SSAP 17
STATEMENT OF STANDARD ACCOUNTING PRACTICE 17
PROPERTY, PLANT AND EQUIPMENT

(Issued July 1995; revised April 2001 in bold type)

*The standards, which have been set in **bold italic type**, should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice ,Interpretationsand Accounting Guidelines. ~~Accounting standards~~Statements of Standard Accounting Practiceare not intended to apply to immaterial items (see paragraph 8 of the Foreword).*

Introduction

The objective of this Statement is to prescribe the accounting treatment for property, plant and equipment. The principal issues in accounting for property, plant and equipment are the timing of recognition of the assets, the determination of their carrying amounts and the depreciation charges to be recognised in relation to them ~~, and the determination and accounting treatment of other impairments to the carrying amounts~~ .

Scope

1. This Statement should be applied in accounting for property, plant and equipment except when another Statement of Standard Accounting Practice requires or permits a different accounting treatment.

2. Charitable, government subvented and not-for-profit organisations whose long-term financial objective is other than to achieve operating profits (eg. trade associations, clubs and retirement schemes) are exempted from compliance with this Statement provided that full disclosure of their accounting policies is made. Nonetheless, these enterprises are encouraged to follow the accounting practices set out in this Statement.

3. ~~This Statement supersedes SSAP 6 "Depreciation accounting".~~ While this Statement is not primarily intended to apply to assets other than property, plant and equipment, many of the principles contained in this Statement may also be appropriate for other depreciable assets.

4. This Statement does not apply to:

   a. forests and similar regenerative natural resources; and

   b. mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

   However, this Statement does apply to property, plant and equipment used to develop or maintain the activities or assets covered in a. or b. but separable from those activities or assets.

5. In some circumstances other Statements of Standard Accounting Practice permit the initial recognition of the carrying amount of property, plant and equipment to be determined using an approach different from that prescribed in this Statement. For example, ~~SSAP 7 "Group accounts"~~ SSAP 30 "Business combinations" requires property, plant and equipment acquired in a business combination to be measured initially at fair value even when it exceeds cost. However in such cases all other aspects of the accounting treatment for these assets, including depreciation, are determined by the requirements of this Statement.

Definitions

6. ***The following terms are used in this Statement with the meanings specified:***

"Property, plant and equipment" are tangible assets that:

a. ***are held by an enterprise 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.***

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

"Depreciable amount" is the cost of an asset, or other amount substituted for cost in the financial statements, less its estimated residual value.

"Useful life" is either:

a. ***the period of time over which an asset is expected to be used by the enterprise; or***

b. ***the number of production or similar units expected to be obtained from the assets by the enterprise.***

"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.

"Residual value" is the net amount which the enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

"Fair value" is the amount for which an asset could be exchanged between knowledgable, 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.

"Carrying amount" is the amount at which an asset is ~~included~~ recognised in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.

~~"Recoverable amount" is the amount which the enterprise expects to recover from the future use of an asset, including its residual value on disposal.~~ "Recoverable amount" is the higher of an asset's net selling price and value in use.

Recognition of property, plant and equipment

7. ***An item of property, plant and equipment should be recognised as an asset when:***

a. ***it is probable that future economic benefits associated with the asset will flow to the enterprise; and***

b. ***the cost of the asset to the enterprise can be measured reliably.***

8. Property, plant and equipment is often a major portion of the total assets of an enterprise, and therefore is significant in the presentation of its financial position. Furthermore, the determination of whether an expenditure represents an asset or an expense can have a significant effect on an enterprise's reported results of operations.

9. In determining whether an item satisfies the first criterion for recognition, an enterprise needs to assess the degree of certainty attaching to the flow of future economic benefits on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits will flow to the enterprise necessitates an assurance that the enterprise will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the enterprise.

10. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. In the case of a self-constructed asset, a reliable measurement of the cost can be made from the transactions with parties external to the enterprise for the acquisition of the materials, labour and other inputs used during the construction process.

11. Land and buildings in the course of development or redevelopment should be treated as follows:

    a. Held for re-sale

    Where land and buildings in the course of development or redevelopment are held for re-sale, they should be regarded as ~~trading stocks~~inventories of an enterprise and as such, should be accounted for in accordance with ~~SSAP 3 "Stocks and work in progress".~~SSAP 22 "Inventories".

    b. Held for other purposes

    Where land and buildings in the course of development or redevelopment are held for production, rental or administrative purposes or where no decision has yet been taken to re-sell the land and buildings, they should be included in the financial statements as property, provided that the recognition criteria in paragraph 7 are satisfied.

12. In identifying what constitutes a separate item of property, plant and equipment, judgement is required in applying the criteria in the definition to specific circumstances or specific types of enterprises. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value. Most spare parts and servicing equipment are usually carried as ~~stocks~~ inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the enterprise 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 and their use is expected to be irregular, they are accounted for as property, plant and equipment and are depreciated over a time period not exceeding the useful life of the related asset.

