extractive industries)
- Expenditure on the development and extraction of minerals, oil, natural gas, and similar resources
- Intangible assets arising from insurance contracts issued by insurance companies
- Intangible assets covered by another IFRS, such as intangibles held for sale, deferred tax assets, lease assets, assets arising from employee benefits, and goodwill. Goodwill is covered by IFRS 3.

(C) Definition
- An intangible asset is an identifiable non-monetary asset without physical substance.

  Identifiability: an intangible asset is identifiable when it: [IAS 38.12]
  - is separable (i.e. capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract) or
  - arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

(D) Recognition
- The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:
  - the definition of an intangible asset; and
  - the recognition criteria.
- This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it.

- An intangible asset shall be recognised if, and only if:
  - it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
  - the cost of the asset can be measured reliably.
The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

(E) Measurement

Initial Measurement-
- An intangible asset shall be measured initially at cost.

- The cost of a separately acquired intangible asset comprises:
  - its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
  - any directly attributable cost of preparing the asset for its intended use.

- In accordance with IFRS 3 Business Combinations, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. If an asset acquired in a business combination is separable or arises from contractual or other legal rights, sufficient information exists to measure reliably the fair value of the asset.

- In accordance with this Standard and IFRS 3 (as revised in 2008), an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. This means that the acquirer recognises as an asset separately from goodwill an in-process research and development project of the acquiree if the project meets the definition of an intangible asset.

- Internally generated intangible assets
  - Internally generated goodwill shall not be recognised as an asset.
  - No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.
  - An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:
    (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
    (b) its intention to complete the intangible asset and use or sell it.
    (c) its ability to use or sell the intangible asset.
    (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

* Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.
* The cost of an internally generated intangible asset for the purpose of paragraph 24 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 21, 22 and 57. Paragraph 71 prohibits reinstatement of expenditure previously recognised as an expense.

* Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:
  o it forms part of the cost of an intangible asset that meets the recognition criteria; or
  o the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, it forms part of the amount recognised as goodwill at the acquisition date.

Measurement after recognition
An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

(A) Cost model:
After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

(B) Revaluation model:
After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

An active market is a market in which all the following conditions exist:
(a) the items traded in the market are homogeneous;
(b) willing buyers and sellers can normally be found at any time; and
(c) prices are available to the public.

If an intangible asset’s carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an intangible asset’s carrying amount is decreased as a result of a
revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

(F) Useful life of Intangible Assets

Useful life is:
(a) the period over which an asset is expected to be available for use by an entity; or
(b) the number of production or similar units expected to be obtained from the asset by an entity.
An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.
The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset. If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.
To determine whether an intangible asset is impaired, an entity applies IAS 36 Impairment of Assets.

Intangible assets with finite useful lives
The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.
The residual value of an intangible asset is the estimated amount that an 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. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or
(b) there is an active market for the asset and:
   (i) residual value can be determined by reference to that market; and
   (ii) it is probable that such a market will exist at the end of the asset’s useful life.

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with IAS 8.

✿ Intangible assets with indefinite useful lives
An intangible asset with an indefinite useful life shall not be amortised. In accordance with IAS 36 Impairment of Assets, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount:
   (a) annually, and
   (b) whenever there is an indication that the intangible asset may be impaired.

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

(G) Disclosure

For each class of intangible asset, disclose: [IAS 38.118 and 38.122]

• useful life or amortisation rate
• amortisation method
• gross carrying amount
• accumulated amortisation and impairment losses
• line items in the income statement in which amortisation is included
• reconciliation of the carrying amount at the beginning and the end of the period showing:
  o additions (business combinations separately)
  o assets held for sale
  o retirements and other disposals
  o revaluations
  o impairments
  o reversals of impairments
  o amortisation
  o foreign exchange differences
  o other changes

• basis for determining that an intangible has an indefinite life

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• description and carrying amount of individually material intangible assets
• certain special disclosures about intangible assets acquired by way of government grants
• information about intangible assets whose title is restricted
• contractual commitments to acquire intangible assets

Additional disclosures are required about:

• intangible assets carried at revalued amounts [IAS 38.124]
• the amount of research and development expenditure recognised as an expense in the current period [IAS 38.126]
INTANGIBLE ASSETS
IAS – 38, SIC - 32

