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Main problems and issues in accounting treatment of Property, Plant and Equipment.

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Abstract

The dissertation verifies main issues and problems of Property, Plant and Equipment in accordance with IAS – sixteen. This thesis also inquires current practical problems of the companies through accounting treatment of property, plant and equipment. Accounting treatment of PP&E is a major undertaking for all businesses. An error of recognition of these assets makes financial statements unreliable and less relevant. Less relevant statements cause to make wrong decisions by users of financial statements. This also affects the reputation of companies.

The first chapter gives information about necessity, objects, causes and main treatments of international treatment to PP&E. Every country has its national law, national financial and accounting regulatory. Unique regulatory or system is very important for comparability of reporting. The thesis demonstrates that International Financial Reporting Standards and International Accounting Standards are main issue for entities to compare their performance and position with other countries. The second chapter demonstrates main problems and issues of accounting treatment and recognition of PP&E. The Accounting Standards solve a lot of significant problems and determine the problematic issues for all business entities. Also, there are a lot of problems that standard committee makes many discussions with committees or organizations of national standards. The last section constitutes the conclusion of the issues and problems through IAS – sixteen.

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Chapter 1

Introduction

Financial statements are main tools for communication. This issue forced to the development of International Financial Standards (IFRS) which are issued by Accounting Standards Board (IASB) as 2001. There are many useful features of these standards. IFRS encourages investors for investing and this can cause more foreign capital flows to the country. Standards boost the growth of international business. In other side accounting professionals can get more opportunities through the same accounting practices in the world.

One of the main field for entities and business is Property, Plant and Equipment. This issue is outlined by IAS - sixteen Property, Plant and Equipment. It matters introducing of fixed assets in accounting statements, determination of depreciation expenses, impairment losses and carrying amounts of fixed assets. Property, Plant and Equipment are tangible that are held for producing goods, inventories and others, for rental and for administrative issues. The assets are expected to be used for production of goods for not one year but more.

The first exposure draft of IAS – sixteen was published in August 1980. After this “IAS 16 Property, Plant and Equipment” was issued by the International Accounting Standards Committee in December 1993. The reissuing of IAS sixteen was in December 2003. The standard was amended numerous times such as in 2008, 2012, 2013 and finally on 30 June 2014.

The principles of this standard can’t be applied to assets which are classified for sale in accordance with “IFRS five Non-current Assets Held for Sale and Discontinued Operations”, biological assets related to agricultural activity which is mentioned under “IAS fourty-one Agriculture”, exploration and evaluation assets introduced with “IFRS six Exploration for and Evaluation of Mineral Resources” and mineral rights and mineral reserves such as oil, natural gas and non-regenerative resources.

In accordance with IAS sixteen property plant and equipment should be introduced as assets, if the future flow to the entity through the asset is probable and the cost of the asset should be measured reliably and relevantly. Assets have useful life that is defined as the duration that an asset is expected for production and the number of production units which are obtained from the asset. Through the useful life of an asset, depreciable amount is recorded in the financial statements of an entity. There is an entity-specific value of the asset which is the present value of the cash flows to an entity which is expected to arise from the use of an entity. IAS sixteen defines fair value-the price that is received from the sales of asset.

IAS sixteen admits two accounting models which are called as cost model and revaluation model. According to the cost model, the asset is carried at cost less accumulated depreciation and impairment. On the other side, through revaluation model the asset is carried at a revalued amount and this is calculated as asset’s fair value at the date of revaluation less subsequent depreciation and impairment, but this fair value must be measured reliably.

The asset can be eliminated from the use. In this case an entity derecognizes the asset and the asset is removed from the statement of financial position on disposal. There are some assets for rent and these assets are treated under IAS sixteen. If an entity rents asset beforehand, but then discontinue to rent them, assets must be converted to inventories. The value of these inventories must be adjusted at the carrying amount of the asset.

In according with IAS sixteen Property, Plant and Equipment, information about each asset must be disclosed in the financial statements. The information is about depreciation methods, useful lives and depreciation rates, measurement of carrying amount, impairment losses, foreign exchange differences, acquisitions through business combinations, revaluation decrease and increases and other movements.

Other standards may require the recognition of PP&E differently from IAS sixteen. One of the examples of this situation is IAS seventeen which requires to evaluate recognition of leased PP&E on the basis of transfer of risks and rewards. Nonetheless an asset which is recognized as a finance lease under IAS seventeen, its treatment is in accordance with IAS sixteen. While this standard is adopted, it will replace IAS seventeen in its entirety.

Chapter 2

2.1 Elements of cost and cost measurement

IAS sixteen outlines what includes the cost of PP&E. The cost of an item of PP&E constitutes:

1.The purchase price of asset, in addition import duties and non-refundable purchase taxes. This price must be recognized after subtracted trade discounts.

2.Other costs which are directly attributable to asset for bringing it to the location important for this asset to be capable of operating by management.

3.The estimate of the costs of dismantling and removing the asset and restoring the site on which the asset was located, the duty of an entity which incurs when the item is acquired.

In some cases entities acquire group of assets and purchase price is appropriated for a group of assets. Under IFRS 3 – Business Combinations – the purchase price of entire group of assets must be allocated to each item individually. In such issues entity must identify the cost of each item and recognize these assets individually. Entities identify the cost of each asset on the basis of their relative fair values at the acquisition date. But there is a case when transaction cost of assets is different from the sum of individual fair values of assets and liabilities. This problem was considered by Interpretations Committee in June 2017.Through this meeting the assets and liabilities measured both at cost and an amount other than cost.

The other issue of the cost measurement is the recognition of the site restoration and environmental restoration costs. Despite the fact these costs incur at the end of asset’s life these expenditures must be capitalized at recognition date.

One of the basic issue about measurement of cost is “directly attributable” costs. IAS sixteen considered attributable costs as followings:

a) When a company purchases PP&E, labor costs of employees will arise. Examples are surveyors, site workers, architects and so on. These costs incur from the construction, development of the PP&E, so they are direct costs which are called costs of employee benefits. This issue is defined under IAS nineteen – Employee Benefits.

b) Delivery and handling costs

c) Installation and assembly costs

d) Testing costs

e) Site preparation costs

f) Fees of professionals

Payment of operating leases which arise at the same time as the construction period of assets includes directly attributable cost. This cost is a part of the PP&E because it has the role for intended operations by management. One of the example for this argument is the constructed building on land which is leased under operating lease.

The other point of cost measurement is borrowing costs. Borrowing costs can be capitalized on PP&E if these assets meet the criteria which is defined in IAS twenty three – Borrowing Costs. These costs will be capitalized if the entity do not adopt the revaluation policy. In accordance with IAS sixteen PP&E is recorded at revalued amount after the construction complete. There is a complication at this point. However, entities can capitalize borrowing costs to the assets during construction despite the fact that these assets are carried at fair value.

There are also administrative and other general costs which are called as overheads. Overheads are not directly attributable costs. It means that the cost of administrative employees not related to asset. So these costs are not capitalized on PP&E. There are ‘start-up costs’ which constitutes costs about opening a facility, acquainting a new product or service, costs of announcements, costs of training, management of business in new sector and other similar items. These costs can’t be recognized as a part of PP&E by entities either. They must be recorded as expenses in financial statement of profit and loss.

