ACCOUNTING STANDARD **AASB 116**

July 2004

Property, Plant and Equipment

Australian Government

Australian Accounting Standards Board

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Australian Accounting Standard AASB 116 *Property, Plant and Equipment* is set out in paragraphs 1 – 79. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 116 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the UIG Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Reasons for Issuing AASB 116

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

(a) International Financial Reporting Standards;

(b) International Accounting Standards; and

(c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

(a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and

(b) UIG Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

First-time Application and Comparatives

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

Main Requirements

The Standard:

(a) prescribes requirements for recognition, measurement at recognition, measurement after recognition, and derecognition of property, plant and equipment assets;

(b) prescribes requirements for depreciation of property, plant and equipment assets;

(c) requires that all property, plant and equipment assets be subjected to the requirements of AASB 136 *Impairment of Assets*; and

(d) requires disclosures about property, plant and equipment.

Differences between this Standard and AASB 1015, AASB 1021 & AASB 1041

The primary difference between this Standard and the AASB Standards that it supersedes, AASB 1015 *Acquisitions of Assets*, AASB 1021 *Depreciation* & AASB 1041 *Revaluation of Non-Current Assets*, is that this Standard requires that, where the revaluation basis is adopted by a for-profit entity, the revaluation increases and decreases are treated on an individual asset basis.

A more detailed description of the differences between this Standard and AASB 1015, AASB 1021 & AASB 1041 accompanies this Standard under the heading "Differences between AASB 116 and AASB 1015, AASB 1021 & AASB 1041".

The requirements of the superseded AASB 1015 and AASB 1021 are essentially the same as AAS 21 *Acquisitions of Assets* and AAS 4 *Depreciation*. Accordingly, there is no separate analysis of differences between AASB 116 and AAS 21 & AAS 4.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 116 and IAS 16

AASB 116 is equivalent to IAS 16 *Property, Plant and Equipment* issued by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB standard) are identified with the prefix "Aus", followed by the number of the relevant IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Compliance with IAS 16

For-profit entities that comply with AASB 116 will simultaneously be in compliance with IAS 16. Not-for-profit entities using the added "Aus" paragraphs in the Standard that specifically apply to not-for-profit entities may not be simultaneously complying with IAS 16. Whether a not-for-profit entity will be in compliance with IAS 16 will depend on whether the "Aus" paragraphs provide additional guidance for not-for-profit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the not-for-profit entity.

AASB 116 and IPSAS 17

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants.

IPSAS 17 *Property, Plant and Equipment* (December 2001) is drawn primarily from the 1998 version of IAS 16. The main differences between IPSAS 17 and AASB 116 are:

(a) IPSAS 17 permits heritage assets either to be recognised or not recognised, at the discretion of the entity. Current Australian standards require heritage assets to be recognised as they satisfy the definition of property, plant and equipment. AASB 116 continues to apply to heritage assets;

(b) IPSAS 17 contains a definition of residual value (referring to future prices), however, later commentary refers to current prices. AASB 116 adopts the IAS 16 requirements as regards not-for-profit entities (and the IAS 16 requirements do not contain the IPSAS 17 inconsistency); and

(c) IPSAS 17 provides a definition of class of assets. It is not considered necessary to include this definition in AASB 116.

ACCOUNTING STANDARD AASB 116

The Australian Accounting Standards Board makes Accounting Standard AASB 116 *Property, Plant and Equipment* under section 334 of the *Corporations Act 2001*.

D.G. Boymal
Dated 15 July 2004 Chair – AASB

ACCOUNTING STANDARD AASB 116

PROPERTY, PLANT AND EQUIPMENT

Objective

1. The objective of this Standard is to prescribe the accounting treatment for *property, plant and equipment* so that users of the financial report can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their *carrying amounts* and the *depreciation* charges and *impairment losses* to be recognised in relation to them.

Application

Aus1.1 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial reports of each other reporting entity; and

(c) financial reports that are, or are held out to be, general purpose financial reports.

Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.

Aus1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.

