ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Property, Plant and Equipment

In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) related to property, plant and equipment with a focus on:

- How to determine the cost of property plant and equipment;
- How to measure property, plant and equipment after initial recognition, including related accounting policy choices; and
- How to amortize property plant and equipment.

References

ASPE	IFRS
• Section 1625 - *Comprehensive Revaluation of Assets and Liabilities* • Section 3061 - *Property, Plant and Equipment* • Section 3110 – *Asset Retirement Obligations* • Section 3465 – *Income Taxes* • Section 3475 - *Disposal of long-lived Assets and Discontinued Operations* • Section 3831 – *Non-monetary Transactions*	• IAS 12 – *Income Taxes* • IAS 16 - *Property, Plant and Equipment* • IAS 23 - *Borrowing Costs* • IAS 40 - *Investment Property* • IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* • IFRIC 1 - *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Overview of Major Differences

IFRS and ASPE are similar in the treatment of property, plant and equipment. However, there are some major differences in the requirements such as:

- Under ASPE properties held by an entity for rental or capital appreciations are treated the same as property, plant and equipment (i.e. Section 3061 applies). While under IFRS this type of property is accounted for separately from property, plant and equipment as it has its own standard, IAS 40.

- Section 3061 and IAS 16 both require property, plant and equipment to be recorded at historical cost however there are different requirements for what expenditures are included in or excluded from historical cost.

- IAS 16 permits an entity to subsequently measure property, plant and equipment at a revalued (fair value) amount, something generally prohibited under ASPE.

- Component accounting, although not typically practiced under ASPE, is required under both ASPE and IFRS. However, the requirements under IFRS are more explicit than those in Section 3061 in terms of the level or how the significant parts of an asset are to be separated.

Scope

The scope of property, plant and equipment under Section 3061 and IAS 16 are similar except in relation to two key items: investment properties and bearer plants.

Broadly, investment properties are properties held by an entity for rental or capital appreciations. Under ASPE they are accounted for under Section 3061 as property plant and equipment. However, under IFRS these types of properties are specifically excluded from IAS 16 and instead are accounted for under a separate IFRS standard, IAS 40. Refer to our IFRS-ASPE comparison publication on investment property for a more detailed analysis.

A bearer plant is a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce. Under IFRS, bearer plants are considered property, plant and equipment under IAS 16. Currently under ASPE there is no specific guidance on accounting for bearer plants. However, the Accounting Standards Board has released a Discussion Paper on Agriculture that proposes measuring bearer plants at cost, which is consistent with how they are currently being accounted for in practice.

The definitions of property, plant and equipment under ASPE and IFRS are very similar:

ASPE	IFRS
Paragraph 3 of Section 3061 defines property, plant and equipment as identifiable tangible assets that meet all of the following criteria: • Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other property, plant and equipment; • Have been acquired, constructed or developed with the intention of being used on a continuing basis; and • Are not intended for sale in the ordinary course of business.	Paragraph 6 of IAS 16 defines property, plant and equipment as tangible items that: • Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and • Are expected to be used during more than one period.

Recognition

Items of property plant and equipment should be recognized as assets when the cost of the item can be reliably measured and it is probable that the future economic benefits from the item will flow to the entity. However, IFRS is very explicit as to when the cost of an item of property plant and equipment should be recognized. The following analysis highlights the differences between IFRS and ASPE in relation to initial and subsequent costs.

Initial Costs

In both ASPE and IFRS an entity is required to initially record property, plant and equipment that qualify for recognition at cost.

The requirements on how to measure the initial cost of an asset recognized as property, plant and equipment are very similar. For example, directly attributable costs should be included under both ASPE and IFRS. However, the two standards differ in certain areas.

