

***AASB 116 Property, Plant and Equipment and IFRS for SMEs Section 17
Property, Plant and Equipment***

1. Executive Summary

Main differences in recognition, measurement or presentation requirements

Measurement after initial recognition

Whilst AASB 116 permits the cost model or revaluation model for measuring property, plant and equipment after initial recognition, the *IFRS for SMEs* requires the cost model.

This has implications for the disclosures required in AASB 116 when an entity revalues property, plant and equipment, and in relation to assets held for sale. The measurement requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* for assets held for sale are not included in the *IFRS for SMEs*.

Investment property fair value not reliably measurable

Under the *IFRS for SMEs*, if a reliable measure of the fair value of an item of investment property is no longer available without undue cost or effort, the property is reclassified as property, plant and equipment until a reliable measure becomes available. Under AASB 116, such reclassification would not occur.

No annual review of useful life, residual value and depreciation/amortisation method

As stated in paragraph BC136 of the Basis for Conclusions on the *IFRS for SMEs*, the *IFRS for SMEs* does not require an annual review of the useful life, residual value, and depreciation or amortisation method for property, plant and equipment and intangible assets. Instead, a review is required only if there is an indication that there has been a significant change since the last annual reporting date. AASB 116 and AASB 138 *Intangible Assets* require reviews at least at each financial year-end. (There is no indication that this difference has an impact on the disclosures that should be required in the RDR compared with the *IFRS for SMEs*.)

Disclosure proposals

It is proposed to:

- exclude paragraph 73(e)(viii), 74(b), 74(d), 77(e), Aus77.1 and 79 from the Reduced Disclosure Regime (RDR);
- add paragraph RDR 73.1 that the reconciliation specified in paragraph 73(e) need not be presented for prior periods; and
- not add the disclosure in paragraph 17.31(e)(iv) of the *IFRS for SMEs* to the RDR.

2. Analysis of disclosure requirements

<p style="text-align: center;">Text in AASB 116 <i>Property, Plant and Equipment</i></p>	<p style="text-align: center;">Text in IFRS for SMEs Section 17 <i>Property, Plant and Equipment</i></p>	<p style="text-align: center;">Comment</p>
<p>Disclosure</p> <p>73. The financial statements shall disclose, for each class of property, plant and equipment:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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 in other comprehensive income 	<p>Disclosures</p> <p>17.31 An entity shall disclose the following for each class of property, plant and equipment that was deemed appropriate in accordance with paragraph 4.11(a):</p> <ul style="list-style-type: none"> (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 reporting period. (e) a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately: <ul style="list-style-type: none"> (i) additions. (ii) disposals. (iii) acquisitions through business combinations. (iv) transfers to investment property if a reliable measure of fair value becomes available (see 	<p>Except in respect of the matters noted below, paragraph 73 of AASB 116 and paragraph 17.31 of the <i>IFRS for SMEs</i> correspond. Except for any differences to paragraph 73 proposed in the comments below, paragraph 73 should be retained in the RDR.</p> <p>The disclosure about amounts subject to AASB 5 in paragraph 73(e)(ii) of AASB 116 is excluded from the <i>IFRS for SMEs</i> because the <i>IFRS for SMEs</i> does not include the measurement requirements of AASB 5. Because paragraph 73(e)(ii) requires useful information about disaggregations of amounts presented in the financial statements (as referred to in paragraph IN6(e) of this Appendix), paragraph 73(e)(ii) should be retained in the RDR.</p> <p>The addition of ‘separately’ in paragraph 17.31(e) of the <i>IFRS for SMEs</i> seems to be a clarification, not a difference. Based on paragraph IN2 of this Appendix, that word should not be added to the corresponding text of AASB 116 (paragraph 73(e)) included in the RDR.</p> <p>Paragraph 73(e)(iv) has no equivalent in the <i>IFRS for SMEs</i> because it requires the cost model only for measuring property, plant and equipment after initial recognition. That measurement restriction does not exist in AASB 116. Because paragraph 73(e)(iv) requires useful information about disaggregations of amounts presented in the</p>

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<p>in accordance with AASB 136;</p> <p>(v) impairment losses recognised in profit or loss in accordance with AASB 136;</p> <p>(vi) impairment losses reversed in profit or loss in accordance with AASB 136;</p> <p>(vii) depreciation;</p> <p>(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</p> <p>(ix) other changes.</p>	<p>paragraph 16.8). (#)</p> <p>(v) impairment losses recognised or reversed in profit or loss in accordance with Section 27.</p> <p>(vi) depreciation.</p> <p>(vii) other changes.</p> <p>This reconciliation need not be presented for prior periods.</p>	<p>financial statements and about events and conditions encountered by the entity (as referred to in paragraphs IN6(e) and IN6(f) of this Appendix), paragraph 73(e)(iv) should be retained in the RDR.</p> <p>The disclosure in paragraph 17.31(e)(iv) of the <i>IFRS for SMEs</i> has no equivalent in AASB 116.</p> <p>Australian Accounting Standards and the RDR preclude reclassifying investment property as property, plant and equipment. Therefore, based on paragraph IN4 of this Appendix, the additional disclosure in paragraph 17.31(e)(iv) of the <i>IFRS for SMEs</i> should be excluded from the RDR.</p> <p>Paragraph 17.31(e)(v) of the <i>IFRS for SMEs</i> is similar to paragraphs 73(e)(v) & (vi) of AASB 116. Based on paragraph IN2 of this Appendix, paragraphs 73(e)(v) & (vi) should be retained in the RDR.</p> <p>Paragraph 73(e)(viii) of AASB 116 has no equivalent in the <i>IFRS for SMEs</i>. Based on the reasoning in paragraph IN3 of this Appendix, paragraph 73(e)(viii) should be excluded from the RDR.</p> <p>The last sentence of paragraph 17.31 of the <i>IFRS for SMEs</i> provides relief from comparative disclosures. Based on the reasoning in paragraph IN3 of this Appendix, the relief should be included in the RDR.</p>
<p>74. The financial statements shall also disclose:</p> <p>(a) the existence and amounts of restrictions on</p>	<p>17.32 The entity shall also disclose the following:</p> <p>(a) the existence and carrying amounts of</p>	<p>Paragraph 17.32(a) of the <i>IFRS for SMEs</i> differs from paragraph 74(a) of AASB 116 in the sense that the <i>IFRS for SMEs</i> refers to the amount of</p>