13. In certain circumstances, it is appropriate to allocate the total expenditure on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide benefits to the enterprise in a different pattern thus necessitating use of different depreciation rates and methods. For example, leasehold land and buildings acquired together need to be treated as separate depreciable assets if they have different useful lives.

14. Property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, while not directly increasing the future economic benefits of any particular existing item of property, plant and equipment may be necessary in order for the enterprise to obtain the future economic benefits from its other assets. When this is the case, such acquisitions of property, plant and equipment qualify for recognition as assets, in that they enable future economic benefits from related assets to be derived by the enterprise in excess of what it could derive if they had not been acquired. However, such assets are only recognised to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total recoverable amount of that asset and its related 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; related plant enhancements are recognised as an asset to the extent they are recoverable because, without them, the enterprise is unable to manufacture and sell chemicals.

Initial measurement of property, plant and equipment

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

Components of cost

16. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

    a. the cost of site preparation;

    b. initial delivery and handling costs;

    c. installation costs; ~~and~~

    d. professional fees such as for lawyers, architects and engineers; and

    e. the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognised as a provision under SSAP 28 "Provisions, contingent liabilities and contingent assets".

17. When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with ~~guidance on borrowing costs~~SSAP 19 "Borrowing costs".

18. Administration and other general overhead costs are not a component of the cost of property, plant and equipment unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar pre-production costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition.

19. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale (see SSAP 22 "Inventories")~~, and hence includes an appropriate proportion of production overheads.~~ 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 the production of a self-constructed asset is not included in the cost of the asset. SSAP 19 "Borrowing costs" establishes criteria which, when satisfied, will result in borrowing costs being capitalised as a component of property, plant and equipment.~~ Guidance on determining whether or not borrowing costs might be included as a component of the cost of self- constructed assets can be found in Accounting Guideline 2.205 "Capitalisation of borrowing costs".~~

20. The cost of an asset held by a lessee under a finance lease is determined using the principles set out in ~~SSAP 14 "Accounting for leases and hire purchase contracts"~~. SSAP 14 "Leases".

Exchanges of assets

21. An item of property, plant and equipment may be acquired in exchange or part exchange for a dissimilar item of property, plant and equipment or other asset. The cost of such an item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred. Such an exchange of assets is regarded as a transaction which generates gain or loss.

22. An item of property, plant and equipment may be acquired in exchange for a similar asset that has a similar use in the same line of business and which has a similar fair value. An item of property, plant and equipment may also be sold in exchange for an equity interest in a similar asset. In both cases, since the earnings process is incomplete, no gain or loss is recognised on the transaction. Instead, the cost of the new asset is the carrying amount of the asset given up. However, the fair value of the asset received may provide evidence of an impairment in the asset given up. Under these circumstances the asset given up is written down and this written down value assigned to the new asset. Examples of exchanges of similar assets include the exchange of aircraft, hotels, service stations and other real estate properties. If other assets such as cash are included as part of the exchange transaction this may indicate that the items exchanged do not have a similar value.

~~Transfers between different types of assets~~

~~23.~~ ~~An enterprise may, because of a change in use or intended use, transfer an asset between property, plant and equipment and other classes of assets, such as stocks or investment properties. The cost of such an asset on transfer is deemed to be the carrying amount of the asset as stated under its original classification. Any previous revaluation reserve on the asset should be frozen upon the transfer until the retirement or disposal of the asset. On the retirement or disposal of the asset, the frozen revaluation reserve is transferred directly to retained earnings and not throught the profit and loss account.~~

Subsequent expenditure

23~~24.~~ Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

24~~25.~~ Subsequent expenditure on property, plant and equipment is only recognised as an asset when the expenditure improves the condition of the asset beyond its originally assessed standard of performance. Examples of improvements which result in increased future economic benefits include:

a. modification of an item of plant to extend its useful life, including an increase in its capacity;

b. upgrading machine parts to achieve a substantial improvement in the quality of output; and

c. adoption of new production processes enabling a substantial reduction in previously assessed operating costs.

25~~26~~. Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset. As such, it is usually recognised as an expense when incurred. For example, the cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the originally assessed standard of performance.

26~~27~~. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an item of property, plant and equipment depends on the circumstances which were taken into account on the initial measurement and recognition of the related item of property, plant and equipment and whether the subsequent expenditure is recoverable. For instance, when the carrying amount of the item of property, plant and equipment already takes into account a loss in economic benefits, the subsequent expenditure to restore the future economic benefits expected from the asset is capitalised provided that the carrying amount does not exceed the recoverable amount of the asset. This is also the case when the purchase price of an asset already reflects the enterprise's obligation to incur expenditure in the future which is necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.

27~~28~~. Major components 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 usage or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. The components are accounted for as separate assets because they have useful lives different from those of the items of property, plant and equipment to which they relate. Therefore, provided the recognition criteria in paragraph 7 are satisfied, the expenditure incurred in replacing or renewing the component is accounted for as the acquisition of a separate asset and the replaced asset is written off.

