
***Property, Plant & Equipment
Intangible Assets***

October 17, 2015

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Property, plant and equipment

What do you mean by Property, plant and equipment?

Tangible items

held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;

expected to be used during more than one period

Recognition and Measurement

Recognition criteria:

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

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Measurement at recognition

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

Cost of Property, Plant and Equipment

Purchase price, including import duties and non-refundable purchase taxes less any trade discounts and rebates



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



Initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs including capitalized foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs.

Initial Recognition: Pre-operative expenditures

Can we capitalise **all** pre-operative expenditures?

NO

Which pre-operative costs can be capitalised?

Costs that are directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management should be included in its measurement.

Directly attributable costs

- Examples of directly attributable costs are:
 - costs of employee benefits arising directly from the construction or acquisition of the item;
 - costs of site preparation;
 - initial delivery and handling costs;
 - installation and assembly costs;
 - costs of initial inspection and certification , (after deducting the net proceeds generated from the assets while bringing the asset to that location and condition (such as usage of the shipyard for purposes other than docking); and
 - professional fees.

Should these costs be capitalised?

Professional Fees	✓	If incurred for the asset ONLY.
Labour Costs	✓	If incurred for the creation of the asset ONLY.
Labour Costs on speculative/aborted plans	✗	Only if they bring the asset into the location and condition necessary for it to be capable of operating in the manner intended by management.
Other incremental costs	✓	
Training Costs	✗	Operating Costs

Directly attributable costs

- Examples of costs that are **NOT** costs of an item of property, plant and equipment are:
 - costs of introducing a new product or service (including costs of advertising and promotional activities);
 - costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
 - Crew training

Subsequent Costs

- Parts of some items of property, plant and equipment may require replacement at regular intervals.
- For example, a boat or yacht may require relining after a specified number of years of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe.
- Costs for day-to-day servicing, subsequent cost that do not add to the future economic benefits of the asset are to be **expensed** in Profit & Loss A/c
- If recognition principle are met, an entity recognises in the carrying amount of an item of Property Plant and Equipment, **the cost of replacing part** of such an item
- The carrying amount of those parts that are **replaced** is **derecognised** in accordance with the derecognition provisions.

Method of measurement

Model for
recognition

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graph TD; A[Model for recognition] --> B[Cost Model]; A --> C[Revaluation Model]; B --- D((Cost less Accumulated depreciation and impairment)); C --- E((Fair value less subsequent accumulated depreciation and impairment));
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Cost Model

Cost less
Accumulated
depreciation and
impairment

Revaluation
Model

Fair value less
subsequent accumulated
depreciation and
impairment

Revaluation Model

Frequency of valuation

- Sufficient regularity
- Not materially different from fair value
- Frequency of changes in fair value

Bases of Valuation

- Fair Value : The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Entire class of asset

- 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.

