MIND MAP OF IAS 16 - PROPERTY, PLANT AND EQUIPMENT

- Issued: in 1982; re-issued in 1993 and 2003, followed by amendments
- Effective date: 1 January 2005

PURPOSE					
It prescribes the accounting treatment for property, plant and equipment;	It sets the initial recognition criteria related to an item of property, plant and equipment and deals with subsequent costs;	In relation to subsequent measurement, it permits two models:		It prescribes the rules for initial measurement of property, plant and equipment (components of cost)	
		Cost model: The asset is carried at its cost less accumulated depreciation and impairment loss.	**Revaluation model:** The asset is carried at a revalued amount calculated as fair value at the date of revaluation less subsequent accumulated depreciation and impairment loss.		**Condit** **rep** **existing** **re**

RECOGNITION AND MEASUREMENT	
RECOGNISE WHEN IT IS:	
i. Probable that the future economic benefits associated with the asset will flow to the entity; and	**ii.** The cost of the asset can be reliably measured.
MEASUREMENT:	
i. Initially recorded at cost	**ii.** Subsequent costs are only recognised if costs can be reliably measured and these will lead to additional economic benefits flowing to the entity.

SUBSEQUENT MEASUREMENT
THE COST MODEL The asset is carried at cost less accumulated depreciation and impairment losses.

DEPRECIATION				
The depreciable amount is allocated on a systematic basis over the asset's useful life.	The residual value, the useful life and the depreciation method of an asset are reviewed annually at reporting date	Revenue based depreciation is prohibited.	Changes in residual value, depreciation method and useful life are changes in estimates are accounted for prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Depreciation commences when the asset is available for use.

THE REVALUATION MODEL **The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation, provided that fair value can be measured reliably**							
Revaluations should be carried out regularly (the carrying amount of an asset should not differ materially from its fair value at the reporting date – either higher or lower)	Revaluation frequency depends upon the changes in fair value of the items measured (annual revaluation for volatile items or intervals between 3 - 5 years for items with less significant changes)	If an item is revalued, the entire class of assets to which that asset belongs is required to be revalued. Revalued assets are depreciated the same way as under the cost model	The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.	The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses	Accumulated depreciation is eliminated against the gross carrying amount	Transfer between reserves – depreciation on revaluation amount	An increase in value is credited to other comprehensive income under the heading revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in this case the increase in value is recognised in profit or loss.

OTHER IMPORTANT ASPECTS				
Component accounting				
Significant parts/components are required to be depreciated over their estimated useful life	Costs of replacing components are required to be capitalised	Continued operation of an item of property, plant and equipment (PPE) may require regular major inspections for faults regardless of whether parts of the item are replaced.	Significant parts/components are required to be depreciated over their estimated useful life	Significant parts/components are required to be depreciated over their estimated useful life

DISPOSALS		
Remove the asset from the statement of financial position on disposal or when withdrawn from use and no future economic benefits are expected from its disposal	The gain or loss on disposal is the difference between the proceeds and the carrying amount and is recognised in profit or loss	When a revalued asset is disposed of, any revaluation surplus may be transferred directly to retained earnings. The transfer to retained earnings is not made through profit or loss.