28. An enterprise that purchases an item of property, plant and equipment may need to perform major inspections or overhauls of the asset at regular intervals over its useful life to allow the continued use of the asset by the enterprise. An example of this is the purchase of a vessel which requires an overhaul, say, once every five years.

29. The cost of a major inspection or overhaul of an item of property, plant and equipment occurring at regular intervals over the useful life of an asset and made to allow the continued use of the asset is recognised as an expense in the period in which it is incurred except when:

a. consistent with paragraph 13, the enterprise has identified as a separate component of the asset an amount representing a major inspection or overhaul and has already depreciated that component to reflect the consumption of benefits which are replaced or restored by the subsequent major inspection or overhaul (whether the asset is carried at historical cost or revalued);

b. it is probable that future economic benefits associated with the asset will flow to the enterprise; and

c. the cost of the major inspection or overhaul to the enterprise can be measured reliably.

If these criteria are met, the cost is capitalised and accounted for as a component of the asset (see Appendix).

Measurement subsequent to initial recognition

30~~29~~ . ***Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation ~~, subject to the requirement in paragraph 55 to write an asset down to its recoverable amount~~ and any accumulated impairment losses.***

31~~30~~. ***Alternatively, subsequent to initial recognition as an asset, an item of property, plant and equipment may 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. Subject to the transitional arrangements set out in paragraph 80~~72~~, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.***

Revaluations

32~~31~~. The fair value of land and buildings is usually its open market value. ~~for existing use which presupposes continued use of the asset in the same or a similar business.~~ This value is determined by appraisal normally undertaken by professionally qualified valuers.

33~~32~~. The fair value of items of plant and equipment is usually their market value determined by appraisal. When there is no evidence of market value because of the specialised nature of the plant and equipment and because these items are rarely sold, except as part of a continuing business, they are valued at their depreciated replacement cost.

~~33.~~ ~~In determining fair value, an item of property, plant and equipment is valued on the basis of its existing use. However, an asset for which a change in use is probable is valued on the same basis as other similar assets held for the same intended use. For example, it is inappropriate to value a factory and the equipment within it at their value in use, while valuing the factory site at the open market value of the land for redevelopment as a shopping centre.~~

34. The frequency of revaluations depends upon the movements in the 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 necessary. Some items of property, plant and equipment may experience significant and volatile movements in fair value thus necessitating annual revaluation. Such frequent revaluations would be unnecessary for items of property, plant and equipment with only insignificant movements in fair value.

35. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is either:

    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 an index to its depreciated replacement cost; or

    b. eliminated against the gross carrying amount of the asset and the resulting net amount restated to the revalued amount of the asset. For example, this method is used for buildings which are revalued to their open market value.

    The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount which is dealt with in accordance with paragraphs 39 and 40.

36. ***When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.***

37. A class of property, plant and equipment is a grouping of assets of a similar nature and use in an enterprise's operations. The following are examples of separate classes:

a. land;

b. land and buildings;

c. construction in progress;

d. machinery;

e. ships;

f. aircraft;

g. motor vehicles;

h. furniture and fixtures; and

i. office equipment.

38. The items within a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements which 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 of time and provided the revaluations are kept up to date.

39. When an asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to equity under the heading of revaluation reserve. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

40. When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should 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.

41. The revaluation reserve included in equity may be transferred directly to retained earnings when the reserve is realised. The reserve may be realised on the retirement or disposal of the asset. However, part of the reserve may be realised as the asset is used by the enterprise; in such a case, the amount of the reserve realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. The transfer from revaluation reserve to retained earnings is not made through the ~~profit and loss account~~ income statement.

42. For the purposes of paragraph 40, the term "that same asset" refers to an individual item of property, plant and equipment. A portfolio approach to revaluations is therefore precluded. Where a revaluation decrease occurs, this is charged against the related revaluation reserve only to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of "that same asset" Any excess is charged to profit or loss for the period.

Depreciation

43~~42~~. The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its estimated useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise. The depreciation charge for each period should be recognised as an expense unless it is included in the carrying amount of another asset.

44~~43~~. As the economic benefits embodied in an asset are consumed by the enterprise, the carrying amount of the asset is reduced to reflect this consumption, normally by charging an expense for depreciation. A revaluation of property, plant and equipment does not remove the need to charge depreciation. Furthermore, a depreciation charge is made even if the value of the asset exceeds its carrying amount.

45~~44~~. The economic benefits embodied in an item of property, plant and equipment are consumed by the enterprise principally through the use of the asset. A depreciation charge would therefore be provided from the date an asset can be put to effective use. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:

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

b. the 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 of the enterprise, and the care and maintenance of the asset while idle;

c. technical 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; and

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

46~~45~~. The useful life of an asset is defined in terms of the asset's expected utility to the enterprise. The asset management policy of an enterprise may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits embodied in the assets. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the enterprise with similar assets.