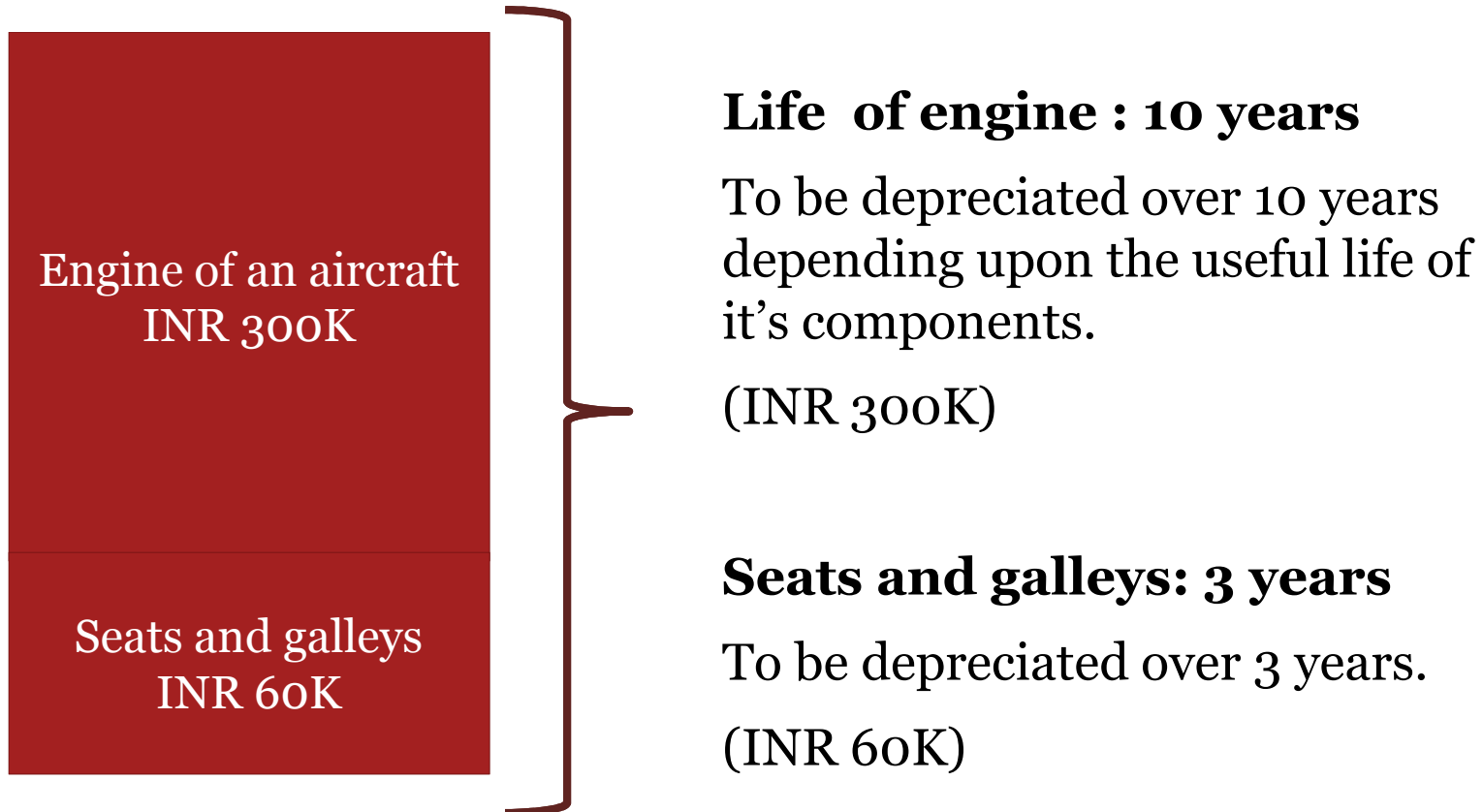
Treatment of accumulated depreciation when tangible assets are revalued

- Accumulated depreciation is treated in one of two ways:
 - Eliminated against the gross carrying amount of the asset with the net amount restated to equal the revalued amount.
 - Restated proportionately with the change in the gross carrying amount of the asset such that the net book value of the asset after revaluation equals its revalued amount.

Componentisation

- Each part of an item of property, plant and equipment that has a cost that is significant when compared to the total cost of the item, should be depreciated separately.
- Items of Property, plant and equipment which have similar useful life and depreciation method can be grouped for depreciation.
- Components which aren't individually material, should also be depreciated.
- The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

Example: Componentisation



Depreciation amount and period

- Systematic basis over useful life
- Deduct residual value
- 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.

Depreciation Method

- Reflect pattern of consumption of the asset's future economic benefits.
- Depreciation methods example:
 - straight-line method – usually used
 - the diminishing balance method
 - the units of production method

Change in estimates

Useful life

Residual value

Method of depreciation

Should be reviewed at least at each year end

Estimate should be changed if expectations differ from previous estimates

Reviews of residual value would take account reasonably expected technological changes, price changes and inflation since the last balance sheet date. If expectations differ from previous estimates change the estimate

If there has been a significant change in the expected pattern of consumption of the asset's future economic benefits, the method should be changed to reflect the changed pattern

Accounted for prospectively as a change in accounting estimate

Derecognition

- 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.
- 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. Gains shall not be classified as revenue.

Borrowing costs

What are borrowing costs?