SCOPE
The Standard does not apply to those intangible assets covered by other Standards, such as
Y Intangible assets held for sale in the ordinary course of business (IAS 2)
Y Deferred tax assets (IAS 12)
Y Leases within the scope of IAS 17
Y Assets arising from employee benefit plans (IAS 19)
Y Financial assets covered by IAS 39; IAS 27, IAS 28, or IAS 31
Y Goodwill acquired in a business combination (IFRS 3)
Y Deferred acquisition costs and intangible assets arising from insurance contracts (IFRS 4) (However, the disclosure requirements for such intangible assets are applicable.)
Y Non-current intangible assets classified as held for sale in accordance with IFRS 5.
DEFINITIONS OF KEY TERMS

- **Intangible asset.** An identifiable, non-monetary asset without physical substance.

- **Asset:** A resource controlled by an entity as a result of past events and from which FEB are expected to flow to the entity.

- **Useful life.** The period over which an asset is expected to be utilized, or the number of production units expected to be obtained from the use of the asset.

Identifiability

An asset is identifiable if it either:

(a) is separable i.e is capable of being separated from the entity and sold, transferred, licensed, or rented either individually or in combination with a related contract, asset, or liability, regardless of whether entity intends to do so; or

(b) Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or other rights or obligations.
Recognition of Intangible Assets

(A) Intangible Assets
- Identifiable
- Non-Monetary Asset
- Without Physical

(B) Recognition Criteria
- FEB flow to the entity
- Cost Measurable

Entity Controls the Asset
- FEB expected to flow to the entity

Acquisition of Intangible Assets

- Separate Acquisition
  - Purchase Price
  - Directly attributable cost

- As part of Business Combination
  - Recognition
  - Fair Value

- By way of Government Grant
  - At Fair Value
  - At Nominal Amount

- Exchange of Assets
  - At Fair Value
  - At carrying amount

Subsequent expenditure - whether intangible asset?

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Intangible Asset – Computer Software

If it is integral Part of Hardware
- IAS 16

Otherwise
- IAS 38

Internally Generated Intangible Assets

- Internally Generated Goodwill
- Internally generated brands, mastheads, publishing titles, customer lists, and similar items, and expenditure thereon
Research and Development Exp.

**Definition**

**Research:** Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

**Development:** The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services before the start of commercial production or use.

If above can not be segregated then consider entire expenses as Research
Research and Development Exp.

Y Development expenditure may be recognized as an intangible asset when, and only when, **ALL** of the following can be demonstrated:

- The technical feasibility of completing the asset so that it will be available for use or sale
- The intention to complete the asset and use or sell it
- The ability to use or sell the asset
- How the asset will generate probable future economic benefit, including demonstrating a market for the asset’s output, or for the asset itself, or the asset’s usefulness
- The availability of sufficient technical, financial, and other resources to complete the development and to use or sell the asset
- The ability to reliably measure the expenditure attributable to the asset during its development

Quick Check?

<table>
<thead>
<tr>
<th>S. N.</th>
<th>Nature of Item</th>
<th>Capitalised?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Pre-operating cost of business facility</td>
<td>No</td>
</tr>
<tr>
<td>2.</td>
<td>Recipes, secret formulas, models and designs, prototype</td>
<td>Yes</td>
</tr>
<tr>
<td>3.</td>
<td>Training, customer loyalty, and market share</td>
<td>No</td>
</tr>
<tr>
<td>4.</td>
<td>Licensing, royalty, and stand-still agreements</td>
<td>Yes</td>
</tr>
<tr>
<td>5.</td>
<td>In-house—developed software</td>
<td>Yes</td>
</tr>
<tr>
<td>6.</td>
<td>Operating and broadcast rights</td>
<td>Yes</td>
</tr>
<tr>
<td>7.</td>
<td>Internally generated goodwill</td>
<td>No</td>
</tr>
<tr>
<td>8.</td>
<td>A license to manufacture a steroid by means of a government grant</td>
<td>Yes</td>
</tr>
<tr>
<td>9.</td>
<td>A television advertisement that will stimulate the sales in the technology industry</td>
<td>No</td>
</tr>
</tbody>
</table>
Measurement

Initial Measurement → At Cost only (general principle)

Subsequent Measurement

→ Cost Model
→ Revaluation Model

Revaluation Model

Y Fair values are to be determined from an active market

Y An active market is one in which the items traded are homogeneous, willing buyers and sellers can be found at any time, and prices are available to the public. Therefore, in most instances, the revaluation model will not be a realistically usable model.