If PP&E is in the condition that capable of operating by management, cost recognition must be ceased. This is known as the date of practical completion. Thus, IAS sixteen outlines that the cost of relocation and reorganization, other costs which arise during the period of using the asset, costs about initial operating losses mustn’t be recognized as an asset. Be contrary, companies mustn’t capitalize new costs if the asset is entirely operational, but not achieve its proposed profitability. One of the main example for this situation from IAS sixteen standard is a new hotel with high room vacancies.

One of the main issue is the cost allocation of self-building assets. If an entity builds its asset itself, in this case this asset is called as self-building asset. The principle of cost allocation is same for self-building assets as acquired assets. If this type of asset is constructed for resale, the cost of this asset is the same as the cost of constructing of an asset for sale. There is also issue about abnormal loss. Abnormal loss is expenditures which are not anticipated beforehand. These costs include waste of resources as labor, material and they are not included in the cost of self-built asset.

Through IAS sixteen the capitalization of hidden credit charges is prohibited, so at the recognition date of asset the cost of this item is its cash price equivalent. In other word in case that amount is payed in other manner, the capitalization cost is normal cash price. If the terms of payment are not “normal” credit terms, the difference between total payment and cash price equivalent must be considered as interest expense.

Other main treatment is redevelopment of land and buildings. Purchasing of land with a building is very common issue for property developers. The building may be dispersal or wasteful. In this case building will require redevelopment if an entity wants to hold this building for rental purposes or administrative purposes. There is a main treatment with the cost allocation to land and building in this case. IAS sixteen requires that the building and the land must be recognized separately and if the present building on the land is demolished, all or a large amount of purchase price must be allocated to the land. Entities may also replace this demolished building with new one for own use or rental purposes. On this wise, consequences will be different. So that, the carrying amount of this building doesn't have a role in the new development costs. Existing building must be depreciated over its useful life till the point that, this building is demolished. In many cases at this type of PP&E reducing the useful life doesn't cause to an impairment the cash-generating unit. If the asset is designated for deconstruction, it can't be a part of cash-generating unit.

One of the main cost recognition for PP&E is recognition of transfer assets from customers.Entities can trade not only with cash.Customers can make their payments in the form of goods, services and other non-cash consideration.One of the main example for these non-cash considerations is PP&E. For example: suppliers can provide the customers with services such as electricity, telephone services, connection of network, gas water and so on.Through this suppliers will receive from the customer PP&E. This argument take places in outsourcing arrangements especially. In this manner the questions will arise about how the entity will recognize this PP&E, at what carrying amount this PP&E will be recognized and what will be the balancing figure in 'other side'? There are a lot of answers for this situation, but in practice the solution will be different. If the transfers are government grants, this issue wil be within the scope of IAS-twenty Accounting for Government Grants and Disclosure of Government Assistance. If the PP&E is applicable asset as described in Conceptual

Framework, then this asset will be measured at its fair value and this fair value will be initial recognition cost for assets in financial statements. It means that entity must prove that the asset is controled by an entity.It does not own only the asset but also entity control this asset. ‘Control’ means that entity use this asset for some purposes such as producing of goods and services, leasing it to others or entity can sell or scrap it and can replace this assset to others. If companies do not control the asset then it will be recognised as PP&E and accounted in the same way as other PP&E. If the assets are dissimiliar goods and services, then this exchange transaction will be treated under IAS eighteen – Revenue, not under IAS sixteen.It is very important for recognition to identify the seperate services which are exchanged with PP&E through the transaction.

One of the other main problem with IAS sixteen is the recognition of variable pricing assets. Entities can buy PP&E and can make liabilities for these assets. This means that companies can make payment in forthcoming years in accordance with contracts which are signed between marketer and customer. The recognition of this asset on financial statements can be different in this issue, because payments can be different. The different payments are:

1.dependent on rate

2.dependent of the buyer’s future activity of this asset and income to an entity through this activity

3.made if PP&E which is bought by purchaser abides by agreed specifications at specific dates.

Through these issues the present value of payments and also assets can change. So this can cause the main question. How entities must recognize this asset? There are 2 ways for recognizing this type of asset:

a) Entities must recognize all variable amounts at initial recognition date of purchased asset.

b) Entities do not recognise variable payments at recognition date of assets, the payments are recognised after requiring activities performed.

The International Accounting Standarts Board and Interpretations Committee organised meetings about this problem for a number of years. But the question of how payments must be recognised can not be answered. No conclusion has been reached to date of writing this issue. The discussions conclude that for solving this problem existing IFRSs must de considered and confined in March 2016. The Interpretations Committee arrived at conclusion and decided that this issue mustn't be added to agenda.For solving this problem IASB should apply accounting for variable payments comprehensively. IASB decided to receive “Variable and Contingent Consideration” for coming research projects in May 2016.

In a nutshell entities must improve the policy for variable pricing of purchasing PP&E corresponding with IAS eight – Accounting Policies, Changes in Accounting Estimates and Errors. In practice, entities make treatment of forthcoming variable consideration and recognise PP&E in different ways. Some companies do not capitalise the amount on PP&E at initial recognition date. Then this amount is recognised as expense or capitalied as an asset. The other entities introduce future variable amounts with a corresponding liability being recorded. Companies must exercise and develop this judgement with applying accounting policy that creates relevant and reliable information in particular situations.

We know that in accordance with IAS sixteen the cost of an item of PP&E covers the costs which are directly attributable for bringing the asset to its final location which is crucial for asset to be capable of operating in the manner intended by management. But there are some operations which are not required to bring the asset to the condistion for operating manner of management. The income which is earned through this type of assets is known as incidental income. The income and expenses through these incidental operations are recognised in the financial statement of profit and loss in classifications of income and expense. This type of income or expenses related with this income can not be capitalised on PP&E. Income which is a result of the process of bringing the asset to location and condition for use, then this income must be allocated to the cost of asset. But then, if the asset is already in the location where it will be used corresponding with IAS sixteen capitalisation must be ceased and subtraction ofdepreciation expenses must be started.In this circumstance all income earned from this asset must be recognised as revenue in the statement of financial performance and related expenses are recognisedas an element of depreciation of the asset.

2.2 Spare parts and minor items

There are some parts of assets which are not recognized as a part of PP&E, so can not be capitalized. These items are spare parts, stand-by equipment and servicing equipment. They are recognized as inventory in the statement of financial position. If spare parts are purchased with equipment and this equipment can only be used with these spare parts or spare parts are functionally related with equipment in this case these spare parts will be capitalized and amortized as a part of asset. In all other cases, spare parts recognized as inventory and recognized in the statement of profit and loss as consumed.

When deciding whether the spare parts recognized as an asset or inventory, materiality judgement must be considered. If spare part is major spare part, for example, qualify as PP&E, must be recognized as an asset. If these parts are smaller spares they are introduced as inventories.

In some businesses PP&E with a lot of minor and spare parts are used regularly. This spare parts may be some tools, pallets and returnable containers. They can be used only within one year. In other word these parts are for short term. It can cause problems for entities about recognizing these parts in practice. If companies record these spare items as asset-by-asset in an asset register, then companies can face some problems such as:

1.These spare items are difficult to control. One of the main criteria for recognition of asset is that, assets must be controllable.

2.The main problematic issue is that, depreciating of these items is very difficult.