- **Borrowing costs** are interest and other costs that an entity incurs in connection with the borrowing of funds.
- **Borrowing costs** may include:
 - interest expense calculated using the **effective interest method**
 - finance charges in respect of finance leases recognised in accordance with Ind AS 17, Leases;
 - exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Qualifying asset



An asset that necessarily takes a substantial period of time to get ready for its intended use or sale

Classification of borrowing costs

Specific borrowing costs

**Specifically
borrowed for the
purpose of obtaining
a qualifying asset**

General borrowing costs

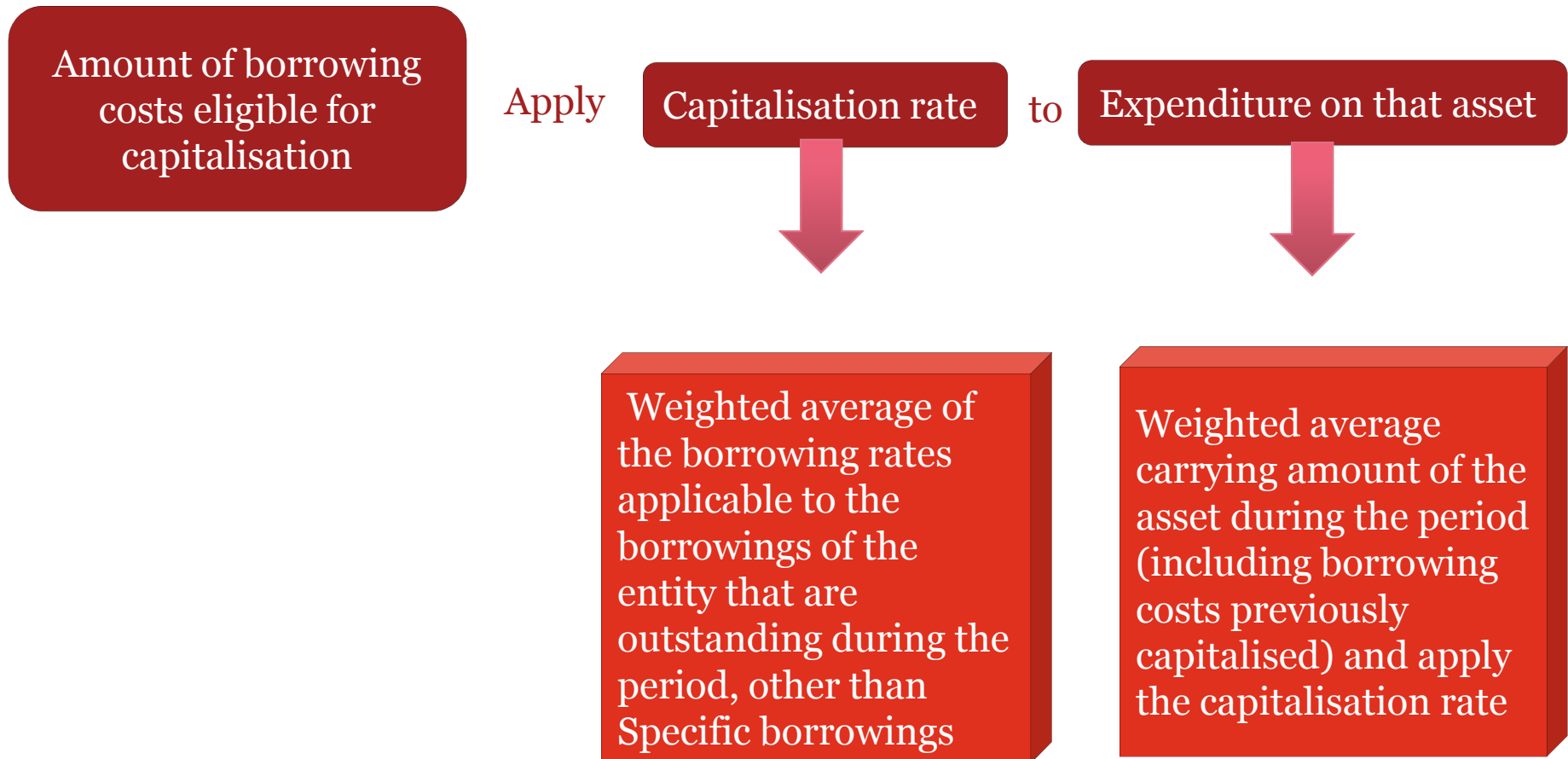
**Where funds are
borrowed generally
and used for
financing the a
qualifying assets**

Specific borrowing costs

Amount capitalised:

Actual borrowing costs incurred on that borrowing during the period	Xx
Any investment income on the temporary investment of those borrowings.	<u>(Xx)</u>
Amount capitalised	Xx