Y Revaluations are to be determined only by reference to an active market. Use of valuation models and other techniques is not permitted.

Y If an intangible asset in a class of revalued intangible asset can not be revalued ??

Y If subsequently fair value of revalued intangible asset no
longer determined as active market not exist ??
Treatment of Revaluation Reserve

- Increase in carrying amount (on
  - Increase in OCI (under revaluation reserve)
  - Increase in PL to the extent of previous debit to PL

- Decrease in carrying amount (on
  - Decrease in PL
  - Decrease in OCI to the extent of previous credit balance in OCI

On Disposal
  - Decrease in PL
  - Decrease in OCI to the extent of previous credit balance in OCI

Revaluation reserve transferred to retained earnings when it is realized.

Under no circumstances can the revaluation reserve, or part thereof, be credited to the income statement.

Amortisation of Intangible Assets

Finite Life
- Amortised on a systematic basis over its useful life
- Residual value assumed to be zero unless
  - Commitment by third party
  - Residual value by Active market – probable to exist at end

Indefinite Life
- Not Amortised (review useful life assessment each period)
- Test for Impairment
  - Annually and
  - Whenever indication
Amortisation of Intangible Assets

Y Amortization shall commence when the asset is ready for use and shall cease when it is fully depreciated or is reclassified as held for sale

Y Residual value & Useful Life be reassessed at each balance sheet date.

Y Amortisation period and amortisation method to be reviewed at each balance sheet date.

Y Any changes are to be treated as changes in accounting estimates.

SIC 32 Web Site Development Costs

Y SIC 32 lays down guidance on the treatment of Web site costs consistent with the criteria for capitalization of costs established by IAS 38 - a Web site that has been developed for the purposes of promoting and advertising an entity’s products and services does not meet the criteria for capitalization of costs under IAS 38. Thus costs incurred in setting up such a Web site should be expensed.
IFRS 5 Non-Current Assets Held for Sale

(A) Objective:

The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations.

(B) Summary:

(a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease;
(b) an asset classified as held for sale and the assets and liabilities included within a disposal group classified as held for sale to be presented separately in the statement of financial position; and
(c) the results of discontinued operations to be presented separately in the statement of comprehensive income.

(C) Classification as Non-Current Assets Held for Sale

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9 of IFRS 5, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

(D) Discontinued Operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and
(a) represents a separate major line of business or geographical area of operations,
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
(c) is a subsidiary acquired exclusively with a view to resale.

ASSETS Standards
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Objective

The objective of this IFRS is to specify
- the accounting for Non-current assets held for sale, and
- the presentation and disclosure of discontinued operations.
Scope

- Classification and Presentation requirements
  - apply to all recognized non-current assets and to all disposal groups of an entity.

- Measurement requirements
  - Apply to non-current assets and disposal groups with some exceptions

- A “Disposal Group” is a group of assets, possibly with some directly associated liabilities, together in a single transaction. Such a disposal group may be a group of cash-generating units, a single cash-generating unit, or part of a cash-generating unit. The group may include any assets and any liabilities of the entity, including current assets, current liabilities.

Exception to Measurement (Disposal Group)

(a) Deferred tax assets (IAS 12 Income Taxes).
(b) Assets arising from employee benefits (IAS 19 Employee Benefits).
(c) Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement.
(d) Non-current assets that are accounted for in accordance with the fair value model in IAS 40 Investment Property.
(e) Non-current assets that are measured at fair value less costs to sell in accordance with IAS 41 Agriculture.
(f) Contractual rights under insurance contracts as defined in IFRS 4 Insurance Contracts.
Classification as HELD FOR SALE

- If carrying amount will be recovered principally through selling transaction rather than through continuing use

Criteria

Available for immediate sale in present condition
Sale Highly Probable
Management committed to a plan to sale
Active progr. to locate buyer and complete plan
Significant Changes to plan unlikely
Actively marketed at Reasonable Price
Completion expected within 1 year

Case Study

An entity committed to plan of selling Headquarter Building and has appointed a real estate dealer to find a buyer. The entity intends to vacate the building on registration of transfer. Does it satisfy the condition that the asset is available for immediate sale?
Case Study

An entity committed to plan of selling Headquarter Building and has appointed a real estate dealer to find a buyer. The entity intends to vacate the building unless construction of a new building is completed. Does it satisfy the condition that the asset is available for immediate sale?