Aus1.4 The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Aus1.5 When applicable, this Standard supersedes:

(a) AASB 1015 *Acquisitions of Assets* as notified in the *Commonwealth of Australia Gazette* No S 527, 5 November 1999;

(b) AASB 1021 *Depreciation* as notified in the *Commonwealth of Australia Gazette* No S 341, 29 August 1997;

(c) AASB 1041 *Revaluation of Non-Current Assets* as notified in the *Commonwealth of Australia Gazette* No S 294, 19 July 2001;

(d) AAS 4 *Depreciation* as issued in August 1997; and

(e) AAS 21 *Acquisitions of Assets* as issued in November 1999.

Aus1.6 AASB 1015, AASB 1021, AASB 1041, AAS 4 and AAS 21 remain applicable until superseded by this Standard.

Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

Scope

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

3. This Standard does not apply to:

(a) property, plant and equipment classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(b) biological assets related to agricultural activity (see AASB 141 *Agriculture*); or

(c) 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 (b) and (c).

4. Other Australian Accounting Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, AASB 117 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

5. An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of 'investment property' in AASB 140 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply AASB 140. AASB 140 also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with AASB 140 shall use the cost model in this Standard.

Definitions

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

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

***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 or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards, for example, AASB 2 *Share-based Payment*.**

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

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

***Entity-specific value* is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.**

***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.

***Property, plant and equipment* are tangible items that:**

(a) are held 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.

***Recoverable amount* is the higher of an asset's net selling price and its value in use.**

The *residual value* of an 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.

***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.

Aus6.1 The following term is also used in this Standard with the meaning specified.

A *not-for-profit entity* is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls.

Recognition

7. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

8. Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an 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, they are accounted for as property, plant and equipment.

9. This Standard does not prescribe the unit of measure for recognition, that is, what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.

10. An entity evaluates under this recognition principle all its 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.

Initial Costs

11. Items of 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 an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had it not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for 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. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with AASB 136 *Impairment of Assets*.

Subsequent Costs

12. Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

13. Parts 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 use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67-72).

14. A condition of continuing to operate an item of property, plant and equipment (e.g. an aircraft) may be performing 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. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. 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.

Measurement at Recognition

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

Aus15.1 Notwithstanding paragraph 15, in respect of *not-for-profit entities*, where an asset is acquired at no cost, or for a nominal cost, the cost is its *fair value* as at the date of acquisition.

Aus15.2 In respect of not-for-profit entities, an item of property, plant and equipment may be gifted or contributed to the entity. For example, land may be contributed to a local government by a developer at no or nominal consideration to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired for no or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

Aus15.3 In respect of not-for-profit entities, for the purposes of this Standard, the initial recognition at fair value of an item of property, plant and equipment, acquired at no or nominal cost, consistent with the requirements of paragraph Aus15.1, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 31, and the supporting commentary in paragraphs 32 to 35, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Elements of Cost

16. 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 trade discounts and rebates;

(b) 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; and

(c) 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.

17. Examples of directly attributable costs are:

    (a) costs of employee benefits (as defined in AASB 119 *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;

    (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

    (f) professional fees.

18. An entity applies AASB 102 *Inventories* to the costs of obligations for asset dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with AASB 102 or AASB 116 are recognised and measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets.*

19. Examples of costs that are not costs of an item 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.

20. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or

redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) costs of relocating or reorganising part or all of an entity's operations.

21. 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 item to the location and 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 starts. Because incidental operations are not necessary to bring an item to the location and 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 and included in their respective classifications of income and expense.

22. 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 constructing an asset for sale (see AASB 102). 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 self-constructing an asset is not included in the cost of the asset. AASB 123 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of Cost

23. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the asset in accordance with the allowed alternative treatment in AASB 123.

24. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at 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. The acquired asset is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

25. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

(b) the *entity-specific value* of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

26. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

27. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with AASB 117.

28. [Deleted by the AASB]

Measurement after Recognition

29. An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost Model

30. After 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.

Revaluation Model

31. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably 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 to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

32. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

33. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

34. The frequency of revaluations depends upon the changes in 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 required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

35. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

(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. This method is often used for buildings.

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 accounted for in accordance with paragraphs 39, Aus39.1, 40, Aus40.1 and Aus40.2.

36. If 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.

37. 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.

38. 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 and provided the revaluations are kept up to date.

39. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation reserve. 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.