General borrowing costs



Period Of Capitalisation Of Borrowing Costs

The capitalization of borrowing costs as part of the cost of a qualifying asset shall **commence** when:

expenditures
for the asset
are being
incurred

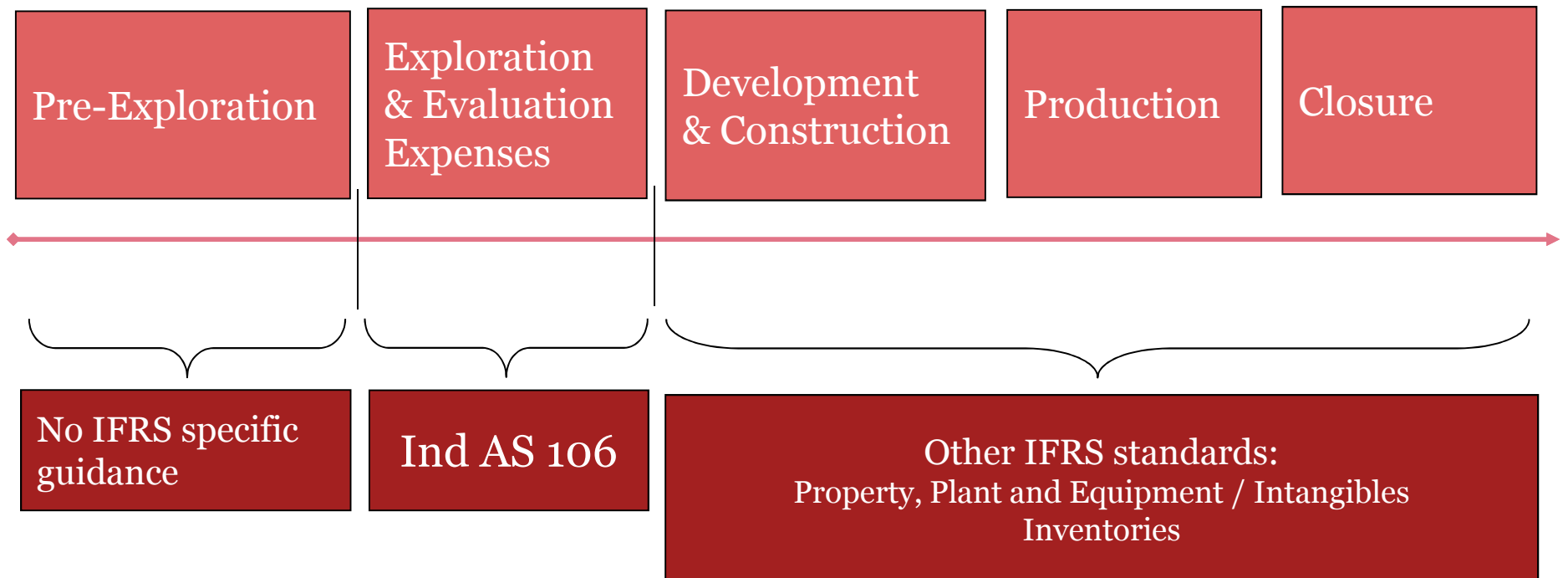
borrowing
costs are being
incurred; and

activities that
are necessary
to prepare the
asset for its
intended use or
sale are in
progress.

Stripping Costs of a Surface Mine

Stages in Mining

- Application of Ind AS stage wise



Scope

Recognition of production stripping costs as an asset

Initial measurement of the stripping activity asset; and

Subsequent measurement of the stripping activity asset

Benefits

Extraction of Inventory

Apply Ind AS 2 Inventories

Improved access to ore for future

- Recognise these costs as a non-current asset,
- Stripping Activity Asset, if criteria met

Criteria for recognising Stripping Activity Asset

All conditions should be satisfied

- ❑ it is probable that the **future economic benefit** (improved access to the ore body) associated with the stripping activity will flow to the entity;

- ❑ the entity can **identify the component** of the ore body for which access has been improved; and

- ❑ the **costs** relating to the stripping activity associated with that component can be measured reliably.