Extension of One year period condition

At the classification date, reasonable expectation of other party imposing conditions and action can begin after firm purchase commitment only (e.g. time of regulatory approval known only after buyer known).

After firm purchase commitment, unexpectedly imposed conditions (e.g. environmental damage – action taken timely and favourable resolution expected)

Unforeseen circumstances/events happened during one year period - Taken necessary actions and conditions met
Non current assets which are to be abandoned

- Not qualify as sale, therefore asset is not classify as held for sale
- If it meets the criteria of discontinued operations, entity to present/disclose as discontinued operation

Measurement Principles

- **Measurement**: At lower of carrying amount and fair value less cost to sell
- **No depreciation** on non-current assets held for sale
- **Impairment loss**: write down of the asset to fair value less cost to sell
- **Reversal of impairment loss**: subsequent increase in fair value less cost, upto cumulative impairment loss
Measurement of Non current assets (or disposal groups)

The following principles apply:

• **At the time of classification as held for sale.**
  – Immediately before the initial classification as held for sale, measured in accordance with applicable IFRSs.

• **After classification as held for sale.**
  – Measured at the lower of carrying amount and fair value less costs to sell.

• **Sale is expected to occur beyond one year:**
  – Measure the costs to sell at their present value.
  – Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss as a financing cost.

Impairment

• **Timing**: both at the time of classification as held for sale and subsequently:
  
  • **At the time of classification as held for sale.**
    – Measure and recognise impairment in accordance with the applicable IFRSs (generally IAS 16, IAS 36, IAS 38, and IAS 39).
    – Any impairment loss is recognised in profit or loss unless the asset had been measured at revalued amount under IAS 16 or IAS 38, in which case the impairment is treated as a revaluation decrease.
  
  • **After classification as held for sale.**
    – Difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell.
    – Any impairment loss must be recognised in profit or loss, even for assets previously carried at revalued amounts.
Changes to Plan of Sale

• If the criteria for such classification are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale.
• Measure at the lower of:
  a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
  b) its recoverable amount at the date of the subsequent decision not to sell
• Adjustment to the carrying amount in profit or loss from continuing operations in the period in which the asset cease to be held for sale are no longer met.

Discontinued operation

• A component of entity that has been disposed off or classified as held for sale and
  (a) Represent a separate major line of business or geographical area of operations,
  (b) Is part of single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
  (c) Is a subsidiary acquired exclusively with a view to resale

• A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.
Presentation and Disclosures

Discontinued Operations:
(A) Statement of Comprehensive Income:
   a single amount (post tax) of discontinued operations
(B) Disclosure in notes or statement of comprehensive income
   - revenue, expense, pre-tax profit or loss from discontinued operations
   - related income tax expense
   - gain or loss recognised on measurement/disposal
   - related income tax expense
(C) Statement of Cash Flow or notes
   Net cash flow attributable to operating, financing and investing activities
(D) Prior-period restated/re-classified to confirm comparability as per discontinued operations on reporting date

Presentation and Disclosures

Disposal Group classified as held for sale:
(A) If not fulfills the definition of discontinued operations – gain/loss part of continuing operation
(B) Statement of Financial Position-
   - Assets/Liability of held for sale shown separately from other assets/liabilities
   - Major classes of A/L to be disclosed separately in statement or notes
(C) Not to re-classify or restate prior period Asset/Liability
IAS – 36 Impairment of Assets

The standard sets out the procedure that entities must apply to ensure that their assets are carried at no more than the amount expected to be recovered through use or sale of the assets.

The application of IAS 36 is proving to be challenging, due in particular to the judgements and estimates that have to be made in assessing whether there are indications of impairment, in identifying ‘cash generating units’ and determining the recoverable amount of assets.