Mainly companies write off these minor parts because they are immaterial and they recognize these parts as an expenditure when they incurred. In accordance with standard there are issues which include a single item of PP&E. For entities there is not 'unit of measurement' for introducing assets and through these entities make their judgements for defining PP&E their specific circumstances. In accordance with standard, aggregating individually necessary items and applying the standard to these aggregate amounts is more appropriate way.

2.3 Classification as PP&E or intangible asset

IAS 38 – Intangible Assets demonstrate that, when entities capitalize their internally-generated intangible assets, they must give consideration on the treatment of costs. For example, computer software which is purchased by an entity oftentimes capitalized as tangible asset, although this is intangible asset separately. Especially internally prepared software capitalized as an asset. So there is a problematic issue whether the asset is treated as an intangible asset under IAS 38 or tangible asset in accordance with IAS sixteen. IAS thirty eight outlines that, companies must exercise their judgement about whether this asset is treated as intangible asset or as tangible asset under IAS sixteen. For example:

1. If this software is very important for computers, so computers can not be used without this software, in this case, this software is introduced as an integral part of hardware and capitalized on PP&E.
2. There is also application software which can be replaced easily to other computers. They are not an integral part of hardware. But the operating system is integral to the computer and is included in PP&E.
3. Database on a compact disc is recognized as an intangible asset, because the value of physical medium is very unnecessary or insignificant compared to the data collection in it.

For example, the computers can't be used without Microsoft, but companies can use their computers without Photoshop. So, Microsoft is a related part of hardware and must be capitalized. But, Photoshop is main program for animation companies and it will be introduced as an asset on PP&E. IAS sixteen includes that entities must account for significant parts of an asset separately. This issue rises main "boundary" problem between IAS sixteen and IAS 38. This problem contains that when significant parts must be treated as software or similar expenditure. The best way is that, entities must identify significant parts of an asset and must account them separately in accordance with IAS sixteen. The entities need to determine that, whether any software is important and integral to the larger asset or whether it is really identical and separate item from the asset. If the intangible part of an asset is developed separately, in this case we can say that entities must introduce this asset in its own right. If the separately intangible part of an asset can be used independently from PP&E, then this is also introduced as separate intangible asset and can not be capitalized on PP&E.

2.3. Classification of items as inventory or PP&E when minimum levels are maintained.

Entities can purchase inventories in many times for a lot of purposes such as sale of this inventory in the ordinary course of business; used for production purposes or rendering to the other parties and so on. Companies always estimate the minimum level of inventory with maximum and minimum time of delivering, the amount of inventory which is used in a particular time and other components. Each inventory is consumed or used in a certain and single operating cycle. But in some cases it is very difficult to determine whether this item is PP&E or inventory. This is very important issue because the measurement will be different and wrong if the inventory is introduced as an asset or otherwise. If the inventory will be introduced as an asset, in this case profit will be overstated also this can affect the retained earnings of company which is the main figure for balancing. Otherwise, if PP&E is recognized as an inventory, then profit will be understated and depreciable amount can not be correct. This also affects the statement of financial position of equity part through retained earnings. Other main issue is that PP&E has revaluation option, but this option is not appropriate to the inventories.

In view of IAS sixteen inventory can be introduced as PP&E if

a) Inventories are not held in stocks for selling purpose; for using in production; for the process of rendering services.

b) There are some assets which can not be used without some parts or items. PP&E can only be operated or can give benefit only with these parts. In this case these parts are accounted as an asset not inventory.

c) If the item can not be regained this will be treated as an asset. In other word if this item is significantly impaired after using this item it will be an asset.

It also includes inventories which can not be separately from the rest of inventories and this is an item of PP&E. There are some examples for this issue;

A company has the right of using an underground cave for the purpose of gas storage in 50 years. The cave is with full with gas and the part of this gas is only used for keeping the cave under pressure for getting other gas from the cave. In this case the gas which is used for out of other gas must be treated as an asset. The other asset must be treated as inventory. But this is impossible to distinguish the gas which is used as an asset from the gas which is used as inventory. The other case is that a company sells gas and has certain quantity of gas usually. The company sells this gas in its gas distribution network.

The company has got oil refining plant. For operating and refining, the plant must contain determined quantity of oil which must be minimum. This can only be removed from the plant when this asset is abandoned. Through the polluted extent, the value of the oil is significantly reduced.

There are three examples for this problematic issue. In the first case total volume of gas must be distributed to the gas which is held for sale and the gas which is used for keeping under pressure the cave. The value also must be allocated proportionally to each volume. The gas which is used for keeping cave under the pressure must be treated as an asset. The other type of gas must be treated as inventory under IAS two – Inventory.

In the second example the gas is held for sale, is held for consuming through the production process or it can be used for the process of rendering services. This gas must be treated as inventory and must be included in the financial statement of profit and loss. In the third case the oil which is used for operating of the plant and which can not be recouped must be recognized as a part of PP&E. Sometimes, the oil can be recouped, but in this case this oil would be significantly impaired. So, the cost of this oil must be added to the cost of PP&E and this amount must be depreciated from the asset over the useful life of the plant. In conclusion entities must take into the account that they must treat the items in correct way and must identify whether this item is asset or inventory correctly. Because this issue can cause main problems for entities.

2.4 Bearer plants

One of the main issue according to IAS – sixteen is the treatment of bearer plants. Bearer plants are the plants which are known as living plants. This type of plant is used in the production or supply of agricultural produce. Bearer plants are expected that they can be used for production more than one period. These plants are remote from being sold and harvested as agricultural produce. It is possible through irregular procedures the plant can be sold as scrap sales as for use of firewood.

These plants are treated within IAS – sixteen. Under this standard, there are two models for valuation of these assets as other PP&E. These are revaluation model and cost model. Agricultural products which are growing on bearer plants are treated under IAS 41- Agriculture. The example is an apple tree. The apple is a fruit which is growing on a tree. In this case apple is product and treated within the scope of IAS – 41. The tree is bearer plant. It can be used more than one period and through this plant future benefits will flow the company. So, the bearer plants are treated as ordinary assets within IAS – sixteen. There are some cases from the standard, which can not be recognized as bearer plant:

a) There are plants that are cultivated as agricultural produce. For example: The trees are grown, then they are used as lumber.

b) Sometimes companies cultivate the plants for more reasons. For example: the company grows a tree. Then company will sell the fruit and the lumber of this tree. These plants can not be recognized as bearer plants.

c) The annual crops can not be treated as bearer plants. For example: corn, wheat and so on.

Bearer plants are accounted as self-constructed items of PP&E before they are brought to the location and condition in which the management can operate this asset. In according with IAS – sixteen the reference of 'construction' includes the activities which are very important for cultivating such plants before they are brought to the location and condition which is important to be capable of operating in the manner intended by management.

In a nutshell, bearer plants must be outlined within the scope of IAS – sixteen. So entities must consider the correct unit of the account and must analyze the costs which can be capitalized correctly. Companies also must estimate useful life of the bearer plants correctly. The useful life is very important component for depreciation. If entities do not estimate these issues correctly, this can cause very strict problems in financial statements.