Presentation

- ❑ The stripping activity asset's classification as a **tangible or intangible asset** is the same as the existing asset.
- ❑ In other words, the **nature of this existing asset** will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement

Stripping activity asset

Include

- ❖ costs directly incurred to perform the stripping activity
- ❖ plus an allocation of directly attributable overhead costs

Does not include

- ❖ Costs associated with these incidental operations

Subsequent measurement

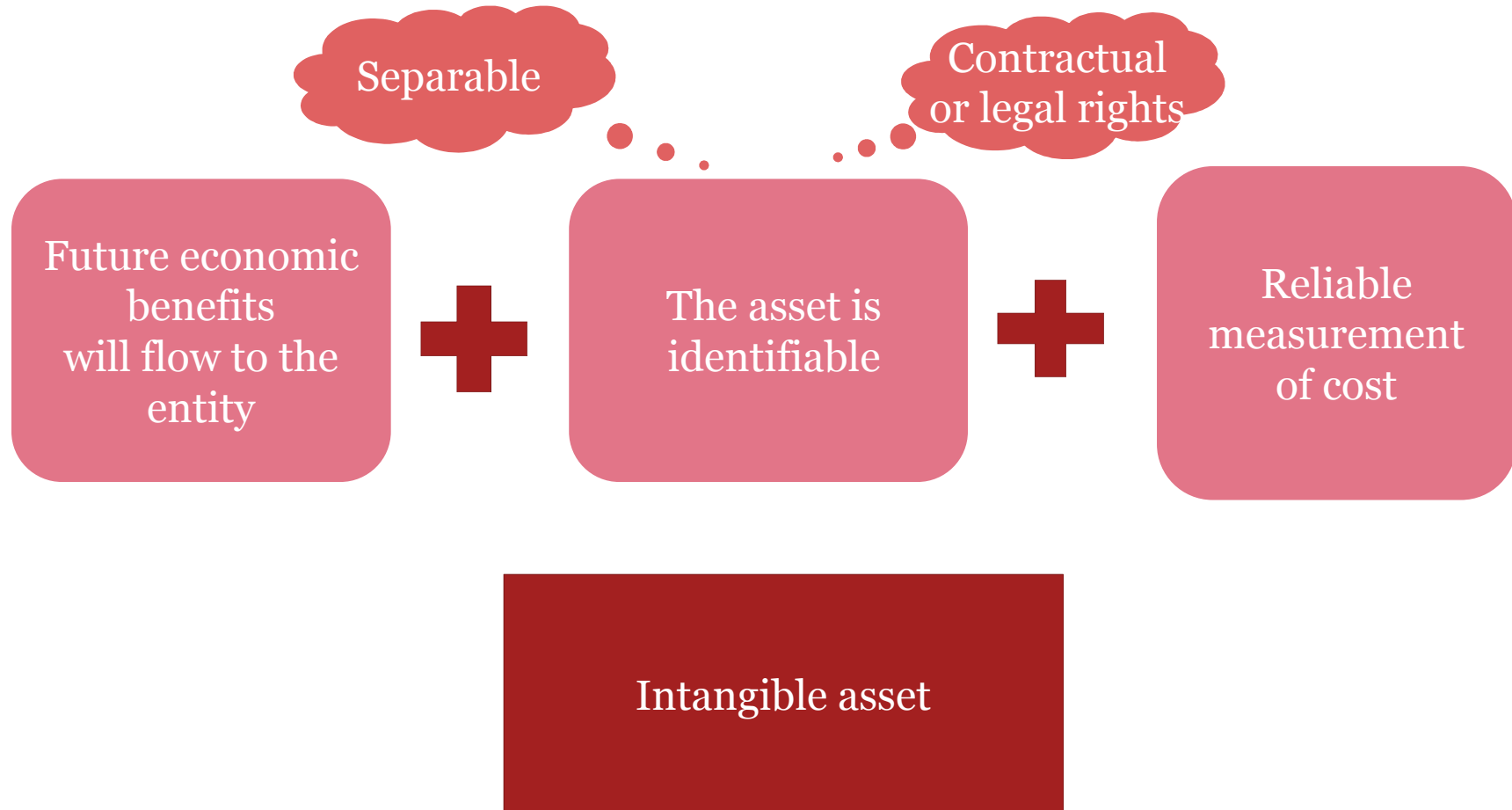
- Cost or its revalued amount less depreciation or amortisation and less impairment losses, in the **same way as the existing asset** of which it is a part.

- Shall be **depreciated or amortised on a systematic basis**

- The **units of production method** shall be applied unless another method is more appropriate.

Intangibles

Recognition of intangible assets



Recognition of intangibles

How do we get an intangible?