Aus39.1 Notwithstanding paragraph 39, in respect of not-for-profit entities, if the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase shall be credited directly to equity under the heading of revaluation reserve. However, the net revaluation increase shall be recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss.

40. If an 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 debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Aus40.1 Notwithstanding paragraph 40, in respect of not-for-profit entities, if the carrying amount of a class of assets decreased as a result of a revaluation, the net revaluation decrease shall be recognised in profit or loss. However, the net revaluation decrease shall be debited directly to equity under the heading of revaluation reserve to the extent of any credit balance existing in any revaluation reserve in respect of that same class of asset.

Aus40.2 Notwithstanding paragraph 40, in respect of not-for-profit entities, revaluation increases and revaluation decreases relating to individual assets within a class of property, plant and equipment shall be offset against one another within that class but shall not be offset in respect of assets in different classes.

41. The revaluation reserve 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. 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 an 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 reserve to retained earnings are not made through profit or loss.

42. The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with AASB 112 *Income Taxes*.

Depreciation

43. 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 shall be depreciated separately.

44. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

45. A significant part of an item of property, plant and equipment may have a *useful life* and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

46. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

47. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

48. The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

49. The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. 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 AASB 102). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with AASB 138 *Intangible Assets*.

Depreciable Amount and Depreciation Period

50. The *depreciable amount* of an asset shall be allocated on a systematic basis over its useful life.

51. The *residual value* and the useful life of an asset shall be reviewed at least at the end of each annual reporting period and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

52. Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

53. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

54. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

55. Depreciation of an asset begins when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases 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 AASB 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

56. The future economic benefits embodied in an asset are consumed by an entity principally through its use. 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 obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) 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, 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.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

57. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified 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 the asset is a matter of judgement based on the experience of the entity with similar assets.

58. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some 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 depreciable amount of the building.

59. If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is 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.

Depreciation Method

60. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

61. The depreciation method applied to an asset shall be reviewed at least at the end of each annual reporting period and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with AASB 108.

62. 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 units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Impairment

63. To determine whether an item of property, plant and equipment is impaired, an entity applies AASB 136. 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 the recognition of, an impairment loss.

64. [Deleted by the IASB]

Compensation for Impairment

65. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

66. 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 in accordance with AASB 136;

(b) the derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) 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 when it becomes receivable; and

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

Derecognition

67. The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or

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

68. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless AASB 117 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

69. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g. by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in AASB 118 *Revenue* for recognising revenue from the sale of goods. AASB 117 applies to disposal by a sale and leaseback.

70. If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an

entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

71. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

72. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the 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 in accordance with AASB 118 reflecting the effective yield on the receivable.

Disclosure

73. The financial report shall disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(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; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with AASB 5 and other disposals;

(iii) acquisitions through business combinations;

(iv) increases or decreases resulting from revaluations under paragraphs 31, 39, Aus39.1, 40, Aus40.1 and Aus40.2 and from impairment losses recognised or

reversed directly in equity in accordance with AASB 136;

(v) impairment losses recognised in profit or loss in accordance with AASB 136;

(vi) impairment losses reversed in profit or loss in accordance with AASB 136;

(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 changes.

74. The financial report 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 recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

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

(d) if it is not disclosed separately on the face of the income statement, the amount of 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.

75. 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 the financial report 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, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and

(b) accumulated depreciation at the end of the period.

76. In accordance with AASB 108 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. For property, plant and equipment, such disclosure may arise from changes in estimates 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 methods.

77. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

(b) whether an independent valuer was involved;

(c) the methods and significant assumptions applied in estimating the items' fair values;

(d) the extent to which the items' 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;

(e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and

(f) the revaluation reserve, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Aus77.1 Notwithstanding paragraph 77(e), in respect of not-for-profit entities, for each revalued class of property, plant and equipment, the requirement to disclose the carrying amount that would have been recognised had the assets been carried under the cost model does not apply.

78. In accordance with AASB 136 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)-(vi).

79. Users of the financial report 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 not classified as held for sale in accordance with AASB 5; and

(d) when the cost model 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 of IAS 16

80. [Deleted by the AASB]

Effective Date of IAS 16

81. [Deleted by the AASB]

Withdrawal of Other Pronouncements of the IASB

82. [Deleted by the AASB]

83. [Deleted by the AASB]

AUSTRALIAN GUIDANCE

Australian Guidance accompanies, but is not part of, AASB 116.

