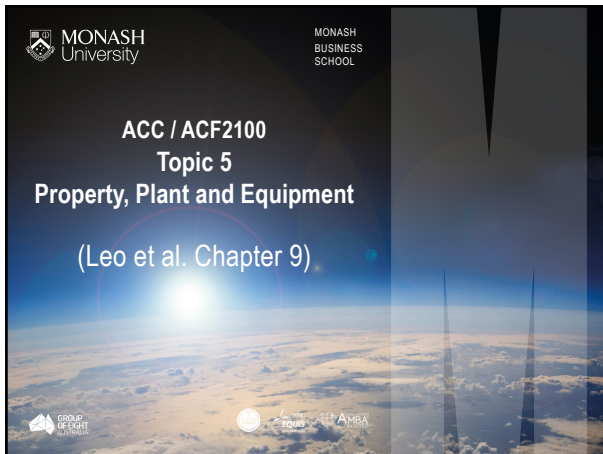
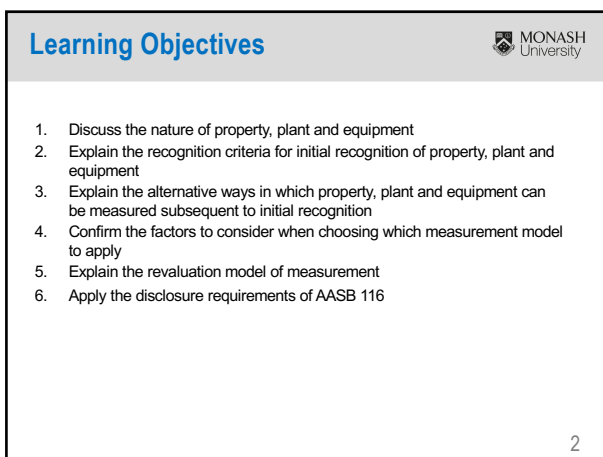




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ACC / ACF2100
Topic 5
Property, Plant and Equipment
(Leo et al. Chapter 9)

GROUP RESEARCH
ACCA
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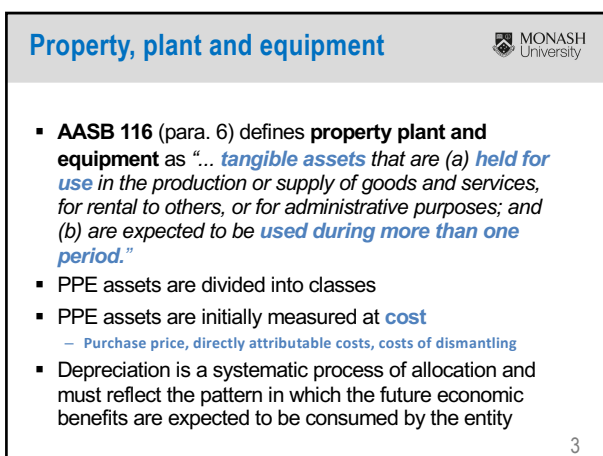


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Learning Objectives

1. Discuss the nature of property, plant and equipment
2. Explain the recognition criteria for initial recognition of property, plant and equipment
3. Explain the alternative ways in which property, plant and equipment can be measured subsequent to initial recognition
4. Confirm the factors to consider when choosing which measurement model to apply
5. Explain the revaluation model of measurement
6. Apply the disclosure requirements of AASB 116

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Property, plant and equipment

- **AASB 116** (para. 6) defines **property plant and equipment** as "... *tangible assets* that are (a) *held for use in the production or supply of goods and services, for rental to others, or for administrative purposes; and* (b) *are expected to be used during more than one period.*"
- PPE assets are divided into classes
- PPE assets are initially measured at **cost**
 - Purchase price, directly attributable costs, costs of dismantling
- Depreciation is a systematic process of allocation and must reflect the pattern in which the future economic benefits are expected to be consumed by the entity

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Measurement subsequent to initial recognition



- AASB 116 allows a choice of two possible measurement models:
 - Cost model
 - Revaluation model
- Accounting policy choice of this decision based primarily on relevance of information
- The policy that is chosen must be applied to a whole class of assets
- Policy choice can be changed, but only if results in more relevant/ reliable information

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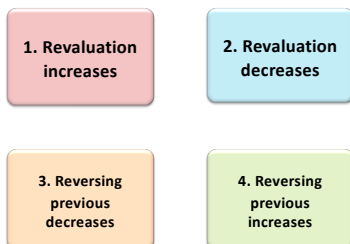
The revaluation model



- AASB 116 allows the revaluation model to be used for classes of assets
- Measurement basis is **fair value (FV)**
- Frequency of revaluations is not specified
 - But it must be performed with sufficient regularity such that the **carrying amount of assets is not materially different from their FV**
- Revaluation performed on class basis
- Accounting performed on asset-by-asset basis