Internally generated

Separately acquired

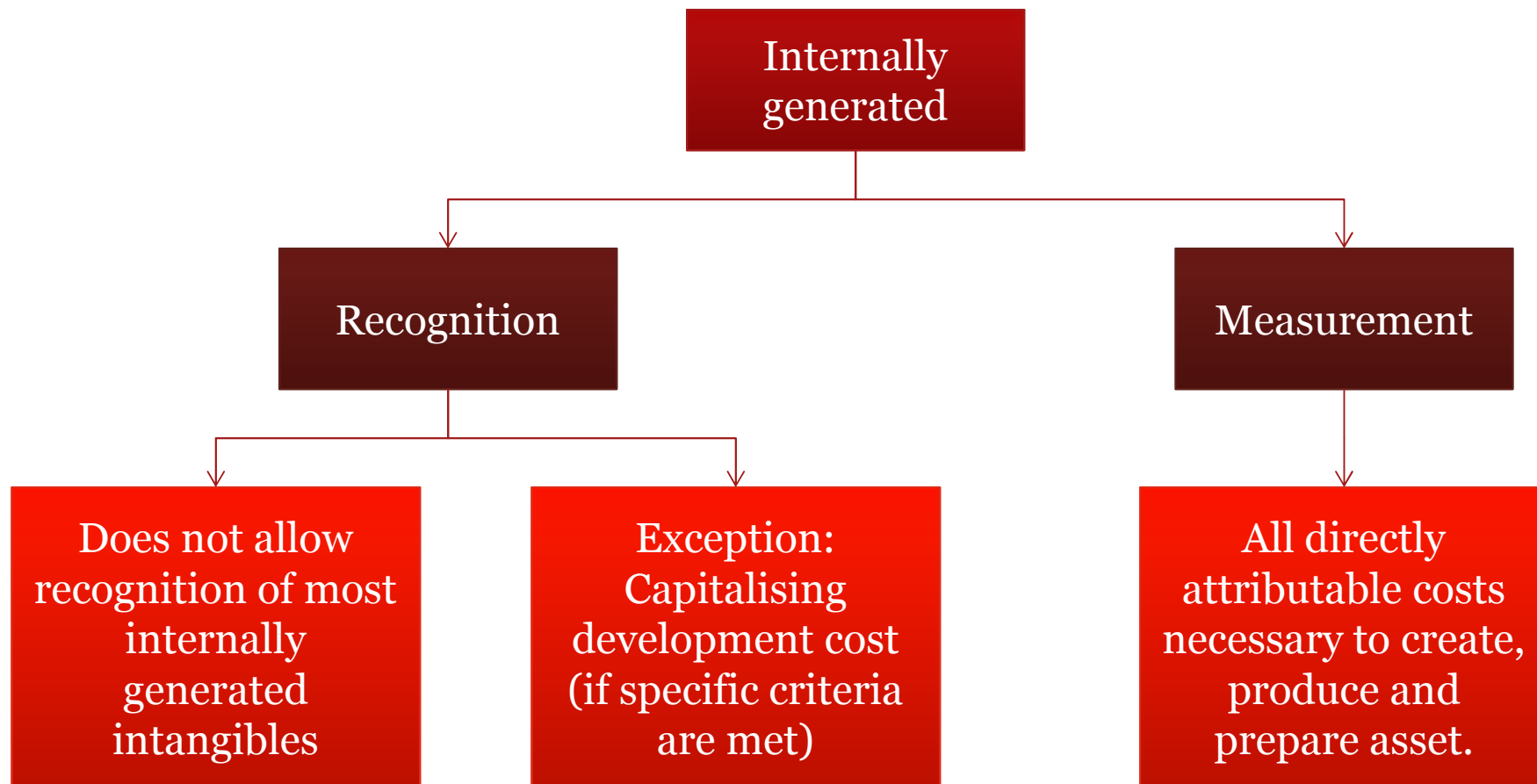
Acquired in a business
combination

The distinction between these is important!

Amortisation

- Systematic allocation of the depreciable amount of an intangible asset over its useful life i.e. the method of amortisation that is used should reflect the pattern in which the asset's further economic benefits are expected to be consumed by the entity.
- Amortisation should begin as soon as an asset 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.
- Amortisation applies to all intangible assets, whether held at cost or fair value, except intangible with indefinite useful lives.
- An intangible asset with an infinite useful life should not be amortised.