ASPE	IFRS
One of the major differences is in relation to what asset retirement obligations are included and / or excluded from initial cost. Under ASPE, the initial cost of property, plant and equipment only includes legal obligations (Section 3110).	IFRS requires legal obligations to be included in the initial cost. However, IFRS also requires constructive obligations to be included (IAS 16.16(c)).
ASPE does not provide guidance on what costs are specifically excluded from the cost of the asset.	IFRS is more explicit in prescribing that certain costs are specifically excluded from the cost of the asset including: costs of opening a new facility; costs of introducing a new product or service (including costs of advertising and promotional activities); costs of conducting business in a new location or with a new class of customer (including costs of staff training); and administration and other general overhead costs.
If the cost of an asset acquired other than through a business combination is different from its tax basis on acquisition, the asset's cost would be adjusted to reflect the related future income tax consequences (see Section 3465).	Under IAS 12 a deferred tax liability is not recognized on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
Under Section 3061 all net revenue or expenses derived from an item of property, plant and equipment prior to substantial completion and readiness for use must be included in the cost of the asset.	IFRS requires that the income and / or expenses of operations not necessary in bringing the asset to the location and condition for it to be capable of operating in the manner intended by management be recognized directly in profit and loss and not in the cost of the asset.
In regards to borrowing costs, Section 3061 requires that costs directly attributable to the acquisition, construction, or development activity over time be included in the initial cost. Therefore, interest costs may be included in cost when the entities accounting policy is to capitalize interest costs.	Under IAS 23 there is no choice. An entity must capitalize interest for qualifying assets.
In general under ASPE Section 3831, except in certain situations, an entity measures an asset exchanged or transferred in a non-monetary transaction at the more reliably measurable of the fair value of the asset given up and the fair value of the asset received.	Under IAS 16 an entity is required to measure an asset exchanged or transferred in a non-monetary transaction at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident.

Subsequent Costs

Costs incurred to enhance the service potential of an item of property, plant and equipment (i.e. betterments) under both ASPE and IFRS are included in the cost of an asset when the recognition criteria are met. Additionally, if a part of an item of property, plant and equipment requires replacement and the recognition criteria are met, the cost of the

replacement part is added to the carrying amount of the item of property, plant and equipment and the carrying amount of the original part is derecognized.

Under both IFRS and ASPE, costs incurred to maintain the service potential of an item of property, plant and equipment (i.e. day-to-day servicing cost) are not included in the cost of an asset, but instead are expensed as incurred.

Measurement after Recognition - Cost or Revaluation

The requirements of ASPE and IFRS for measuring an item of property, plant and equipment subsequent to its initial recognition may be very different depending on the policy choices made under IFRS.

ASPE	IFRS
ASPE uses the historical cost method and, except for comprehensive revaluations under Section 1625, does not allow any revaluation.	IFRS requires an entity to make a policy choice in relation to each class of asset included in property, plant and equipment to use either the historical cost method or the revaluation (fair value) method. However, an entity using the cost model for investment property in accordance with IAS 40 must also use the cost model in this standard.

Under both ASPE requirements and the IFRS cost method, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the IFRS revaluation method, an item of property, plant and equipment should be carried at fair value at the date of revaluation less any subsequent accumulated depreciation and any accumulated impairment losses.

Where an entity adopts the revaluation method, all items in a class of assets should be revalued simultaneously and the revaluation should be performed with enough regularity to ensure that at the balance sheet date the carrying amount is not materially different from the fair value amount.

Whether the revaluation results in a revaluation surplus or deficit determines the accounting treatment. Any revaluation surplus for an asset is recognized separately in equity unless the revaluation surplus is reversing a revaluation deficit previously recognized in profit and loss for the same asset. Any revaluation deficit should first be offset against any revaluation surplus for the same asset previously recognized in equity and any excess should be recorded in profit and loss. Therefore, an entity can only offset revaluation surpluses and deficits for the same asset. Revaluation surplus and deficits of an entire class of property, plant and equipment cannot be offset.

Depreciation

In both ASPE and IFRS, the requirements for charging depreciation on property, plant and equipment are similar. However, a major difference exists between ASPE and IFRS in relation to how the depreciation charge is determined.

ASPE	IFRS
Under ASPE, depreciation of an asset is based on the greater of: • Cost less residual value (the estimated net realizable value at the end of the asset’s useful life to an enterprise) over its estimated useful life; and • Cost less salvage value (estimated net realizable value at the end of the asset’s life) over its estimated life.	Under IFRS, depreciation of an asset is charged on the difference between the assets cost (or revalued cost) less its residual value over its estimated useful life. Estimates of residual values reflect prices at the reporting date given the condition the asset is expected to be in at the end of the useful life. Inflationary effects are not to be taken into account in determining the residual value.