47~~46~~. Land and buildings are separable assets and are dealt with separately for accounting purposes, even when they are acquired together. Freehold land has an unlimited life and, therefore, is not depreciated. Leasehold land, however, is to be depreciated. Buildings have a limited 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 useful life of the building.

48~~47~~. The depreciable amount of an asset is determined after deducting the estimated residual value of the asset. In practice, the residual value of an asset is often insignificant and therefore is immaterial in the calculation of the depreciable amount. When an asset is carried at cost less accumulated depreciation and any accumulated impairment losses and the residual value is likely to be significant, the residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices. However, when an asset is carried at a revalued amount, a new estimate is made at the date of any subsequent revaluation of the asset. The estimate is based on the residual value prevailing at the date of the estimate for similar assets which have reached the end of their useful lives and which have operated under conditions similar to those in which the asset will be used.

~~48.~~ ~~When the purchase of an asset will involve the enterprise in significant dismantling, removal or restoration costs, at the end of the asset's useful life, those costs are recognised as an expense over the life of the asset either:~~

~~a.~~ ~~by deducting the estimated costs in determining the residual value of the asset and thereby increasing the annual depreciation charge. Any resulting negative carrying amount is recognised as a liability; or~~

~~b.~~ ~~when the estimated costs are not deducted in determining the residual value, by recognising the costs as a separate expense over the life of the asset such that the liability for these costs is fully provided for at the end of the asset's useful life.~~

49. 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 sum-of-the-units method. Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The sum-of-the-units method results in a charge based on the expected use or output of the asset. The method used for an asset is selected based on the expected pattern of economic benefits and is consistently applied from period to period unless there is a change in the expected pattern of economic benefits from that asset.

50. The depreciation charge for a period is usually recognised as an expense. However, in some circumstances, the economic benefits embodied in an asset are absorbed by the enterprise in producing other assets rather than giving rise to an expense. In this case, the depreciation charge comprises 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 SSAP 22 "Inventories") ~~stocks (see SSAP 3 "Stocks and work in progress").~~ Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset that is recognised under SSAP 29 "Intangible assets" ~~development costs which are capitalised in accordance with SSAP 16 "Research and development costs".~~.

Review of useful life

51. The useful life of an item of property, plant and equipment should be reviewed periodically and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

52. During the life of an asset it may become apparent that the estimate of the useful life is inappropriate. For example, the useful life may be extended by subsequent expenditure on the asset which improves the condition of the asset beyond its originally assessed standard of performance. Alternatively, technological changes or changes in the market for the products may reduce the useful life of the asset. In such cases, the useful life and, therefore, the depreciation rate is adjusted for the current and future periods.

53. The repair and maintenance policy of the enterprise may also affect the useful life of an asset. The policy may result in an extension of the useful life of the asset or an increase in its residual value. However, the adoption of such a policy does not negate the need to charge depreciation.

Review of depreciation method

54. The depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

~~Recovery~~ Recoverability of the carrying amount - Impairment losses

~~Impairment~~

55. To determine whether an item of property, plant and equipment is impaired, an enterprise applies SSAP 31 "Impairment of assets." That Statement explains how an enterprise reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

56. SSAP 30 "Business combinations" explains how to deal with an impairment loss recognised before the end of the first annual accounting period commencing after a business combination.

~~55.~~ ***~~The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation increase in which case it should be charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item or group of identical items of property, plant and equipment.~~***

~~56.~~ ~~The cost or revalued amount of an item of property, plant and equipment is normally recovered on a systematic basis over the useful life of the asset. If the usefulness of an item or a group of identical items is impaired, for example by damage or technological obsolescence or other economic factors, the recoverable amount may be less than the carrying amount of the asset. In such circumstances, a write-down of the asset is necessary. A write-down may also be necessary when an item of property, plant and equipment remains idle for a considerable period either prior to it being put into use or during its useful life.~~

~~57.~~ ~~The recoverable amount of individual assets or a group of identical assets is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all the plant and equipment in a factory is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount. This Statement does not require or preclude the discounting of cash flows in determining the recoverable amount.~~

~~Subsequent increase in recoverable amount~~

~~58.~~ ***~~A subsequent increase in the recoverable amount of an assets, carried at cost less accumulated depreciation as described in paragraph 29, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future. The amount written back should be reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.~~***

~~59.~~ ***~~A subsequent increase in the recoverable amount of an asset, carried at revalued amount as described in paragraph 30, should be accounted for in accordance with paragraph 39.~~***

Transfers between different types of assets

57. ***Transfers to, or from, property, plant and equipment should be made when, and only when, there is a change in use, evidenced by:***

a. ***commencement of owner-occupation, for a transfer from investment property to property, plant and equipment or commencement of own use in the case of a transfer from inventories to property, plant and equipment;***

b. ***commencement of development with a view to sale, for a transfer from property, plant and equipment to inventories;***

c. ***end of owner-occupation, for a transfer from property, plant and equipment to investment property; or***

d. ***end of construction or development, for a transfer from property in the course of construction or development (covered by this Statement) to investment property.***

58. Paragraph 57(b) above requires an enterprise to transfer an asset from property, plant and equipment to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an enterprise decides to dispose of an item of property, plant and equipment without development, the enterprise continues to treat the asset as an item of property, plant and equipment until it is derecognised (eliminated from the balance sheet) and does not treat it as inventory.

