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**STATUTORY BOARD FINANCIAL  
REPORTING STANDARD**

**SB-FRS 16**

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## **Property, Plant and Equipment**

SB-FRS 16 *Property, Plant and Equipment* was operative for Statutory Boards' financial statements for annual periods beginning on or after 1 January 2004.

This standard is equivalent to FRS 16 *Property, Plant and Equipment* issued by CCDG on 6 September 2004.

# Contents

*Paragraphs*

## **Statutory Board Financial Reporting Standard 16 Property, Plant and Equipment**

<b>OBJECTIVE</b>	<b>1</b>
<b>SCOPE</b>	<b>2-5</b>
<b>DEFINITIONS</b>	<b>6</b>
<b>RECOGNITION</b>	<b>7-14</b>
<b>Initial Costs</b>	<b>11</b>
<b>Subsequent Costs</b>	<b>12-14</b>
<b>MEASUREMENT AT RECOGNITION</b>	<b>15-28</b>
<b>Elements of Cost</b>	<b>16-22</b>
<b>Measurement of Cost</b>	<b>23-28</b>
<b>MEASUREMENT AFTER RECOGNITION</b>	<b>29-66</b>
<b>Cost Model</b>	<b>30</b>
<b>Revaluation Model</b>	<b>31-42</b>
<b>Depreciation</b>	<b>43-62</b>
Depreciable amount and depreciation period	50-59
Depreciable method	60-62
<b>Impairment</b>	<b>63-64</b>
<b>Compensation for Impairment</b>	<b>65-66</b>
<b>DERECOGNITION</b>	<b>67-72</b>
<b>DISCLOSURE</b>	<b>73-79</b>
<b>TRANSITIONAL PROVISIONS</b>	<b>80</b>
<b>EFFECTIVE DATE</b>	<b>81</b>

Statutory Board Financial Reporting Standard 16 *Property, Plant and Equipment* (SB-FRS 16) is set out in paragraphs 1-83 and the Appendix. All the paragraphs have equal authority. SB-FRS 16 should be read in the context of its objective, the *Preface to Statutory Board Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# STATUTORY BOARD FINANCIAL REPORTING STANDARD SB-FRS 16

## 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 statements 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.

### 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 SB-FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*;
- (b) biological assets related to agricultural activity (see SB-FRS 41 *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 Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, SB-FRS 17 *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 SB-FRS 40 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply SB-FRS 40. SB-FRS 40 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 SB-FRS 40 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 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 SB-FRSs, e.g. SB-FRS 102 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.***

## **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, i.e. 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 those items 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 SB-FRS 36 *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 (for example, 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.***

## 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.
  - (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 SB-FRS 19 *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 SB-FRS 2 *Inventories* to the costs of obligations for 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 SB-FRS 2 or SB-FRS 16 are recognised and measured in accordance with SB-FRS 37 *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 SB-FRS 2). 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. SB-FRS 23 *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 item in accordance with the allowed alternative treatment in SB-FRS 23.
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 item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item 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 SB-FRS 17 *Leases*.
28. The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with SB-FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

## 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 balance sheet 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.
  - (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 and 40.

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 surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.***
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 surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.***
41. The revaluation surplus 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 surplus 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 SB-FRS 12 *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 SB-FRS 2). 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 SB-FRS 38 *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 each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with SB-FRS 8 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, i.e. 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 SB-FRS 105 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 each financial year-end 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 SB-FRS 8.***
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 SB-FRS 36 *Impairment of Assets*. 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]

## 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 SB-FRS 36;
  - (b) 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 SB-FRS 17 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 SB-FRS 18 *Revenue* for recognising revenue from the sale of goods. SB-FRS 17 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 SB-FRS 18 reflecting the effective yield on the receivable.

## 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 SB-FRS 105 and other disposals;*
    - (iii) acquisitions through business combinations;*
    - (iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed directly in equity in accordance with SB-FRS 36;*
    - (v) impairment losses recognised in profit or loss in accordance with SB-FRS 36;*
    - (vi) impairment losses reversed in profit or loss in accordance with SB-FRS 36;*
    - (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 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 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 SB-FRS 8 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.***
78. In accordance with SB-FRS 36 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 SB-FRS 105; 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

80. ***The requirements of paragraphs 24-26 regarding the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.***

## Effective Date

81. ***Statutory Boards shall apply this Standard for annual periods beginning on or after 1 January 2004. For an enterprise which had:***

- (a) *revalued its property, plant and equipment before 1st January 1984 (in accordance with the prevailing accounting standard at that time); or*
- (b) *performed any one-off revaluation on its property, plant and equipment between 1st January 1984 and 31st December 1996 (both dates inclusive), there will be no need for the enterprise to revalue its assets in accordance with paragraph 31 of this Standard.*

*In this paragraph, “one-off revaluation” means any instance where an item of property, plant and equipment was revalued only once between 1st January 1984 and 31st December 1996 (both dates inclusive). Where an item of property, plant and equipment has been revalued more than once between 1st January 1984 and 31st December 1996 (both dates inclusive), the company should explain why the particular item of property, plant and equipment should be exempted, and the auditor’s concurrence of the explanation is required.*