Annexure accompanying the Newsletter article for 7 April 2020

The table below illustrates extracted text from the wording commonly included in the accounting policy for Property, Plant and Equipment. The right-hand column includes suggestions for how the text could be improved, which could include omission from the financial statements. The suggestions do not include a complete list of improvements, but ideas of the types of changes that should be considered.

What we commonly see?	What types of improvements can be made?
Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others or for administrative purposes and are expected to be used during more than one reporting period.	Explain what types of assets are considered property, plant and equipment, for example, land (explain why held or for what purpose), buildings, IT equipment etc. Where judgement has been applied in classifying land and buildings as either property, plant and equipment and investment property, this fact along with the key considerations should be explained.
The cost of an asset is recognised as an asset when: • it is probable that future economic benefits or service potential with the item will flow to the entity; and • the cost of the item can be measured reliably.	When is the point at which it is probable that future economic benefits or service potential will flow to the entity? When can the item be measured reliably? Both of these aspects are particularly important when an entity has capital intensive projects.
Property, plant and equipment is initially measured at cost. The cost of the item of property, plant and equipment is the purchase price and other costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.	When does management consider that an asset is ready to be operated as intended? Does the entity receive trade discounts and rebates? If yes (and material), for what types of assets – all or only some?
When an asset is acquired in a non-exchange transaction, the cost is its fair value at acquisition.	What types of assets are acquired in non-exchange transactions, if any? How is fair value determined, for example, using observable prices in an active market, through a valuation technique or using depreciated cost because the asset is specialised?
Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value. If the acquired item's fair value is not determinable, its deemed cost is the cost of the asset given up.	Does an entity have transactions where they acquire assets through exchanging an existing asset for a new asset? If not, then this policy should be deleted.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment where the entity is obligated to incur such expenditure.	Does an entity have an obligation to dismantle an asset, and/or incur expenditure to rehabilitate the site on which it is located? If this is not the case, the policy should be deleted. If an entity does have an obligation, more detail needs to be provided about the types of assets affected, with a cross reference to where the obligation is described in the accounting policies.

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