59. For a transfer from investment property carried at fair value to property, plant and equipment, the property's cost for subsequent accounting under this Statement should be its fair value at the date of change in use. The enterprise should treat any difference at that date between the carrying amount of the property under SSAP 13 "Accounting for investment properties" and its fair value in the same way as a revaluation under SSAP 13.

60. When an enterprise carries property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses, transfers from property, plant and equipment to investment properties or inventories, do not change the carrying amount of the asset transferred and the carrying amount of that asset becomes cost for subsequent accounting under the relevant Statement. Similarly, transfers from investment properties or inventories to property, plant and equipment are made at their carrying amount at the time of the transfer (as determined under the relevant Statement) and that carrying amount becomes cost for recognition of the assets under this Statement.

61. Up to the date when an item of property, plant and equipment carried at cost less accumulated depreciation and accumulated impairment losses becomes an investment property or an inventory item, an enterprise continues to depreciate that property, plant or equipment and to recognise any impairment losses that have occurred.

62. Paragraphs 63 to 65 deal with recognition and measurement issues relating to asset transfers that apply when an enterprise carries property, plant and equipment at revalued amounts.

63. If an item of property, plant and equipment carried at a revalued amount becomes an investment property or an inventory item, an enterprise should apply this Statement up to the date of change in use. The enterprise should treat any difference at that date between the carrying amount of the asset under this Statement and its fair value in the same way as a revaluation under this Statement. For a transfer from property, plant and equipment carried at a revalued amount to inventories, the asset's cost for subsequent accounting under SSAP 22 "Inventories" should be its fair value at the date of change in use.

64. Up to the date when an item of property, plant and equipment carried at a revalued amount becomes an investment property or an inventory item, an enterprise continues to depreciate that property, plant or equipment and to recognise any impairment losses that have occurred. The enterprise treats any difference at that date between the carrying amount of that property, plant or equipment under this Statement and its fair value in the same way as a revaluation under this Statement. In other words:

a. any resulting decrease in the carrying amount of the item of property, plant and equipment is recognised in net profit or loss for the period. However, to the extent that an amount is included in revaluation surplus for that item of property, plant and equipment, the decrease is charged against that revaluation surplus; and

b. any resulting increase in the carrying amount is treated as follows:

   i. to the extent that the increase reverses a previous revaluation decrease for that item of property, plant and equipment recognised as an expense, the increase is recognised in net profit or loss for the period.

   ii. any remaining part of the increase is credited directly to equity under the heading of revaluation surplus. On subsequent disposal or retirement of the investment property or inventory item, the revaluation surplus included in equity may be transferred to retained earnings. The transfer from revaluation surplus to retained earnings is not made through the income statement.

65. ***A transfer from inventories to property, plant and equipment that will be carried at a revalued amount should be made at the carrying amount of the asset at the date of transfer.***

Retirements and disposals

66~~60~~. ***An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.***

67~~61~~. ***Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the profit and loss account ~~profit and loss account~~income statement.***

68~~62~~. When an item of property, plant and equipment is exchanged for a similar asset, under the circumstances described in paragraph 22, the cost of the acquired asset is equal to the carrying amount of the asset disposed of and no gain or loss results.

69~~3~~. Sale and leaseback transactions are accounted for in accordance with SSAP 14 "Leases" ~~SSAP 14 "Accounting for leases and hire purchase contracts".~~

70~~64~~. Property, plant and equipment which is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use. At least at each financial year end, an enterprise tests the asset for impairment under SSAP 31 "Impairment of assets" and recognises any impairment loss accordingly ~~the lower of its carrying amount and net realisable value.~~

Disclosure

71~~65~~. ***The financial statements should disclose, ~~in respect of~~ for each class of property, plant and equipment:***

- ***a.*** ***the measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;***
- ***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;***
- ***e.*** ***a reconciliation of the gross carrying amount and the accumulated depreciation at the beginning and end of the period showing:***
  - ***i.*** ***additions;***
  - ***ii.*** ***disposals;***
  - ***iii.*** ***acquisitions through business combinations;***
  - ***iv.*** ***increases or decreases during the period resulting from revaluations ~~in accordance with~~ under paragraphs 31~~30~~, 39 and 40 ~~39,40 and 59~~ and from impairment losses recognised or reversed directly in equity under SSAP 31 "Impairment of assets" (if any);***
  - ***v.*** ***~~reductions in carrying amount in accordance with paragraph 55;~~ impairment losses recognised in the income statement during the period under SSAP 31 (if any);***

vi. ***~~amounts written back in accordance with paragraph 58;~~ impairment losses reversed in the income statement during the period under SSAP 31 (if any);***

vii. ***depreciation charge;***

viii. ***the net exchange differences arising on the translation of the financial statements of a foreign entity;***

ix. ***transfers between different types of assets;***

x. ***transfers between different classes of property, plant and equipment; and***

xi. ***other movements.***

Comparative information is not required for the reconciliation in (e) above.