2.4 Accounting for parts ('components') of assets

Each asset has its parts which are identified by entities. If the parts are identified, in this case the cost of replacing the parts can be recognized as a part of asset. In this case the previous part of asset must be derecognized. These parts are called as 'components'. 'Parts' are different from day-to-day servicing. But 'parts' can not be identified or defined otherwise. The unit of measurement to which the standard applies can not be defined itself. For example: what comprises an item of PP&E is not identifiable.

Within the scope of IAS sixteen the 'significant parts' of asset must be depreciated separately. These parts are the parts which have significant cost in relation with the total cost of the asset. Entities must identify these significant parts of the PP&E initially when they are purchased. The initially introduction of parts of an asset is very important in order to depreciate each part of the asset properly. There is no special requirement for identifying all part of assets. Corresponding with IAS – sixteen if the parts of an asset must be replaced in this case this part must be derecognized. This must be regardless whether the part depreciated separately and allows the carrying value of the part which has been replaced to be estimated. If determination of the carrying amount of the replaced part is impracticable, then entities can use the cost of the replacement. They can use the replacement cost as indication of what the cost of replaces part was when this part was purchased, acquired or constructed.

There is an example for recognition or derecognition of the parts of an asset. An entity purchases a machinery and estimates that this machine will be used 20 years. This machine has two pumps and entity assumes that these pumps have the same useful life as machinery. After fifteen years one of these pumps fails. Entity replaces this pump at a cost of €200.000. Entity did not identify the pumps as separate items, so does not know the original cost of this part. According to IAS – sixteen the best way to estimate the carrying value of this part is using the cost of replacement. Supplier can help to the entity for estimating the cost. With supplier's help entity estimates that the cost of the pump would have been approximately €170.000. After this the remaining carrying amount of the part of this machinery must be €50.000. Accordingly entity derecognizes €50.000 and capitalizes the cost of replacement.

As a consequence if an entity did not identify the separate parts and had no better information than the cost of the replacement part, then in corresponding with IAS – sixteen, entities are permitted to use replacement cost and depreciate this replacement cost basis to calculate the amount derecognized in respect of the original asset.

2.5 Initial and subsequent expenditure

When entities acquire PP&E the subsequent expenditures upon the asset can be unavodibale. Under the scope of IAS – sixteen there is no distinction in principle between the cost of acquiring the asset and expenditures related this asset. All the costs must be met recognition criteria and be expensed in the financial statement of profit or loss as expenses. IAS – sixteen outlines that entities must estimate through recognition principle all properties, plant and equipment costs when they are purchased or constructed. These costs constitutes the costs incurred initially to acquire or construct of plant, property and equipment and costs incurred subsequently to add to, replace part of or service it.

Usually, each company has servicing and production departments separately. Through this standard servicing expenditures and more major expenditures are distinguished. Day-to-day servicing such as repair and maintenance of PP&E largely contains labour costs, consumables and other minor parts. These repair and maintenance costs would be recognized as an expense in income statement initially when they incurred.

There is an issue about this case. Replacement costs are incurred when a part of the asset is replaced with another new part. The replacements cost of significant part of an asset can not be recognized as an expense at income statement. These replacement costs must be capitalized as a part of PP&E, if the recognition criteria is met. The old or failed part of an asset which is replaced with another part is also important for entities, because the carrying amount of this part which has been replaced must be derecognized from financial statements. There are also major maintenance expenditures. The treatment of this major maintenance expenditures can be different. Costs of major maintenance activities are capitalized and depreciated over the estimated useful life of large asset. But there also maintenance costs which can not be separately identified. This type of maintenance costs which can not be defined as a component of plant, property and equipment must be expensed at financial statement of profit or loss when they are incurred.

After adopting of IFRS sixteen there is requirement for lessees to recognize most leases as lease liabilities in their statement of financial position with corresponding right-of-use assets. There is amendment to IAS – sixteen from IFRS – sixteen about this issue. Through this amendment the cost of an item of

PP&E may contains the costs occurred relating to leases of assets which are used for constructing, add to, replace part of or service an item of PP&E, as depreciation of the assets that the entity has the right for using this asset

2.6 Types of parts and major inspections

Within the scope of IAS – sixteen, there are two type of parts of assets. There are some items which require the replacement regularly. These items are the first type items. They are replaced at regular intervals during the life of the asset. The example for this type of parts is interior of aircraft. Aircraft's body and wings have long term useful life usually. But the interiors of an aircraft for example seats and galleys must be replaced regularly in a short term period. The other example is relining a furnace of an asset after determined number of hours of use. The second type constitutes the parts which requires less frequently replacement. IAS – sixteen requires that, through the recognition principle entities must recognize the cost of replacing part of such items in the carrying amount of PP&E. The recognition of these parts takes place after derecognizing the carrying amount of the parts which are replaced. As a consequence, we can say that the recognition of new replaced item after derecognition of failed item is main concept of this issue.

With corresponding IAS – sixteen it is very important to recognize replacement expenditures. As mentioned above, aircraft interiors are separately identified and have useful life separately from other parts of this asset. The example for second types is replacing the interior walls of a building or to make a nonrecurring replacement. Interior walls to meet the recognition criteria is less clear for this type of items. But replacement of internal walls or similar expenditures can extend the useful life of building. Also upgrading machinery increases the capacity of machinery, improves the quality of final product or reduces the operating costs. So, this type of expenditures can make large asset more beneficial and can increase the useful life of the asset.

This approach is recorded at the notes to the financial statements by British Airway Plc as following: All aircrafts are recognized at the fair value of the consideration which is given after taking account of manufactures' credits. Fleet assets which are acquired, owned or held on finance leases are depreciated the costs through the estimated residual value on a straight-line basis to the end of planned operational lives. Depreciation rates are variable and specific for each aircraft type which is based on the Group's fleet plans within seven and 29 years. For engines through 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which these parts are related. All other engines, the core of engine is depreciated to its residual value over the remaining life of the related fleet. Cabin interior modifications are depreciated over the lower of five years to the residual value of this interior. Aircraft and engine spares acquired on the introduction as well as rotable spares purchased separately are recognized as property, plant and equipment. Usually these items are depreciated with the fleet which is the item is related. There are also major overhaul expenditures. These expenditures constitute replacement spares and labour costs. They are capitalized and amortised during the average life between major overhauls. There are also other replacement spares and other maintenance costs which are related to fleet assets are charged to the statement of financial performance on consumption. These other costs also include maintenance provided under 'pay-as-you-go' contracts. 'Pay-as-you-go' contracts are not demonstrated in financial statements of this company in this example. They are turbine engine maintenance which are comprehensive and overhaul contracts. These are usually based on a fixed hourly fee for each hour flown and including loan engines when this is required.

There are some cases that entities are required activities such as to perform regular analysis for faults. This is regardless whether physical parts of assets are replaced or not. The standard outlines that separate parts of an asset can be recognized by entities if regular inspections are performed.