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<p>title, and property, plant and equipment pledged as security for liabilities;</p> <p>(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;</p> <p>(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and</p> <p>(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.</p>	<p>property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities.</p> <p>(b) the amount of contractual commitments for the acquisition of property, plant and equipment.</p>	<p>restricted assets whereas AASB 116 refers to the amount of restrictions. In practice there would generally be no difference in the amounts disclosed. Paragraph 74(a) should be retained in the RDR.</p> <p>Paragraphs 74(b) & 74(d) have no equivalent in the <i>IFRS for SMEs</i> and, based on the reasoning in paragraph IN3 of this Appendix, should be excluded from the RDR.</p> <p>Paragraph 74(c) of AASB 116 and paragraph 17.32(b) of the <i>IFRS for SMEs</i> correspond. Paragraph 74(c) should be retained in the RDR.</p>
<p>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 statements 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:</p> <p>(a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and</p> <p>(b) accumulated depreciation at the end of the period.</p>		<p>Paragraph 75 has no equivalent in the <i>IFRS for SMEs</i>. It provides guidance but does not add disclosure requirements. Based on the reasoning in paragraph IN7 of this Appendix, paragraph 75 should be retained in the RDR.</p>
<p>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</p>		<p>Paragraph 76 has no equivalent in the <i>IFRS for SMEs</i>. It provides guidance but does not add disclosure requirements. Based on the reasoning in paragraph IN7 of this Appendix, paragraph 76 should be retained in the RDR.</p>

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<p>estimates with respect to:</p> <ul style="list-style-type: none"> (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. 		
<p>77. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:</p> <ul style="list-style-type: none"> (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 surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders. 		<p>Paragraph 77 has no equivalent in the <i>IFRS for SMEs</i>, which permits only the cost model to be applied to property, plant and equipment after initial recognition. Because paragraph 77—except for paragraph 77(e) [see below]—requires useful information about measurement uncertainties, disaggregations of amounts presented in the financial statements, and events encountered by the entity (as referred to in paragraphs IN6(c), IN6(e) and IN6(f) of this Appendix), it should be retained in the RDR.</p> <p>In relation to paragraph 77(e) of AASB 116, if an entity elects to apply the revaluation model to a class of property, plant and equipment, it is asserting that the model provides reliable information that is more relevant than information from applying the cost model to that class. It seems irrelevant to provide comparative information about the cost model. This is because the comparability that the paragraph 77(e) disclosure might show with entities that apply the cost model is largely illusory, since different entities acquire assets on different dates with money that has different purchasing power. The AASB previously decided that, for entities not</p>

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		<p>needing to assert full compliance with IFRSs (not-for-profit entities), the benefits of applying paragraph 77(e) of AASB 116 were less than the related costs. This is reflected in paragraph Aus77.1 of AASB 116. Therefore, paragraph 77(e) should be excluded from the RDR.</p>
<p>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.</p>		<p>Because paragraph 77(e) should be excluded from the RDR, AASB 116 paragraph Aus77.1 should also be excluded from the RDR.</p>
<p>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).</p>		<p>Paragraph 78 has no equivalent in the <i>IFRS for SMEs</i>. It provides guidance but does not add disclosure requirements. Based on the reasoning in paragraph IN7 of this Appendix, paragraph 78 should be retained in the RDR.</p>
<p>79. Users of financial statements may also find the following information relevant to their needs:</p> <ul style="list-style-type: none"> (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 		<p>Paragraph 79 has no equivalent in the <i>IFRS for SMEs</i> and, based on paragraph IN8 of this Appendix, should be excluded from the RDR.</p>

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materially different from the carrying amount. Therefore, entities are encouraged to disclose these amounts.		

3. AASB 116 *Property, Plant and Equipment*: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 116 *Property, Plant and Equipment* (2004, as amended), showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

Disclosure

73. The financial statements 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 in other comprehensive income 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.

RDR73.1 In respect of entities applying the Reduced Disclosure Regime, the reconciliation in paragraph 73(e) need not be presented for prior periods.

74. The financial statements 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 statements 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 surplus, 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 financial statements 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.