72~~66~~. ***The financial statements should also disclose:***

~~a.~~ ***~~whether, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values;~~***

a ~~b.~~ ***the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;***

b ~~c.~~ ***the accounting policy for ~~restoration costs relating to~~ the estimated costs of restoring the site of items of property, plant ~~and~~ or equipment;***

c ~~d.~~ ***the amount of expenditures on account of and the amount of borrowing costs (showing separately interest and exchange differences) capitalised on property, plant and equipment in the course of construction;***

d ~~e.~~ ***the amount of commitments for the acquisition of property, plant and equipment; and***

e ~~f.~~ ***the gains or losses arising from the retirement or disposal of property, plant and equipment, and how the amounts are arrived at.***

73~~67~~. The selection of the depreciation method and the 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 which allows them to review the policies selected by management and enables comparisons to be made with other enterprises. For similar reasons, it is necessary to disclose the depreciation allocated in a period and the accumulated depreciation at the end of that period.

74~~68~~. An enterprise discloses the nature and effect of a change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies". Such disclosure may arise from changes in estimate with respect to:

a. residual values;

b. ~~dismantling, removal or restoration costs~~ the estimated costs of dismantling and removing items of property, plant or equipment and restoring the site;

c. useful lives; and

d. depreciation method.

75~~69~~. ***When items of property, plant and equipment are stated at revalued amounts the following should be disclosed:***

a. ***the basis used to revalue the assets;***

b. ***the effective date of the revaluation;***

c. ***the names and qualifications of persons making the revaluation;***

d. whether the valuer was independent of or connected to the enterprise concerned;

e. the nature of any indices used to determine replacement cost;

f. the carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried ~~at cost less accumulated depreciation~~ under the treatment in paragraph 30; and

g. the revaluation reserve, indicating the movement for the period and any restrictions on the distribution of the balance to shareholders.

76. An enterprise discloses information on impaired property, plant and equipment under SSAP 31 "Impairment of assets" in addition to the information required by paragraph 71(e)(iv) to (vi).

77~~70~~. Financial statements users 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 held for disposal; and

d. where property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses, the fair value of the assets when this is materially different from the carrying amount.

Therefore, enterprises are encouraged to disclose these amounts.

Effective date

78~~71~~. The accounting practices set out in this Statement should be ~~adopted as soon as possible and~~ regarded as standard in respect of financial statements relating to periods ~~ending on or after 30 September 1995.~~ beginning on or after 1 January 2001. Earlier adoption is encouraged but not required. If an enterprise applies this Statement for financial statements covering periods beginning before 1 January 2001, the enterprise should:

a. disclose that fact; and

b. adopt SSAP 28 "Provisions, contingent liabilities and contingent assets", SSAP 29 "Intangible assets", SSAP 30 "Business combinations" and SSAP 31 "Impairment of assets" at the same time.

79. This Statement supersedes SSAP 17 "Property, plant and equipment" approved in 1995.

Transitional arrangements

80~~72~~. Enterprises which carried property, plant and equipment at revalued amounts in financial statements relating to periods ~~ending~~ended before 30 September 1995 ~~the effective date of this Statement~~ are not required to make regular revaluations in accordance with paragraphs 31 ~~30~~ and 36 even if the carrying amounts of the revalued assets are materially different from the assets' fair values provided that:

a. these enterprises do not revalue their property, plant and equipment subsequent to ~~this Statement becoming effective~~ 30 September 1995; and

b. disclosure of reliance on this paragraph is made in the financial statements.

81. It is recognised that in prior periods enterprises may have made provisions for the costs of major inspections or overhauls instead of taking the components approach identified in this Statement. In such cases, implementation of the components approach to major inspection or overhaul costs as set out in paragraphs 28 and 29 of this revised Statement is treated as a charge in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies".

~~73. For financial statements relating to periods ending before 30 June 1996, where land is held and the relevant lease has an unexpired term of not less than 50 years (including the renewal period) at the balance sheet date (defined as a long lease in the Hong Kong Companies Ordinance), it is permissible not to amortise the depreciable amount of the land although it is of a depreciable nature.~~

~~74. Commencement of amortisation of long leasehold land which has not previously been depreciated constitutes a change in accounting policy. In these circumstances, retrospective a change in accounting policy. In these circumstances, retrospective application of the new accounting policy is encouraged but not required. When the new accounting policy is applied prospectively, the depreciable amount of long leasehold land should be allocated in accordance with paragraphs 42 to 54 of this Statement over its remaining estimated useful life at the time of the change in accounting policy.~~

82~~75~~. ~~Except as permitted by paragraph 74, when~~When the adoption of this Statement constitutes a change in accounting policy, an enterprise should adjust its financial statements in accordance with SSAP 2 ~~"Extraordinary items and prior period adjustments"~~"Net profit or loss for the period, fundamental errors and changes in accounting policies".