The reason of this approach is through with IAS – thirty seven. Maintaining a degree of consistency with IAS – thirty seven Provisions, Contingent Liabilities and Contingent Assets forbid entities to make provisions if there are no obligations. So, IAS thirty seven prohibits entities to perform through this approach. For example: make a provision to overhaul of an aircraft engine which is owned by an entity. The provision is providing each year on a quarterly basis over four years, then utilizing the provision when the engine is overhauled in the last year. This is a common issue in practice in the airline and oil refining industries. In other side it has never been applied in either sector. So, some entities recorded these costs ass expenditure when it occurred, the other entities capitalized these costs as an asset and these costs must be depreciated over the period till the next major overhaul. In accordance with IAS – sixteen an equal approach is applied. Cost of major inspections are recognized in the same way. These costs are not provided for in advance. They are capitalized as an asset if the recognition criteria is met. The remaining amount from the previous inspection must be derecognized. The previous inspections must be distinct from physical parts. There is not dependency whether the cost of the previous inspection was identified and considered as a separate part or not, if the asset was originally acquired, purchased or constructed, the activities of recognition and derecognition should be recorded. If the element which has relation with the inspection must be identified. It would be depreciated between that time and the current overhaul. If the inspection has not been previously identified, the criteria of recognition and derecognition must be applied. There are also future inspections which are similar with previous. Through the standard estimated cost of a future similar inspection which is used as an indication of what the cost of the existing inspection component was must be derecognized when this item was acquired, purchased or constructed. Entities are allowed reconstructing the carrying amount of the previous inspection. This approach is preferred rather than simply using depreciated replacement cost approach. For example: estimating of the carrying amount of the previous inspection which is depreciated will be derecognized.

2.7 Exchanges of assets

Rather than purchasing the assets with cash, entities can exchange their assets. If an asset is not required by an entity in particular area, for one it does in another – the opposite being the case for the counterparty. There are some areas where these exchanges are not uncommon. This issue is common in the telecommunications, media and leisure businesses, particularly after an acquisition. Sometimes these exchanges are required by governmental competition rules. Through this issue the question arises whether such transactions give rise to a gain in circumstances where the carrying value of the outgoing facility is less than the fair value of the incoming one. This can occur when carrying values of asset are less than market values. In other side there is a possibility that a transaction with no real commercial substance could be arranged solely to boost apparent profits. In according with IAS – sixteen all PP&E, must be recognized in financial statements at their fair value. So, entities must recognize these assets with their fair value, even if the carrying amount of these assets are high than its market value. In this case the impairment loss must be recognized as opposite of the carrying amount and this must be recognized as an impairment expense in the financial statement of profit and loss. These PP&E also includes the assets which are exchanged with non – monetary assets and combination of monetary and non – monetary assets. There are some conditions through this subject:

The cost of property, plant, and equipment must be estimated under the revaluation model and must be accounted as fair value in financial statements unless

a) There are some cases in which the transaction which the exchange of assets is based lacks commercial substance. If there is substance of commercial in transactions these assets can not be accounted as their fair value in accounting statements.

b) Sometimes, measuring the fair value of the asset is impossible. In the case of neither the fair value of an asset which are received nor the fair value of the assets which are given up can not be measured reliably. The asset which is acquired or purchased is measured in this way. There is not dependency if an entity can not immediately derecognize the assets which are given up.

The assets which are exchanged can be similar and dissimilar items. Through the scope of the standard income through exchange of assets must be recognized in financial statements rather than these exchanged assets are similar or dissimilar. As a consequence if one of two assets' fair value can be measured reliably that value is used for measuring the transaction of exchange. If an entity can not measure even one of the exchanged asset's fair value, in this case they must record these assets at their carrying value the entity no longer owns in financial statements. For example: The new exchanged asset's fair value measured and identified that fair value of this asset is higher than carrying amount of the exchanged old asset. So, the gain is obtained. The gain through the exchange must be recognized in financial statement of profit and loss.

This requirement is qualified by a 'commercial substance' test. The commercial substance test was put in place as an anti-abuse provision to prevent gains from being recognized in income. This is applied if the transaction has apparent and distinguishable consequence on the companies' economics. The commercial substance of an exchange is to be determined by forecasting and comparing forthcoming cash flows which is budgeted to be generated by the incoming and outgoing assets. For there to be commercial substance, there must be a significant difference between the two forecasts.

An exchange transaction has commercial substance if:

a) The structure of the cash flows which is about the asset that received must be different from the structure of the cash flow of the assets which are transferred.

b) The exchange transaction affects the entity – specific value of the entity's operations. Entity specific value means net present value of the future predicted cash flows which is the result of the entity's continuing use and disposal of the asset.

c) The difference in a) or b) can be significantly related to the exchanged assets' fair value.

It is possible commercial substance can not be demonstrated as defined by the standard. In this case assets which are received through the exchange transactions must be recorded at the carrying value of the asset given up. Oppositely, if the transaction's commercial substance is identified then standard of IAS sixteen requires that the exchanged asset will be recorded at its fair value in financial statements. The standard requires that the gain and loss which is obtained through derecognized assets must be included in profit or loss during the derecognition period. But, standard mentions that, gains on derecognition can not be classified as revenue. There is an exception for certain assets which are held for rental purposes previously. It gives no further indication regarding their classification in profit or loss. It should be noted that prior to adoption of IFRS 15, to exchange the assets and other things such as services was dealt within IAS –18 which took a distinguished approach from the standard of IAS – 16 generally. Within the scope of IAS – 18 such exchanged assets, services or goods are exchanged with the assets or services which have similar nature and value. This exchange is not regarded as a transaction which generates revenue. Such exchanges of goods and services are also excluded from the scope of IFRS

15. This is excluded when non- monetary exchanges among companies is in the same line of business for facilitating sales to potential customers and customers.

2.7 Significant parts of assets.

IAS – sixteen links its recognition concept of a ‘part’ of an asset with the analysis of assets for the purpose of depreciation. If the cost of parts of asset is significantly related to the total cost of the asset, then these parts must be depreciated separately. It means that, initial cost of an asset must be allocated between these significant and main parts by the company. The standard refers airframe and engines for this issue too. It does not depend whether this asset owned by an entity or this acquired through finance lease. But, standard also sets out that if an entity acquires PP&E under operating lease, in which it is the lessor. Depreciating separately amounts reflected in the cost of this item which are attributable to favourable or unfavourable lease terms which are related to market terms.

A determination of the significant parts of the buildings can be seen from Skanska. This policy may have been based on the construction methods used for the particular buildings as it is unusual to see a separation between foundation and frame for office buildings. There is an example of the allocation for property. In this example the lease terms as mentioned above are not identified as separate items:

PP&E consist of some parts. These parts serve during different periods, so they must be treated and recognized as separate elements of these properties, plants, and equipment. Depreciable amounts are substracted from the asset over its useful life until these assets residual value on a straight-line basis. Depreciation can also be substracted based on degree of use. In this case residual value at the end of each period must be taken account too. This company also divides its buildings into foundation and frame. Their depreciation period in other word, useful life is 50 years - installations are 35 years and non-weight-bearing parts are 15 years. As a consequence, buildings which are industrial are depreciated during 20-year period. There is not allocation in different parts during these 20 years. Depreciable amount from concrete mixing plants must be subtracted over from 10 to 15 years. This depends on the condition that, when this item is acquired or purchased and this amount must not be divided into different parts. The example for such concrete mixing plants are stone crushing and asphalt plants. For the other machinery and building movement of different items incurs only if major components which have significant value with different useful lives must be identified. For other PP&E, the depreciation period is between five and 10 years. Equipment which is minor must be depreciated immediately. For example: stone quarries are depreciated immediately when materials are removed. Only land must not be depreciated, because land can not become old or obsolescence. Assets' residual value must be measured and assessed each year. Period of service also must be assessed for its useful life on annual basis.

