

Education session

IPSASB ED 78

Property, Plant and Equipment





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

Agenda

1. Local exposure process
2. Project background
3. Key proposals
 - a) Heritage assets
 - b) Infrastructure assets
 - c) Measurement
4. Disclosure
5. Transitional provisions
6. Next steps



Local exposure process



Local exposure process

- Board policy to develop Standards of GRAP based on IPSAS (considering mandate and strategy)
- IPSASB EDs are exposed locally for comment to influence development of IPSAS
- Once finalised, Board considers local project during work programme consultation
- GRAP 17 is aligned to IPSAS 17

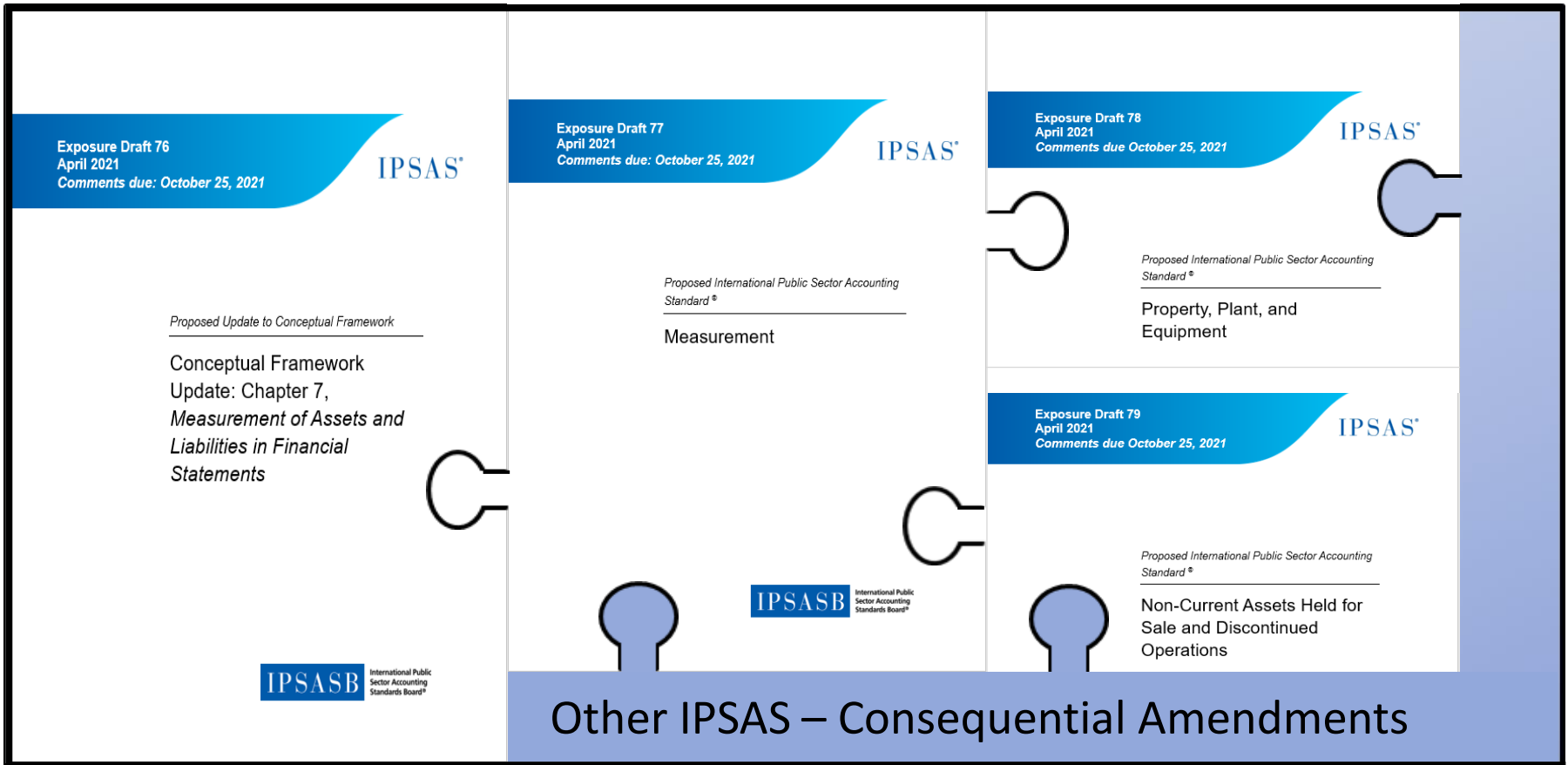


Local exposure process

- Published IPSASB ED 76 –79 concurrently as ED 188 - 191 on ASB website:
<https://www.asb.co.za/comment-on-proposals/>
- Resources on IPSASB website:
<https://www.ipsasb.org/publications/exposure-draft-ed-78-property-plant-and-equipment>
- Education sessions and roundtable discussions
- Local comment deadline 1 October 2021