(A) Scope

IAS 36 specifically scopes out the impairment of certain assets for which guidance is given in other standards.

♦ It does not apply to:
  • inventories (IAS 2)
  • assets arising from construction contracts (IAS 11)
  • deferred tax assets (IAS 12)
  • assets arising from employee benefits (IAS 19)
  • financial assets that are within the scope of IAS 39
  • investment property that is measured at fair value (IAS 40)
  • certain biological assets (IAS 41)
  • certain insurance contract assets (IFRS 4)
  • non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5

♦ IAS 36 does apply to (among other assets):
  • land
  • buildings
  • machinery and equipment
  • intangible assets including goodwill
  • investment property carried at cost
  • investments in subsidiaries, associates, and joint ventures

(B) Definitions

Paragraph 6 provides definitions for the following key terms (among others):

* Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

* A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

* Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

* An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

* The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.
* Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

(C) Identifying an asset that may be impaired

According to IAS 36, an asset is impaired if its carrying amount is greater than its recoverable amount. IAS 36 requires that, at each balance-sheet date, an organization must assess whether there are any indications that assets may be impaired. If an indication of impairment exists, the organization is required to estimate the recoverable amount of the asset. Note that with respect to requirements for measuring recoverable amounts, and the general requirements for reversing an impairment loss, the standard uses the term “assets”; notwithstanding, the requirements apply both to individual assets and to cash-generating units.

(D) Annual testing requirements

In addition to testing when there are indications of possible impairment, the following intangible assets must be tested for impairment (by comparing carrying amounts and recoverable amounts) on an annual basis, regardless of whether or not there is any indication of impairment:
- Intangible assets with indefinite useful lives
- Intangible assets not yet available for use
- Goodwill acquired in a business combination

(E) Measuring recoverable amount

IAS 36 defines an asset’s recoverable amount as the higher of its “fair value less costs to sell” and its “value in use.” Accordingly, it is not always necessary to determine both the fair value less costs to sell and its value in use, because if either of these amounts exceeds the asset’s carrying amount, the asset is not impaired.

(F) Reversing an impairment loss

Reversal of an impairment loss for goodwill is prohibited. The logic behind this relates to the fact that if goodwill has previously been impaired and then is regenerated, it is essentially “new” goodwill. This would be considered an internally generated intangible — which cannot be recognized as per IAS 38.

For assets or cash-generating units other than goodwill, the requirements for reversing a previously recognized impairment loss follow the same approach as for the identification of impairments. If a potential reversal in impairment is indicated, the recoverable amount of the asset or unit is estimated. If there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized, the carrying amount of the asset is increased to its recoverable amount. However, the increased carrying amount of an individual asset due to reversal should not be more than the carrying amount that would have been determined (net of amortization) if no impairment loss had been recognized for the asset in prior years.

Paragraph 119 requires that the reversal of an impairment loss be recognized immediately as income in the income statement unless the asset is carried at a
revalued amount in accordance with another standard (consistent with the treatment of impairment losses, the reversal of such a loss is treated as a revaluation increase in accordance with that other standard).

After a reversal of an impairment loss is recognized, amortization is adjusted for future periods.

(G) Presentation and disclosure
As with most other standards, IAS 36 provides a long list of disclosure requirements. To begin, for each class of assets, the financial statements must disclose

- the amount of impairment losses and reversals recognized in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairment losses and reversals are included; and
- the amount of impairment losses and reversals on revalued assets recognized in other comprehensive income during the period.

An entity that reports segment information in accordance with IFRS 8 is required to disclose, for each reportable segment, the amount of impairment losses and reversals recognized in profit or loss and in other comprehensive income during the period.
Objective

• To ensure that assets are carried at no more than their recoverable amount, and to define how recoverable amount is calculated.
Scope

IAS 36 applies to all assets except: [IAS 36.2]

- inventories (see IAS 2)
- assets arising from construction contracts (see IAS 11)
- deferred tax assets (see IAS 12)
- assets arising from employee benefits (see IAS 19)
- financial assets (see IAS 39)
- investment property carried at fair value (see IAS 40)
- certain agricultural assets carried at fair value (see IAS 41)
- insurance contract assets (see IFRS 4)
- assets held for sale (see IFRS 5)

Impairment v. Depreciation

- Impairment is diminution in the value of asset otherwise than depreciation.