Because parts of an item of PP&E are identified by their significant cost rather than their effect on depreciation, they may have the same useful life and method of depreciation. The standard allows them to be grouped for depreciation purposes. It also identifies other circumstances in which the significant parts do not correspond to the depreciable components within the asset. Entities deduct depreciable amount separately from some parts of an item of PP&E. The remainder of the item of PP&E also is depreciated separately. Remainder of asset has not separately been identified into parts may consist of other parts. If these parts are not significant separately or individually and if company varies expectations of these parts, in this case it may need to use approximation techniques to calculate an appropriate depreciation method for all of these parts. The standard also allows an entity to depreciate separately such parts which are insignificant with the relation of the total cost of large asset. Depreciation charge is recognized as a depreciation expense at statement of profit and loss if it does not form part of the cost of other asset. This also includes in asset's carrying amount. Infrequently forthcoming monetary advantages typified in a benefit are caught up in producing other assets, for instance, the depreciation of assembling plant and equipment is incorporated as a part of the cost of transformation of completely produced merchandise held in stock as per IAS two and correspondingly, depreciation of PP&E utilized for improvement activities might be incorporated as a major aspect of the cost of an intangible resource which is perceived as per IAS 38.

2.7 Assets held under finance leases

Assets held under lease are determined by the standard of IAS – seventeen. After adopting of IFRS – sixteen the paragraph 27 is removed from IAS – sixteen. IAS – seventeen applies to all leases aside from lease agreements for mineral, natural gas, and other similar regenerative sources and licensing agreements for performs, manuscripts, patents and other comparable gadgets.

IAS – seventeen does now not follow as the basis of dimension for the subsequent leased belongings:

a) There are some assets which are held by way of lessees and accounted for as investment property for which the lessee makes use of the fair cost version. This issue is set out in IAS – fourty.

b) There is also possibility that investment properties which are provided by lessors through operating leases can not be the basis for measurement under IAS – seventeen.

c) Biological property held by means of lessees through finance rentals. This is demonstrated under the standard of IAS – fourty.

d) Biological property held by means of lessees by lessors through operating leases.

We know that leases are classified in 2 ways. The following situations must be accounted as finance lease.

1) Hired or leased assets transfer ownership of the property during the end of the rent term by the lessee.

2) The lessee has the choice to purchase the asset at a rate that is predicted to be sufficiently decrease than market value of the asset at the date the choice will become exercisable that, on the inception of the lease, it within reason certain that the option will be exercised.

3) The lease time period is for the foremost part of the financial life of the asset, even supposing that, the title is not always transferred to this part.

4) On the inception of the lease, the present value of the minimum lease bills quantities to at the least substantially all of the market price of the leased asset

5) The lease assets are of a specialized nature such that only the lessee can use them without primary adjustments being made.

There are also some other conditions in which these situations lead to classification of finance leases:

a) If the lessee is eager removing or cancelling the hire, the lessor's losses which are related with cancellation are borne by using the lessee.

b) Profits or losses from fluctuations inside the fair price of the residual fall to the lessee. For example: by using a rebate of hire payments.

c) The lessee has the potential to continue to rent for a secondary period at a lease that is notably lower than hiring the asset in the market.

While a lease includes each land and building elements, an entity assesses the category of every detail as a finance or an operating lease one at a time. In determining whether the land element is an operating or a finance hire a critical consideration is that land usually has an indefinite economic life. On every occasion, it is important to classify and account for a lease of land and buildings, the minimal lease bills (consisting of any lump-sum in advance payments) are allocated between the land and the building elements in percentage to the relative honest values of the leasehold interests in the land element and buildings element of the hire at the inception of the hire. For a rent of land and buildings, wherein the amount that might initially be regarded for the land detail is immaterial, the land and buildings may be treated as an individual unit for the cause of hire class and categorized as a finance or operating rent. But, individual size of the land and buildings elements is not required if the lessee's interest in both land and buildings is assessed as an investment of property or asset in accordance with IAS – fourty and market value version is followed.

There are some issues which must be applied to the financial statements:

1) At the beginning of the lease time period, finance leases should be recorded as an asset and a legal responsibility on the lower of fair value charge of the asset and the present charge of the minimum rent payments (discounted at the interest charge implicit in the rent, if workable, otherwise on the entity's incremental borrowing fee).

2) Finance hiring bills have to be apportioned between the finance price and the discount of the remarkable liability (the finance fee to be allotted which will produce a constant periodic fee of interest at the closing stability of the legal responsibility)

3) The depreciation coverage for belongings or assets held by beneath finance leases ought to be steady with that for owned assets. If there is no reasonable determination that the lessee will gain possession on the end of the rent – the asset has to be depreciated over the shorter of the lease term or the life of the properties.

4) For operating leases, the rent bills have to be recognized as a rate inside the profit assertion over the lease term on a directly – line foundation, unless some other systematic foundation Is more consultant of the time pattern of the consumer's benefit.

IFRS – sixteen require that, the assets which are used for production in other word right-of-use assets must be assessed initially at the lease liability amount.

These must be adjusted for prepayments of renting. Lease incentives must be received. Direct costs and restoration, removal and dismantling cost must be measured initially.

2.8 Impairment.

All items of PP&E accounted for under IAS – sixteen are subject to impairment and this is discussed in IAS – thirty six. The question has arisen about the treatment of any compensation an entity may be due to receive as a result of an asset being impaired. For example an asset that is insured might be destroyed in a fire, so repayment from an insurance company might be expected. IAS sixteen states that these events – the impairments or losses of items of PP&E, compensation payments from other parties and other particular purchase and construction of replacement properties – are individual economic events. They must be accounted individually as below:

- Impairments through property, plant and equipment must be recognized with corresponding IAS – thirty six.
- If the items of PP&E derecognized when it is disposed, scraped obsolence and retired the derecognition of this asset must be taken account.
- There are PP&E which has compensation through other parties that are impaired. The loss must be estimated and included in statement of profit and loss when it is receivable.
- Restoration, purchasing of PP&E or construction through replacements must be measured and determined through IAS – sixteen.

If the revaluation model is adopted, PP&E is initially recognized at cost. Then each year entities must revalue its assets. The fair value of the asset must be recognized in financial statements at the revaluation day. New depreciable amount must be determined and particular depreciation and losses through impairment must be subtracted. In practice, ‘fair value’ will usually be the market value of the asset. There is no requirement for a professional external valuation or even for a professionally qualified valuer to perform the appraisal, although in practice professional advice is often sought. Valuation frequency is not described in the scope of IAS – sixteen. Instead it states that entities must regularly estimate the revalued amount of the asset and must compare this with carrying value of this property. So, entities must be sure that, there are not any differences between carrying amount and fair value of properties. Revaluation estimates must be carrying out at the end of each year in some cases. Therefore, the changes on fair values which are very frequently must be considered and revalued. In some cases fair value of revalued PP&E is very different materially from the carrying value of this property. In this case, a further revaluation is very necessary and should be carried out. The standard suggests that some items of PP&E changes frequently their fair value so, they must be considered on annual basis. This is true for property assets in many jurisdictions, but even in such cases there may be quieter periods in which there is little movement in values. If the changes are not frequently, then regularly revaluations are not important and it may only be necessary to perform revaluations at three or five-year intervals. If the revaluation model is adopted, IAS sixteen specifies that all items within a class of PP&E are to be revalued simultaneously to prevent choosy revaluation of properties.