Fair Value

G1 The fair value of an asset is the best estimate of the price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. The estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, or concessions granted by anyone associated with the sale.

G2 Underlying the paragraph 6 definition of fair value is a presumption that the entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Similarly, to determine the fair value of an asset, it is assumed that the asset is exchanged after an adequate period of marketing to obtain its most advantageous price. The fair value of an asset is determined by reference to its highest and best use, that is, the use of the asset that is physically possible, legally permissible, financially feasible, and which results in the highest value. Opportunities that are not available to the entity are not taken into account. Where it is the market's assessment that it is rational to continue to use the asset, the revalued amount shall include estimated entry costs. Where the asset is held for sale AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* applies.

G3 Where a quoted market price in an active and liquid market is available for an asset, that price represents the best evidence of the asset's fair value. When a quoted market price for the asset in an active and liquid market is not available, the fair value is estimated by reference to the best available market evidence of the price for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. This evidence includes current market prices for assets that are similar in use, type and condition ('similar assets') and the price of the most recent transaction for the same or a similar asset (provided there has not been a significant change in economic circumstances between the transaction date and the reporting date). Current market prices for the same or similar assets can usually be observed for land, non-specialised buildings, used motor vehicles, and some forms of plant and equipment. For land and buildings, these prices can also be derived from observable market evidence (e.g. observable current market rentals) using discounted cash flow analysis.

G4 In some circumstances the fair value of the asset is not able to be determined from market-based evidence as the market buying price and market selling price of an asset differ materially because the asset usually is bought separately in the new asset market, but if sold separately, could only be sold for its residual value. In other circumstances the fair value of the asset is not able to be determined from market-based evidence as there is no market evidence of the asset's market selling price. These circumstances will usually arise where the transaction price evidence arises in a monopoly context or the asset is specialised and rarely sold, except as part of a continuing business.

G5 Where the fair value of an item of property, plant and equipment cannot be reliably determined using market-based evidence as outlined in paragraph 33 of the Standard, the asset's fair value is measured at its market buying price and the best indicator of an asset's market buying price is depreciated replacement cost or an income approach. Depreciated replacement cost is the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

Frequency of Revaluations

G6 An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's fair value and revalues the asset to that amount.

G7 In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

(a) significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

(b) the carrying amount of the net assets of the entity is more than its market capitalisation;

(c) during the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

(d) evidence is available of obsolescence or physical damage of an asset;

(e) significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and

(f) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse/better than expected.

G8 The list in paragraph G7 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date and these would also require the entity to determine the asset's fair value.

Spares for Plant and Equipment

G9 Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class were retired or use of that asset or class were discontinued, are considered to form part of the historical cost of that asset or class. The depreciable amount of such spares is allocated over the useful life of the asset or class.

G10 Depreciable spares that can be used only in connection with a particular non-current asset do not have useful lives of their own. They are depreciated over the useful life of the related asset.

G11 Depreciable spares can be distinguished from spares held for sale or use in after-sales, and materials, consumable stores and other supplies, which would generally be consumed in a production process or in the rendering of services. Spares held for sale or use in after-sales, materials, consumable stores and other supplies, which would generally be consumed in a production process or in the rendering of services, are dealt with in AASB 1002 *Inventories*. Depreciable spares can also be distinguished from separate components of an asset that have their own useful lives and are discussed at paragraph 44 of AASB 116.

DIFFERENCES BETWEEN AASB 116 AND AASB 1015, AASB 1021 & AASB 1041

This analysis of differences accompanies, but is not part of, AASB 116.

This section identifies differences between AASB 116 *Property, Plant and Equipment* and AASB 1015 *Acquisitions of Assets*, AASB 1021 *Depreciation* & AASB 1041 *Revaluation of Non-Current Assets* under the following headings:

A: Incompatibilities between AASB 1015, AASB 1021 & AASB 1041 and AASB 116

B: AASB 1015, AASB 1021 & AASB 1041 are more detailed or restrictive

C: AASB 116 is more detailed or restrictive

D: AASB 1015, AASB 1021 & AASB 1041 disclosures are more extensive

E: AASB 116 disclosures are more extensive

The analysis of differences should not be taken as providing an exhaustive list of differences.