Notes on legal requirements in Hong Kong

83~~76~~. The references to "the Schedule" below are to the Tenth Schedule to the Companies Ordinance.

84~~77~~. Paragraph 4 of the Schedule requires that fixed assets, current assets and assets that are neither fixed nor current shall be separately identified, and that the method used to arrive at the amount of fixed assets under each heading should be stated.

85~~78~~. Paragraph 5 of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value.

86~~79~~. Paragraph 10 of the Schedule requires that where any liability of the company is secured otherwise than by operation of law on any assets of the company, the fact that that liability is so secured shall be stated, but it shall not be necessary to specify the assets on which the liability is secured.

87~~80~~. Paragraph 12(4) of the Schedule requires disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured.

88~~81~~. Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorized by the directors which has not been contracted for.

89~~82~~. Paragraph 12(7) of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period:

a. the names of the persons who valued them or particulars of their qualifications for doing so; and

b. the bases of valuation used by such persons.

90~~83~~. Paragraph 12(8) of the Schedule requires disclosure of the amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9) requires separate disclosure of the amounts ascribable to:

a. land in Hong Kong held on long lease (not less than 50 years), medium-term lease (10 to 50 years) and short lease (under 10 years) respectively; and

b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively.

91~~84~~. Under paragraph 13(1)(a) of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.

92~~85~~. The above provisions apply to all companies other than banking and insurance ~~banking, insurance and shipping~~banking, insurance and shipping companies which are entitled to certain disclosure exemptions under the provisions of Part III of the Schedule.

Compliance with International Accounting Standards

93~~86~~. ~~Compliance with this Statement ensures compliance with International Accounting Standard IAS 16 (revised 1993) "Property, plant and equipment".~~ Except for the following, compliance with this Statement ensures compliance, in all material respects, with International Accounting Standard IAS 16 (revised 1998) "Property, plant and equipment":

a. This Statement takes the position that an enterprise holding a leasehold interest in land from the Government of the Hong Kong Special Administrative Region normally receives all the risks and rewards incident to ownership and therefore such an interest is to be accounted for in accordance with this Statement instead of SSAP 14 "Leases" where the leasehold interest meets the definition of "Property, plant and equipment" as defined in paragraph 6.

b. This Statement grants an exemption from compliance to charitable, government subvented and not-for-profit organisations whose long-term financial objective is other than to achieve operating profits, but IAS 16 does not provide such an exemption.

c. This Statement permits enterprises which carried property, plant and equipment at revalued amounts in financial statements relating to periods ended before 30 September 1995 not to make regular subsequent revaluations provided that the conditions as set out in paragraph 79 are met, but IAS 16 does not have such a transitional arrangement.

d. Paragraph 81 requires in some circumstances accounting for the implementation of the components approach to major inspection or overhaul costs as a change in accounting policy. IAS 16 does not have the equivalent requirement and SIC-23 "Property, plant and equipment - Major inspection or overhaul costs" requires accounting for the implementation of the components approach as a change in accounting estimate.

Appendix A

Illustrative example: Major inspection or overhaul costs

A1. Assets which are acquired or constructed and are already in working condition for their intended use may contain an inherent component attributable to a major inspection or overhaul that is required to be completed at regular intervals to maintain the service potential of the asset. This inherent component may not be physically separate or have been separately invoiced. However, it must be an identifiable component - that can initially be measured based on the estimated current cost of such major inspections or overhauls. In accordance with paragraph 27 of the Statement, this inherent component is considered as separate for depreciation purposes as it has a different useful life.

A2. Enterprise A purchases a ship for HK$40 million. This ship will be required to undergo a dry dock overhaul every five years to restore its service potential. At the time of purchase, the service potential that will be required to be restored by the overhaul can be measured based on the cost of the dry docking if it had been performed at the time of the purchase of the ship, say, HK$4 million.

The following shows the calculation of the ship for Year 1 to 5. For simplicity, the straight line method is used.

	Amount	Useful Life
	HK$	(yrs)
Purchase price of the ship	40,000,000	
Comprising:		
The ship, excluding projected overhaul cost	36,000,000	30
Projected overhaul cost	4,000,000	5
Year 1 to 5		
In the income statement, depreciation charges per annum are:		
		HK$
Ship, excluding the service potential component		1,200,000
Service potential		800,000

By the end of Year 5, the service potential would be fully depreciated.

A3. When a dry docking is carried out in Year 6, the expenditure is capitalised to reflect the restoration of service potential, which is then depreciated over the period to the next overhaul in Year 6 to 10.

A4. The process in Year 6 to 10 repeats every five years from Year 11 onwards until Year 30 when both the ship and the costs of dry docking are fully depreciated and a new ship is acquired.