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The revaluation model



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1. Revaluation increases



- **Step 1:** Write off accumulated depreciation
- **Step 2:** Record the revaluation increase in other comprehensive income (OCI)
- **Step 3:** Record the tax effect of the revaluation
 - When we increase CA of an asset, we have created a TTD, because $CA > TB$
 - In this case, we need to record a DTL
- **Step 4:** Transfer the net gain to equity

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2. Revaluation decreases



- **Step 1:** Write off accumulated depreciation
- **Step 2:** Record the revaluation decrease as an expense in profit and loss
- Is there a tax effect? **Yes of course!**
 - We have changed CA of the asset, which creates a tax effect
 - In this case, CA is reduced, creating a DTD and DTA
 - **However...**as the tax effect relates to **P/L** (not OCI), we account for the tax effect in the **deferred tax worksheet only**

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3. Reversing previous decreases



- **Step 1:** Write off accumulated depreciation
- **Step 2:** Record the increase by reversing the previous decrease (limit = previous decrease)
- **Step 3:** Any increase beyond the previous decrease is accounted for in the same way as an initial increase

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4. Reversing previous increases



- **Step 1:** Write off accumulated depreciation
- **Step 2:** Record the decrease by reversing the previous increase (limit = previous increase)
- **Step 3:** Any decrease beyond the previous increase is accounted for in the same way as an initial decrease

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Example



- ABC Ltd has decided to change from the cost model to the revaluation model to account for plant
- At 30 June 2016, ABC Ltd recorded the following assets:

	Cost	Accum depn	Carrying amount	Fair value
Plant A	200,000	120,000	80,000	150,000
Plant B	140,000	40,000	100,000	80,000

- A revaluation increase will be recorded for Plant A and revaluation decrease will be recorded for Plant B

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Revaluation increases



▪ Revaluation of Plant A:

- Step 1: Write off accumulated depreciation

Dr Accum. depreciation 120,000

Cr Plant 120,000

Removal of existing accumulated depreciation prior to revaluation

- Step 2: Record the revaluation increase in OCI

Dr Plant 70,000

Cr Gain on revaluation – OCI 70,000

Revaluation of plant to fair value

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Revaluation increases



- Step 3: Record the tax effect of the revaluation

Dr Income tax expense - OCI 21,000
Cr Deferred tax liability 21,000

Tax effect of revaluation gain (70,000 X 30%)

- Step 4: Transfer the gain to equity

Dr Gain on revaluation – OCI 70,000
Cr Income tax expense – OCI 21,000
Cr Asset revaluation surplus 49,000

Accumulation of net revaluation gain in equity

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Revaluation decreases



- Accounting treatment of a revaluation decrease:
 - Immediate recognition of an expense
 - No extra tax-effect entries beyond the tax-effect worksheet

- Revaluation of Plant B:

Dr Accum. depreciation 40,000
Cr Plant 40,000

Removal of existing accumulated depreciation prior to revaluation

Dr Loss on devaluation - P&L 20,000
Cr Plant 20,000

Devaluation of plant to fair value

The tax effect is captured in the tax worksheets

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Example



- Now using the same information as on slide 11, assume the following...
- Plant A had been revalued downwards by \$80,000 in the previous year (i.e. there is now a reversal)
- Plant B had been revalued upwards by \$15,000 in the previous year (i.e. there is now a reversal)

	Cost	Accum depn	Carrying amount	Fair value
Plant A	200,000	120,000	80,000	150,000
Plant B	140,000	40,000	100,000	80,000

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Reversing previous decreases



- **Revaluation of Plant A:**
- An increase reversing a previous decrease is recognised as a gain in P&L:

Dr Accum. depreciation 120,000
Cr Plant 120,000

Removal of existing accumulated depreciation prior to revaluation

Dr Plant 70,000
Cr Revaluation gain – P&L 70,000

Revaluation of plant to fair value

If the increase was > \$80,000, the amount above \$80,000 is recorded in OCI + Tax effect + Transfer to equity

The tax effect is captured in the tax worksheets

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Reversing previous increases



- **Revaluation of Plant B:**
- A decrease reversing a previous increase eliminates any surplus before recognising an expense...

Dr Accum. depreciation 40,000
Cr Plant 40,000

Removal of existing accumulated depreciation prior to revaluation

Dr Loss on devaluation – OCI 15,000
Dr Loss on devaluation – P&L 5,000
Cr Plant 20,000

Devaluation of plant to fair value

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Reversing previous increases



- Record the tax effect of the OCI component (15,000) of the revaluation:

Dr Deferred tax liability 4,500
Cr Income tax expense - OCI 4,500

Tax effect of devaluation loss

- Transfer the previous gain from equity:

Dr Asset revaluation surplus 10,500
Dr Income tax expense - OCI 4,500
Cr Loss on devaluation - OCI 15,000

Removal of net revaluation gain from equity

See lecture handout...

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Next week...
**Impairment of Assets and
Business Combinations**