Introduction

AASB 116 defines "property, plant and equipment" as tangible assets and AASB 138 *Intangible Assets* defines an "intangible asset" as an asset without physical substance. Where AASB 116 applies to tangible assets and AASB 138 applies to intangible assets, AASB 1015 and AASB 1021 apply to both tangible and intangible assets. AASB 1041 applies to property, plant and equipment, and also to intangible assets other than goodwill.

Taken together, AASB 116 and AASB 1015, AASB 1021 & AASB 1041 deal with:

(a) the recognition of items of property, plant and equipment;

(b) the measurement of items of property, plant and equipment; and

(c) the depreciation charges to be recognised in relation to items of property, plant and equipment.

AASB 116 and AASB 1021 require the recognition of an item of property, plant and equipment with physical substance as an asset when it is probable that the future economic benefits associated with the asset will flow to the entity and that the cost of the asset can be measured reliably. AASB 116 and AASB 1015 require items of property, plant and equipment to be initially measured at cost. Both AASB 116 and AASB 1021 require subsequent expenditure incurred on property, plant and equipment to be recognised as an expense unless it is probable that the subsequent expenditure incurred will result in an increase in future economic benefits in excess of those originally assessed, in which case the subsequent expenditure is added to the carrying amount of the property, plant and equipment.

The requirements common to AASB 116 and AASB 1021 are:

(a) the depreciable amount is allocated on a systematic basis over the useful life of the asset;

(b) the depreciation method used reflects the pattern in which the asset's economic benefits are expected to be consumed;

(c) depreciation is recognised as an expense, unless it is included in the carrying amount of another asset;

(d) where the estimate of the asset's useful life changes, the depreciation charge is adjusted for the current and future periods; and

(e) where the depreciation method changes, due to a change in the expected pattern of benefits, the remaining depreciable amount is recognised over current and future periods.

For measurement subsequent to initial recognition for each class of property, plant and equipment, AASB 116 and AASB 1041 require entities to choose either the cost or fair value basis. An entity adopting the cost basis would carry the class of property, plant and equipment at its cost less any accumulated depreciation. Thereafter, AASB 136 *Impairment of Assets* and AASB 1010 *Recoverable Amount of Non-Current Assets* require that where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to the recoverable amount. An entity adopting the fair value measurement basis would carry the items of property, plant and equipment at their revalued amount, being the fair value of the non-current asset at the date of revaluation less any subsequent depreciation. Where the non-current assets are carried at their revalued amount, regular revaluations may be required, so that the carrying amount of an asset does not differ materially from its fair value at the reporting date. Where an asset is revalued, the entire class of assets to which that asset belongs shall be revalued. AASB 136 requires that where the recoverable amount of an asset carried at fair value has declined below its carrying amount, the carrying amount is reduced to the recoverable amount. AASB 1010 does not apply to assets carried at fair value.

Differences

A. Incompatibilities between AASB 1015, AASB 1021 & AASB 1041 and AASB 116

A.1 Revaluation increments/decrements offsetting – for-profit entities

In respect of for-profit entities, AASB 116.40 requires that a revaluation decrease be charged directly against any related revaluation reserve to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. An example of applying this policy is:

DETAILS	Asset A	Asset B	Class	Asset Revaluation Reserve	Expense
Cost 30-6-20X1	1,000	800	1,800	-	-
Revaluation increment for year ended 30-6-20X2	250	-*	250	250	-
Carrying amount 30-6-20X2	1,250	800	2,050	250	-
Revaluation decrement for year ended 30-6-20X3	-*	(150)	(150)		150
Carrying amount as at 30-6-20X3	1,250	650	1,900	250	-

* The fair value of these assets was reassessed, but found not to have changed.

In contrast, AASB 1041.5.4 requires revaluation increments/ decrements to be offset against one another within a class of non-current assets. Accordingly, the class of asset basis adopted in AASB 1041 allows entities to offset revaluation decrements for one asset against a balance in the revaluation reserve that relates to other assets in the same class. An example of applying this policy is:

DETAILS	Asset A	Asset B	Class	Asset Revaluation Reserve	Expense
Cost 30-6-20X1	1,000	800	1,800	-	-
Revaluation increment for year ended 30-6-20X2	250	-*	250	250	-
Carrying amount 30-6-20X2	1,250	800	2,050	250	-
Revaluation decrement for year ended 30-6-20X3	-*	(150)	(150)	(150)	-
Carrying amount as at 30-6-20X3	1,250	650	1,900	100	-

* The fair value of these assets was reassessed, but found not to have changed.