Intangible assets



Criteria for capitalising development costs

It is technically feasible to complete the project so that the asset will be available for use or sale.

The intention is to complete the project and use or sell the product.

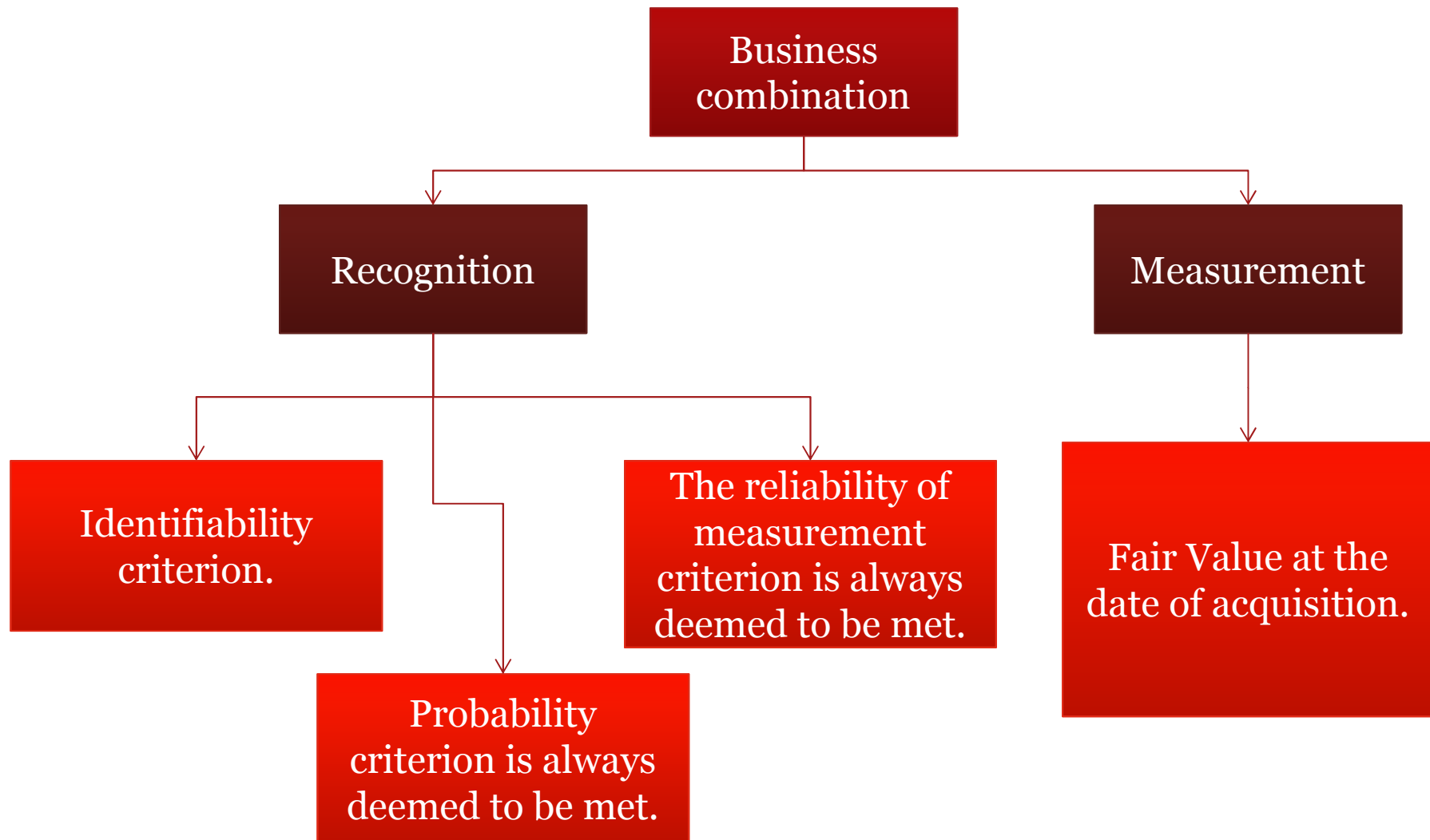
The entity has the ability to use or sell the asset.

The project will generate future economic benefits. The entity can demonstrate either that a market exists for the output, or the usefulness of the asset if it is to be used internally.