The useful life and method of depreciation should be reviewed on a regular basis or when significant events occur, and residual value is reviewed only when events or changes in circumstances indicate that the current estimates may no longer be appropriate.	Estimates of useful life and residual value, and the method of depreciation, are reviewed at least at each annual reporting date or where expectations differ from previous estimates.
Under ASPE, paragraph 13 of Section 3475 explains that depreciation of an asset ceases when it is classified as held for sale.	Similarly under IFRS, depreciation of an asset begins when it is available for use and ceases when the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) (see IFRS 5) or when the asset is derecognized.
The objective of the depreciation method is to provide a rational and systematic basis for allocating the amortizable amount of an item of property, plant and equipment over its estimated life.	IAS 16 is more explicit in relation to the depreciation method that should be used. An entity is required to select the depreciation method that closely reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity over its estimated useful life.

Components

In both ASPE and IFRS, the requirements for charging depreciation on property, plant and equipment are similar, although in practice may be very different. ASPE and IFRS both require component accounting, however, the requirements under IFRS are much more explicit. As a result, the total depreciation amount charged to the profit or loss statement will increase or decrease depending on the depreciation rates and methods used for each separate component.

The differences arising between ASPE and IFRS in relation to component accounting are summarized in the table below.

ASPE	IFRS
Under Section 3061, component accounting is required for significant separable component parts of an item of property, plant and equipment when practicable and when estimates can be made of the lives of the separate components. Although very similar to the IAS 16 requirement, component accounting has typically not been practiced in Canada.	Similar to ASPE, component accounting is required for significant parts of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item. Component accounting is required if the useful life and / or depreciation method for the component is different from the remainder of the asset.
Section 3061 allows an entity to group together individually insignificant items of property plant and equipment where this is deemed appropriate.	Similarly IAS 16 implies that insignificant items are grouped together for depreciation purposes. However, this paragraph also allows an entity to separately depreciate parts that have an insignificant cost in relation to the total cost. Therefore, an entity is required to make a choice whether to group or not group the insignificant components.

	In relation to grouping significant components, IFRS allows an entity to group significant components of an item of property, plant and equipment where they have the same useful life and depreciation method. There is no specific guidance on this under ASPE.

A separate component may be either physical such as an engine of a machine, or non-physical, such as a major inspection or overhaul. As a result, scheduled maintenance and refits would be treated as a separate component under IAS 16 and would be amortized over the period between scheduled refits / maintenance. As no cost will be incurred at the date the component was acquired, an estimate of the cost is required to determine the carrying amount. The estimate is based on the current market price of the refit / maintenance and not the expected market price (i.e. the estimated price when the maintenance will be performed). Once the scheduled refit or maintenance has taken place any remaining carrying amount (i.e. the unamortized portion) should be derecognized and a new refit / maintenance estimate capitalized. For example, assume the engine of an aircraft needs to have major maintenance every 5 years. At the date the engine was acquired the cost of maintenance for the same engine is $1 million. Therefore, the cost of $1 million would be capitalized and depreciated over the 5 year period.

Impairment

Under IFRS, an entity looks to IAS 36, *Impairment of Assets,* for guidance on determining whether an item of property, plant and equipment is impaired. Under ASPE, an entity looks to Section 3063, *Impairment of Long-lived Assets.* Refer to our IFRS-ASPE comparison publication on asset impairment for further guidance.

Derecognition

Under IAS 16, the carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount of the item is recognized as a gain or loss on derecognition and is included in profit or loss. Gains are not classified as revenue. A gain or loss on disposal would be calculated and treated the same way under ASPE.

Conclusion

In general the principles related to property, plant and equipment under ASPE and IFRS are similar. However, significant differences do exist between the two standards including IFRS allowing the revaluation of assets and requiring component accounting. If you require further guidance on accounting for property, plant and equipment under ASPE or IFRS please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO Integrated Advisory Services Team can help you with the transition.

To learn more about the differences between standards, view our ASPE-IFRS: A Comparison Series.

The information in this publication is current as of April 15th, 2016.

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