<table>
<thead>
<tr>
<th>Depreciation</th>
<th>Impairment</th>
</tr>
</thead>
</table>
| - The objective is to charge the cost of asset over its useful economic life.  
- Matching concept is applied. | - The objective is to bring down the carrying amount to its recoverable amount.  
- Prudence concept is applied. |
Impairment

Carrying Amount > Recoverable Amount

Higher of

- Net Selling Price (Fair Value less cost to Sell)
- Value in Use

Definitions

- **Carrying Amount**: the amount at which an asset is recognised in the statement of financial position after deducting accumulated depreciation and accumulated impairment losses.
- **Fair Value**: The amount obtainable from the sale of an asset in arms length transaction between knowledgeable, willing parties.
- **Value in Use**: The discounted present value of estimated future cash flows expected to arise from the continuing use of an asset, and from its disposal at the end of its useful life.
Frequency of Impairment Testing

- Assess at the end of each reporting period whether there is indication of impairment
- Irrespective of indication - test at least annually
  - Intangible Assets with indefinite useful life
  - Intangible Assets not yet available for use
  - Goodwill acquired in a business combination

Impairment – 3 stages approach

Stage - 1: Indications of Impairment
- Internal and External Impairment Conditions

Stage - 2: Determine Recoverable Amount
- Higher of net selling price and value in use

Stage - 3: Recognise Impairment Loss
- Reduce carrying amount to recoverable
Indications of impairment – Illustrative list

<table>
<thead>
<tr>
<th>External sources</th>
<th>Internal sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>• market value declines</td>
<td>• obsolescence or physical damage</td>
</tr>
<tr>
<td>• negative changes in technology, markets, economy, or laws</td>
<td>• asset is part of a restructuring or held for disposal</td>
</tr>
<tr>
<td>• increases in market interest rates</td>
<td>• worse economic performance than expected</td>
</tr>
<tr>
<td>• company stock price is below book value</td>
<td></td>
</tr>
</tbody>
</table>

Impairment of Assets
Is asset impaired?

<table>
<thead>
<tr>
<th>Cost</th>
<th>Accumulated depreciation</th>
<th>Carrying amount</th>
<th>Recoverable amount</th>
<th>Asset status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000</td>
<td>400</td>
<td>600</td>
<td>900</td>
<td>Asset is not impaired</td>
</tr>
<tr>
<td>1,000</td>
<td>400</td>
<td>600</td>
<td>400</td>
<td>Asset is impaired Reduce carrying amount</td>
</tr>
</tbody>
</table>
Recoverable Amount – FVLCTS: Net Selling Price

- Amount obtainable from sale in an arm’s length transaction between knowledgeable, willing parties less costs of disposal

**How to Determine Fair Value or Selling Price?**

- Price in binding sales agreement
- Current (or most recent) market price
- Based on recent transaction of similar asset within same industry

**Cost of Disposal?**

- Examples – direct incremental cost to bring the asset into condition for sale, legal cost, stamp duty, cost of removing asset etc.

Recoverable Amount – Value in Use

- Present value of estimated future cash flows expected to arise from:
  - continuing use of the asset and
  - disposal at the end of its useful life

- DCF calculation
  - Cash flows and discount rate
Cash Generating Units

• Smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets

• Allocating Goodwill to CGU
  – Goodwill is allocated to CGUs that is expected to benefit from the synergies of the combination.
  – Each unit or group of units to which goodwill is allocated shall
    - represent lowest level within entity at which goodwill is monitored for internal management purpose
    - Not be larger than operating segment determined in accordance with IFRS 8

Goodwill

• Allocating goodwill to CGU
  – Disposal of operation within CGU
  – Re-organisation of reporting structure

• Testing CGU with Goodwill for impairment

• Timing of impairment tests
  – Use of most recent calculations
Impairment Loss

- Allocate impairment loss to assets in the following order:
  1) goodwill allocated to the cash-generating unit
  2) other assets on a pro-rata basis

- Do not reduce carrying amount of any asset below the highest of:
  - the asset’s net selling price,
  - asset’s value in use and
  - zero

Issues

- Corporate Assets
- Minority Interest in Goodwill