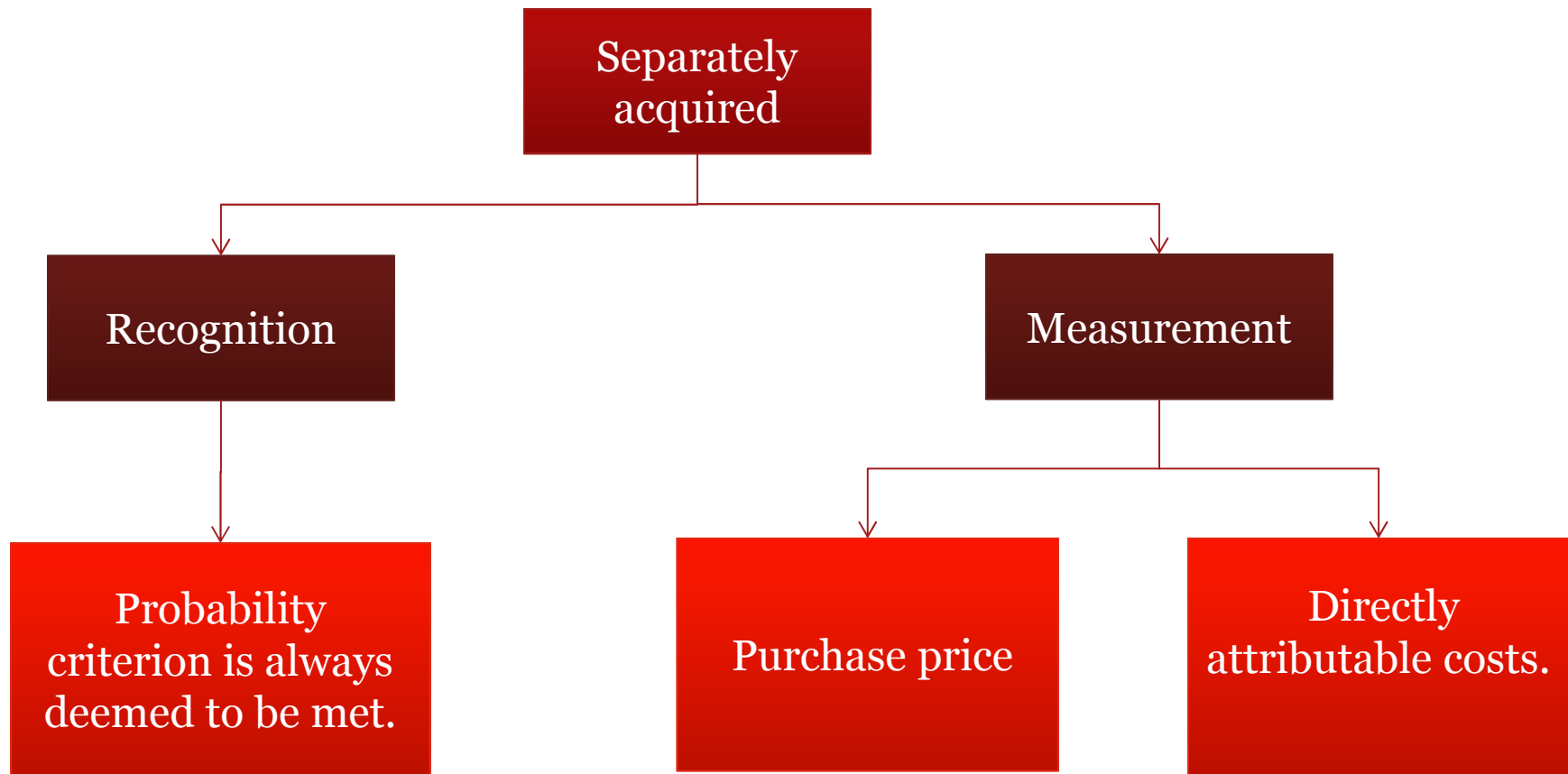
Adequate technical, financial and other resources are available to complete the development and use or sell the asset.

The entity can reliably measure the costs attributable to the asset during its development.

Intangible assets



Separately acquired



Subsequent measurement

Cost Model

After initial recognition, an intangible asset shall be carried at its cost less accumulated amortisation and accumulated impairment losses

Revaluation Model

After initial recognition, an intangible asset shall be carried at revalued amount, being its fair value at the date of the revaluation less and subsequent accumulated amortisation and subsequent accumulated impairment losses

Questions

Thank you!