Appendix B

Changes from International Accounting Standard 16 (revised 1998) "Property, plant and equipment"

The purpose of this appendix is to summarise the major changes made to the equivalent International Accounting Standard when adopting it in Hong Kong and the reasons for such changes. It does not form part of the standards and should be read in the context of the full text of the Statement.

Changes	Reasons for the Changes
(i) <u>SSAP 17 Para 2</u> Exemption from compliance is granted to charitable, government subvented and not-for-profit organisations.	
(ii) <u>SSAP 17 Para 11</u> Guidance on the treatment of land and buildings in the course of development or redevelopment is added.	Additional guidance is considered desirable.
(iii) <u>SSAP 17 Para 18 vs IAS 16 Para 17</u> The last sentence of IAS 16 paragraph 17 is deleted.	The issue is dealt with in SSAP 29 "Intangible assets".
(iv) <u>SSAP 17 Para 19 vs IAS 16 Para 18</u> Wording in the last sentence of IAS 16 paragraph 18 is amended.	Wording is changed to reflect the fact that SSAP 19 "Borrowing costs" requires that borrowing costs which satisfy certain criteria should be capitalised, whereas IAS 23 "Borrowing costs" gives an option to recognise those costs as an expense.
(v) <u>SSAP 17 Paras 28 - 29</u> The provisions of SIC Interpretation 23 "Property, plant and equipment - Major inspection or overhaul costs"issued by the IASC's Standing Interpretations Committee are added to this Statement.	

(vi) <u>SSAP 17 Paras 31 and 80 vs IAS 16 Para 29</u> A transitional arrangement was introduced in the original SSAP 17 issued in 1995 to relieve certain enterprises which carried their property, plant and equipment at revalued amounts before 30 September 1995 from making regular revaluations.	This transitional arrangement continues to apply.
(vii) <u>SSAP 17 Para 41</u> The provision of Interpretation 2 "Property measurement under SSAP 17" is added to this Statement.	To provide additional guidance to SSAP 17 paragraph 40.
(viii) <u>SSAP 17 Para 47 vs IAS 16 Para 45</u> Wording is added to distinguish between freehold land and leasehold land.	To clarify that freehold land is not a depreciable asset while leasehold land is.
(ix) <u>SSAP 17 Para 56 vs IAS 16 Para 54</u> The clause "that is an Acquisition" at the end of IAS 16 paragraph 54 is deleted.	SSAP 30 "Business combinations" takes the position that all business combinations are acquisitions.
(x) <u>SSAP 17 Paras 57 - 65</u> Standard accounting practices for transfers in and out of property, plant and equipment are added.	Transfers are not addressed in IAS 16 but is considered to be an important topic.
(xi) <u>SSAP 17 Paras 71e, 71e(ix), 71e(x), 72c, 72e, 75c and 75d vs IAS 16 Paras 60e, 61c and 64c</u> A requirement for disclosure of the reconciliation of the carrying amount for each class of property,plant and equipment at the beginning and end of the period under IAS 16 paragraph 60e is replaced by a reconciliation of the gross carrying amount and the accumulated depreciation in SSAP 17 paragraph 71e. Certain additional disclosure requirements are added in other paragraphs.	To continue current practice in Hong Kong.

(xii) <u>SSAP 17 Para 81 vs SIC-23</u> A transitional arrangement is added. On implementation of the components approach as set out in paragraphs 28 and 29, enterprises which have made provisions for the costs of major inspections or overhauls are to treat it as a change in accounting policy instead of a change in accounting estimate.	To avoid distortion of financial results on changing to the components approach.
(xiii) <u>SSAP 17 Appendix</u> An appendix is added to illustrate how the components approach as set out in paragraphs 28 and 29 is applied.	
(xiv) <u>IAS 16 Para 4</u> IAS 16 paragraph 4 is deleted. This paragraph states that an enterprise should apply IAS 40 "Investment property" to its investment property. It also states that IAS 40 applies to existing investment property that is being developed for continued future use as investment property.	The application of the treatment required in IAS 40 to investment property that is being developed for continued future use as investment property is inconsistent with SSAP 13.
(xv) <u>IAS 16 Para 5</u> Cross-references to IAS 15 "Information reflecting the effects of changing prices" and IAS 29 "Financial reporting in hyperinflationary economies" are deleted.	There are currently no SSAPs equivalent to IASs 15 and 29.
(xvi) <u>IAS 16 Para 20</u> IAS 16 paragraph 20 states that the carrying amount of property and equipment may be reduced by applicable government grants in accordance with IAS 20 "Accounting for government grants and disclosure of government assistance" This sentence is deleted.	There is currently no SSAP equivalent to IAS 20.
(xvii) <u>IAS 16 Para 40</u> IAS 16 paragraph 40 which states that the effects on taxes on income, if any, resulting from the revaluation of property, plant and equipment are dealt with in IAS 12 "Income taxes" is deleted.	There is currently no SSAP equivalent to IAS 12.