Prior to the adoption of IFRS – thirteen, IAS – sixteen did not imply that fair and market value concepts are synonymous, which allowed a broader meaning of the term ‘fair value’. The term could certainly have been interpreted as encompassing the following two commonly used, market derived, valuation bases:

- Market value in existing use, an entry for property in continuing use in the business which is based on the concept of net current replacement cost; and
- Open market value, which is an exit value and based on the amount that a property that is surplus to requirements could reach when sold.

Both of these bases are market-derived, yet they can differ for a variety of reasons. A property may have a higher value on the open market if it could be redeployed to a more valuable use. On the other hand, the present owner may enjoy some benefits that could not be passed on in a sale, such as planning consents that are personal to the present occupier. Market value in existing use will be resumed to be fair value for many types of business property till market offer that open market value is higher. For example: open market value demonstrates the highest and the best use. For most retail sites market value in existing use should be fair value. Certain types of property have an alternative use with a higher value. For example: pubs or warehouses that can be converted to residential use must be considered. There is an example for highest use of asset: An entity purchases land and improves this land currently for industrial use as a factory. It is supposed that current use of land is the best use till the factors suggest different use. There are two scenarios:

Scenario (1): In the particular jurisdiction, it can be difficult to obtain consents to change use from industrial to residential use for the land and there is no evidence that the area is becoming desirable for improvement and fair value is based on the current industrial use of the land.

Scenario (2): Close sites have these days been developed for residential use as sites for high-rise apartment buildings. On the basis of that improvement and latest zoning and other adjustments that facilitated the residential improvement, the entity determines that the land presently used as a site for a manufacturing facility can also be developed as a site for residential use due to the fact market participants might do not forget the potential to develop the site for residential use when pricing the land. This determination can be highly judgemental.

2.9 General disclosures

For each class of PP&E the subsequent must be disclosed inside the accounting statements:

a) The dimension bases used for determining the gross carrying quantity (e.g. price or revaluation). Whilst more than one basis has been used, the gross carrying quantity for that basis in each class can also have to be disclosed. (but the preferred requires that if revaluation is followed the whole classifications of PP&E need to be revalued)

b) The depreciation methods used. Selection of the depreciation approach followed is a matter of judgement and its disclosure presents statistics that lets in users of financial statements to overview the regulations selected by way of control and allows them to examine with different entities. For comparable reasons, it is important to disclose depreciation whether recognized in profit or loss or as part of the price of other assets, in the course of a length and accumulated depreciation at the end of the duration.

c) The useful lives or the depreciation charges used. Choice of the useful lives or depreciation charges used is an issue of judgement and its disclosure offers information that permits customers of financial statements to check the regulations selected via control and permits them to examine with different entities.

d) The gross carrying value and the collected depreciation (aggregated with accrued impairment losses) at the start and end of the year.

e) A reconciliation of the carrying amount at the start and end of the period showing:

- Additions
- Disposals, and property as held for sale or protected in a disposal organization held for sale according with IFRS – five.
- Acquisitions through enterprise combos
- Will increase or decreases because of revaluations and from impairment losses known or reversed without delay in other comprehensive income
- Impairment losses regarded in profit or loss during the duration under IAS – thirty six.

- Impairment losses reversed in earnings or loss at some point of the period below IAS – thirty six.
- Depreciation
- The net exchange variations rising on the interpretation of the financial statements from the purposeful foreign money into a distinctive presentation currency, together with the interpretation of a foreign operation into the presentation currency of the reporting entity
- Different adjustments.

IAS – sixteen also requires the disclosure of the following information, which is useful to gain a fuller understanding of the entire position of the entity's holdings of and its commitments to purchase PP&E:

a) The existence and amounts of regulations on identify, and PP&E pledged as security for liabilities
b) The quantity of expenditures recognized in the carrying amount of an object of PP&E within the course of construction
c) The quantity of contractual commitments for the acquisition of PP&E
d) If it is not always disclosed one after the other within the statement of comprehensive income, the amount of compensation from third parties for gadgets of PP&E that had been impaired, lost or given up this is included in profit or loss.

In accordance with IAS – eight, the character and impact of any alternate in an accounting estimate (e.g. depreciation methods, useful lives, residual values and the expected price of dismantling, disposing of or restoring items of PP&E) that has an effect on the current period or is expected to have an impact in future periods must be disclosed.

In addition to the disclosures required by way of IFRS – thirteen, the disclosure necessities in IAS – sixteen if the revaluation method is followed are:

a) the effective day of the revaluation
b) whether an unbiased valuer changed into involved

c) for each revalued magnificence of PP&E, the carrying quantity that might have been recognized had the assets been carried under the value version

d) the revaluation surplus, indicating the trade for the period and any restrictions on the distributions of the balance to shareholders.

In May 2014, the Interpretations Committee obtained a request to clarify whether or not an entity is required to reflect the capitalization of borrowing expenses to fulfill the disclosure requirement of IAS – sixteen for assets stated at revalued amounts and for which borrowing expenses are not capitalized. Because the capitalization of borrowing expenses for such property is not required. The determination of the quantity of borrowing expenses that would be capitalized under a cost model – entirely to meet a disclosure requirement – is probably taken into consideration burdensome.

The Interpretations Committee referred to that the requirements in IAS – sixteen. This standard requires an entity to reveal the quantity at which assets stated at revalued quantities would have been stated had that property been carried under the cost model. The quantity to be disclosed includes borrowing expenses capitalized according with IAS – twenty three. IFRS – thirteen has a number of disclosure requirements for property measured at fair value. A number of widespread disclosures under IFRS – thirteen which could apply to revalued PP&E are:

- If there is a fair value adjustment in other word, if the best use has difference from asset's current use entities must disclose this fact. The reason that why the asset's highest utilize is different from current use must also be disclosed.
- Measurement categorization about the fair value through the hierarchy of measurement about fair value.
- If the measurement of fair value hierarchy categorized through level 2 and 3 (most revalued PP&E is likely to be):

- The techniques about valuation which is used for measurement of fair value
- Some elements which are used for measuring of fair value such as inputs
- If there has been a change in the valuation technique. For example: entity changes market approach to an income approach or use of an additional technique.
- The change
- The reason(s) for making this

In addition to these requirements, an entity must also provide the disclosures depending on that if the measuring of fair value is recurring or not. Revalued PP&E are considered reoccurring of measurement of fair value and are subject to requirement of disclosure, that include a qualitative sensitivity analysis. The disclosures for revalued PP&E categorized under Level 3 include a reconciliation from opening to closing balance. The disclosures individually change during the period to the following:

- Gain and loss which are introduced in statement of profit or loss during the particular period, and the line gadgets in this statement where gains and losses are introduced.
- Gain and loss that introduced in statement of profit or loss under other comprehensive income for this period and the line of gadgets in other comprehensive income where gains and losses are introduced.
- There are some changes which must be individually disclosed in notes such as settlements, issues, purchases and sales.
- Alterations in or out of Level 3 of the hierarchy of revalued value. These are also individually disclosed. These includes:
- The alterations' amount which are altered from Level 3
- The reasons that why these transfers are carried out
- The companies' policy about this issue

Added to requirements of disclosures by IAS – one, IAS – sixteen and IFRS thirteen, the standard emphasizes that entities are also required to disclose information on impaired PP&E in accordance with IAS – thirty six.
The users of accounting statements such as employees, shareholders, professionals of financial analysis and others can find other information which has relevancy for these users' needs. Through this issue the standard encourages, but does not require, entities to disclose other additional information such as carrying value of temporarily idle PP&E, carrying amount of P&E which is depreciated fully and is still in use in accordance with IFRS – 5. For any PP&E measured using the cost model, the disclosure of its fair value is also encouraged while the materiality differs from carrying value.