This difference in the requirements of AASB 116 and AASB 1041 can cause the reported profit of for-profit entities to differ.

A.2 Deferred settlement – discount rate

AASB 1015.7.1 requires that, when determining an asset's cost at its acquisition date, any deferred settlement cash consideration is discounted to its present value. AASB 1015.7.2 and 7.2.5 requires that the discount rate used to determine the discounted cash consideration is the entity's pre-tax incremental borrowing rate. In contrast, AASB 116 applies to deferred settlement of all types of consideration and does not specify a discount rate. AASB 116.23 comments that where payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent, which implies that the deferred payment amount is effectively discounted at a rate specific to the asset. Where the entity's incremental borrowing rate differs from the asset specific discount rate the acquisition cost will differ. If the asset is a depreciable asset, the amount of depreciation will also differ.

A.3 Ceasing to revalue

AASB 1041 (section 6) prescribes the manner in which the measurement basis for a class of non-current assets can be changed. AASB 1041.6.1 requires that when, and only when, an overall improvement in the relevance and reliability of financial information would result from a voluntary change in accounting policy, an entity may elect to:

(a) change from the cost basis to the fair value basis to measure a class of non-current assets; or

(b) discontinue revaluing a class of non-current assets.

The criteria for a voluntary change in accounting policy articulated in AASB 1001 *Accounting Policies* paragraph 6.1(c) mirror those prescribed by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 14(b). Therefore, both AASB 1041 and AASB 116 allow changes between the cost basis and the fair value basis. However, unlike AASB 1041, AASB 116 limits the choice between measurement attributes to either:

(a) fair value; or

(b) cost, namely, the treatment in accordance with AASB 116.30, which is the "original" historical cost less any accumulated depreciation and accumulated impairment losses.

In contrast, AASB 1041 does not allow the use of original cost when discontinuing the revaluation of a class of non-current assets. Instead AASB 1041.6.3 requires that assets be measured at their carrying amounts at the date the revaluation of the class was discontinued less any subsequent accumulated depreciation and subsequent accumulated recoverable amount writedowns or impairment losses. Accordingly, where an entity can justify changing from the fair value basis, the application of the requirements in AASB 116 and AASB 1041 will give rise to different carrying amounts.

A.4 Exchanges of items of property, plant and equipment

AASB 116.24 comments that the acquisition of an item(s) of property, plant and equipment in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets (regardless of whether the assets are similar) is measured at 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 asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up. AASB 1015 assumes that fair value can always be measured in an exchange.

A.5 Measurement on initial recognition of assets acquired at no or nominal amount – for-profit entities

Both AASB 116.15 and AASB 1015.6.1 state that an acquired asset shall be initially measured at cost. An asset acquired at no, or nominal amount is effectively measured at fair value because of the requirement in AASB 1004 *Revenue* to measure revenue at the fair value of the consideration received. However, in respect of for-profit entities, AASB 116 requires cost to be used, even if this is nil or a nominal amount.

This difference in the requirements of AASB 116 and AASB 1015 & AASB 1004 can cause the measurement of an asset on initial recognition to differ.

B. AASB 1015, AASB 1021 & AASB 1041 are more detailed or restrictive

B.1 Revaluations of depreciable assets

AASB 1041.5.7 requires, with one exception, that where depreciable assets are revalued, any balances of accumulated depreciation existing as at the revaluation date in respect of those assets to be credited to the asset accounts to which they relate. The asset accounts are then increased or decreased by the amount of the revaluation increments or revaluation decrements. The exception applies to an entity that revalues depreciable assets by reference to current prices for assets newer than those being revalued, and adjusts those amounts to reflect the present condition of the assets. In this case, the entity may restate separately the gross amounts and related accumulated depreciation of the assets comprising the class of revalued assets (AASB 1041.5.8). Whilst similar to AASB 1041.5.6 and 5.7, AASB 116.35 presents the two treatments as alternatives, either of which may be adopted regardless of the method used to revalue assets to fair value.