Chapter 3 Conclusion

The economy of many countries is built via a totally heterogeneous corporation. They differ in many properties. One of the fundamental divisions associated with observation is the ownership of the firm, and in this criterion division among public and different organizations might be made. On this paper we commenced from that technique and found the behavior of the general public and other corporations within the eight-year length 2010 – 2018 with regards to the actual aim of the creation of IAS – sixteen in their commercial enterprise. The first cause is that the transition, of especially former socialist nations over the last decades, have finished improved privatization of its formly huge state. Inside the remark of IAS – sixteen within the public region the growing desire of control to actually introduce a truthful assessment could also be visible. The introduction of IAS – sixteen within the public quarter is related to important events or the Republic of Serbia signed bankruptcy 32 of the eu in December 2015, which is dedicated to the financial manage and audit of all budget users and, therefore, the public agencies. The studies outcomes cover the duration of eight years. (2010 – 2018). The take a look at turned into began by means of using SWOT evaluation, aiming at presenting the primary impact associated with complete implementation of IAS – sixteen in the actual functioning of the financial system. The intention is to obtain credible that results to be used to determine the existence of possible differences in the utility of full use of IAS – sixteen public businesses and different companies. After statistical analysis with a massive 95% it could be concluded that, in 2010, between the general public and different companies there was a large distinction within the application of IAS – sixteen. In the duration. In the duration 2011 – 2012, there was a completely critical critical distinction between the utility of IAS – sixteen in the agency business enterprise. Similarly to these conclusions it must be cited closing fact after the statistical analysis; this is, that the public on their web sites plenty more inquisitive about the introduction of IAS – sixteen of their websites.

The case takes a look at become finished with the intention of tracking the behavior of the general public agencies associated with valuation of assets and system with which the enterprise operates. Results imply that the deviation of carrying amounts of belongings and gadget in terms of day assessment may be excessive and it is miles about 50%. The studies persevered monitoring of the behavior of corporations with regard to the creation of the consequences of evaluation in business books. Obtained effects are extremely negative, because, even after three years the employer did not introduce the evident distinction in value of assets and device in their books. With this work we emphasise the importance and advantages of using IAS – sixteen and with truth factor out that its application can obtain many advantages for all agencies. The software of IAS sixteen also can result in upgrades in the pursuance of the followed monetary policy with the aid of the agency. Realistic asset valuation stems also from the appreciation of the economic manage of the public region, the important government before everything regulated with the duress. There are exclusive methodologies in use for the assessment of a company’s capital fee, however it has to be emphasized that there may be no definition in any respect as to how the method ought to be finished. E.g., what will a licensed appraiser use in his/her worktop to get the consequences of the assessment, so that it will be expressed within the opinion, added to the contractor, following contractual responsibilities.

ADDITIONAL MATERIALS

Application of IAS 16 in all 114 companies within the period 2010–2012.

COMPANIES	F	%	F	%	F	%
Apply IAS 16	13	11,4	25	21.9	33	28.9
Partially apply	37	32.5	63	55.3	59	51.8
Don’t apply	64	56.1	26	22.8	22	19.3
Total number of companies	114	100	114	100	114	100

Type of company	Application XY	F	%	F	%	F	%
Public companies	Apply IAS 16	3	30	7	70	8	80
	Partially apply	2	20	2	20	1	10
	Do not apply	5	50	1	10	1	10
	Total number of public companies	10	9.6	18	7.3	25	24
Other companies	Apply IAS 16	10	9.6	18	17.3	25	24
	Partially apply	35	33.7	61	58.7	58	55.8
	Do not apply	59	56.7	25	24	21	20.2
	Total number of other companies	104	100	104	100	104	100

Overview of public and other companies in the application of IAS 16 to 2012.

Results of research related to the valuation of real estate and equipment of the company.

Ordinal No.	Bookkeeping value of the company before assessment in EUR	The structure of the results obtained after assessment	The value of the company after assessment in EUR	The obtained difference, increase of the value after the evaluation in EUR
1		*Company's real estate*	2.052.453,22	N
2		*Company'sequipment*	1.104.224,43	
Total	2.105.040,56		3.156.677,65	1.051.637,09

S/No	Percentage Sore	Points	General Remarks
1.	70-100%	7-10	Strongly Applied
2.	50 -69%	5-6.9	Semi Strongly Applied
3.	40 – 49%	4-4.9	Weakly Applied
4.	20-39%	2-3.9	Very Weakly Applied
5.	0-19%	0-1.9	Non Application

Criteria for grading compliance with requirements of and IAS 16 by listed agricultural firms in Nigeria.

Ordinal number	The structure of the equipment after assessment	Value of the equipment after applying IAS 16 and valuation of the equipment in EUR	Participation of the most important company equipment parts after assessment in % compared to the total value of equipment
1.	Agricultural equipment	817.464,71	74.03
2.	Transport equipment	207.937,68	18.83
3.	Other equipment	78.822,03	7.14
Total		1.104.224,43	100

Results of evaluation of all equipment of enterprises after the application of IAS 16.

Enrollment in local colleges, 2005

	No.	Name of equipment	Estimated current value in EUR	A	B	C
Production and agricultural equipment purchased by the founder's subsidy	1	Self-propelled rotary mower I MT	3.370,92	0,86		0,40
	2	Tractor TT-830	20.802,57	5,46		2,54
	3	Tractor Belarus 1025	6.615,01	1,74		0,81
	4	Multipurpose utility tool	43.296,05	11,37		5,30
	5	Self-propelled rotary mower IMT	4.669,68	1,23		0,57
	6	JBC excavator-loader	38.853,29	10,20		4,75
	7	Tank truck IVEK	38.853,29	10,20		4,75
	8	Other production and agricultural equipment	224.487,27	58,94		27,46
	I	380.848,09	100		46,59	
Production and agricultural equipment purchased from own resources of the company	9	Tractor Torpedo TD-7	863.40		0,20	0,11
	10	Equipment for watering of system	18.478,93		4,23	
	11	Equipment for watering	866,23		0,20	2,26

12	Watering system DK	86.746,19		19,87	0,11
13	The compact self-propelled machine	15.541,31		3,56	1,90
14	Jardinière	21.576,52		4,94	2,64
15	Other equipment	292.543,99		67,00	35,79
II	436.616,61		100	53,41	
TOTAL(I+II)	817.464,71			100(I+II)	

A = The participation of each piece of equipment in % compared to the procured equipment from subsidies. B = The participation of each piece of equipment in % compared to the procured equipment from its own resources. C = The participation of each piece of equipment in % compared to the total procured equipment.

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