C. AASB 116 is more detailed or restrictive

C.1 Enhancements that do not directly increase future economic benefits

AASB 116.11 notes that there may be items of property, plant and equipment that are acquired for safety or environmental reasons. It comments that there may be instances where the acquisition does not directly increase the future economic benefits of any particular existing item of property, plant and equipment. However, the acquisition may be necessary in order for the entity to obtain the future economic benefits from its other assets. For example, a chemical manufacturer may have to install certain new chemical handling processes in order to comply with environmental requirements on the production and storage of dangerous chemicals. The related plant enhancements are recognised as an asset to the extent they are recoverable because, without them, the entity is unable to manufacture and sell chemicals. Although the acquisition of such items may meet the Australian asset recognition criteria, AASB 1015 and AASB 1041 do not expressly provide guidance on this issue.

C.2 Major inspection costs

AASB 116.14 notes that a condition of continuing to operate an item of property, plant and equipment may be performing 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. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. AASB 1015 and AASB 1041 do not expressly provide guidance on this issue.

C.3 Restoration costs

AASB 116.16 and 18 note that the components of cost of an item of property, plant and equipment include the estimated cost of dismantling and removing the asset and restoring the site, to the extent it is recognised as a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. In Australia, where the items of property, plant and equipment relate to extractive industry operations, restoration costs are capitalised under AASB 1022 *Accounting for Extractive Industries*, and the asset measurement required by AASB 1022 accords with the AASB 116 requirement to include dismantling and removal costs in the determination of cost. When items of property, plant and equipment do not relate to extractive industry operations, AASB 1015 and AASB 1041 do not expressly provide guidance on this issue. AASB 1015.6.2 requires identifiable liabilities assumed in the context of acquiring an entity or operation to be measured at their fair value. To the extent that the application of this requirement would cause a provision for dismantling, removal and restoration costs to be recognised and measured as an identifiable liability at acquisition date, with a corresponding effect included in the carrying amount of the acquired asset, AASB 116 and AASB 1015 both provide direction on measuring the cost of an acquired item of property, plant and equipment. To the extent that a provision for dismantling, removal and restoration costs arises from events other than the acquisition of an entity or operation and outside the extractive industries, AASB 1015 does not deal with the matter. Furthermore, where an identifiable liability is recognised, AASB 1015 does not provide direction as to how the ‘debit’ entry should be treated.

C.4 Cost of an item of property, plant and equipment

AASB 116.18 and 20 provide guidance that the directly attributable costs included in the cost of an item of property, plant and equipment:

(a) 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; and

(b) are determined after deducting the net proceeds from selling any items produced while bringing that asset to that location and condition (such as samples produced when testing equipment).

AASB 1015 does not include such specific additional guidance. Entities applying AASB 1015 would not necessarily comply with AASB 116 as they may treat proceeds from selling items produced when bringing an asset to its location and condition as separate proceeds of sale.

AASB 116 is silent on the treatment in the case of a loss on such items.

C.5 Revenue and related expenses incidental to construction or development

AASB 116 provides guidance that the revenue and related expenses of operations that are incidental to the construction or development of an item of property, plant and equipment (e.g. revenue earned through using a building site as a car park until construction commences) are recognised in profit or loss.

D. AASB 1015, AASB 1021 & AASB 1041 disclosures are more extensive

D.1 Current valuations

AASB 1040 *Statement of Financial Position* paragraph 8.2 requires disclosure of current valuations of land and buildings held on the cost basis.

E. AASB 116 disclosures are more extensive

E.1 Cost equivalent of revalued carrying amount – for-profit entities

When items of property, plant and equipment are measured in the financial report at fair value, in respect of for-profit entities, AASB 116.77(e) requires disclosure of the carrying amount of each class of property, plant and equipment that would have been included in the financial report had the assets been carried at cost.

E.2 Revalued assets

AASB 116.77(c) and 77(d) require the following disclosures for items of property, plant and equipment stated at revalued amounts:

(a) the methods and significant assumptions applied in estimating the items' fair values; and

(b) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent transactions on arm's-length terms or were estimated using other valuation techniques.