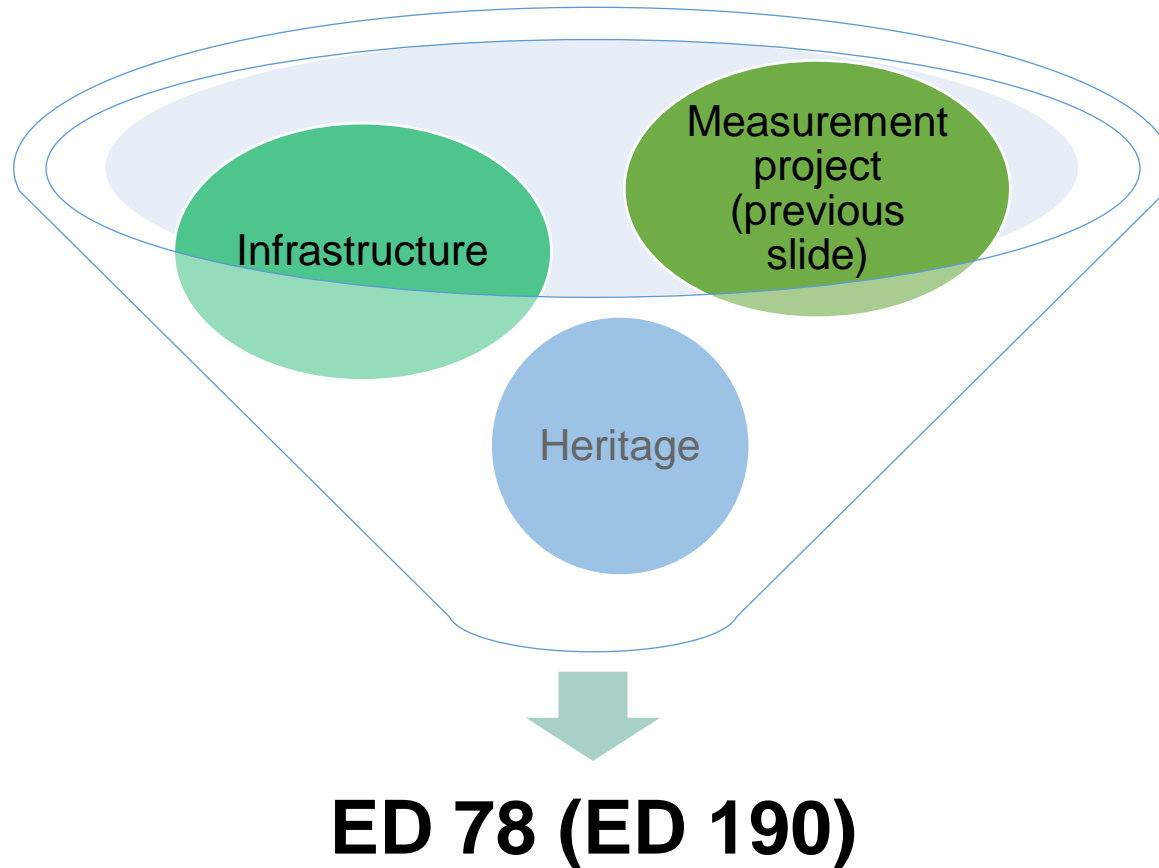
Project background

Measurement and connected projects



Source: IPSASB

Projects related to IPSAS 17



Proposed amendments – Heritage Assets



Heritage assets as PPE

- Respondents to 2017 CP supported recognition of heritage assets, emphasised measurement issues
- Amendments to IPSAS 17 by including additional authoritative and non-authoritative guidance to clarify application to heritage.

Heritage assets as PPE

- Principles in IPSAS 17 apply fully apply to heritage assets on basis that:
 - recognition of heritage assets will increase transparency of heritage-related financial information
 - item's heritage does not prevent it to be an asset
 - many heritage items are assets that meet recognition criteria in the Conceptual Framework
 - heritage nature of an item is not itself a reason for special financial reporting

Key proposals

Removal of scope exclusion for heritage assets

Unique characteristics of heritage assets

Additional disclosure requirements for unrecognised heritage assets

Other guidance

Key proposals

Removal of scope exclusion

- Heritage items that satisfy definition of PPE – recognised as asset when recognition criteria met
- ED 78 removed IPSAS 17 scope exclusion
- No definition for heritage assets – Application Guidance identifies key characteristics that makes heritage assets unique

Key proposals

Unique characteristics of heritage assets

- irreplaceable
- restrictions and long and sometimes indefinite useful lives
 - implementation guidance on factors to assess if a heritage asset has an indefinite useful life i.e. period providing service potential, usage, preservation

Key proposals

Additional disclosure requirements for unrecognised heritage assets

- Existence of heritage assets that present measurement difficulties that prevent their recognition - Users still need info
- Heritage PPE not recognised due to difficulties in obtaining reliable measure that prevents recognition

Key proposals

Other useful guidance

- Depreciation based on useful life of asset as definite or indefinite
- Requirement to review PPE with indefinite useful life annually for indicator of impairment
- Control of heritage assets held temporarily, those stored and not displayed publicly
- Restrictions on use of heritage assets that impact an entity's ability to derive its current value
- Recognition of subsequent expenditure on unrecognised heritage assets



Potential implications

- ASB agreed to retain GRAP 103 as a separate Standard of GRAP
- ASB agreed to account for all heritage assets in terms of GRAP 103 – no depreciation but needs to be tested as part of amendments to GRAP 103
- Monitor measurement project for guidance on application of measurement bases
- IPSAS 17 Implementation and Application guidance

Proposed amendments - Infrastructure

Issues

Control and valuation of land under or over infrastructure assets

Identification of individual parts of infrastructure assets

Impact of under maintenance of assets

Applicability of information in asset management plans

Key proposals

1. Infrastructure assets as property, plant, and equipment

2. Unique characteristics of infrastructure assets

3. Guidance on identifying parts of infrastructure assets

4. Guidance on control and valuation of land over and under infrastructure assets

5. Guidance on management issues



Infrastructure assets as PPE

- Infrastructure assets are PPE
 - Held to supply goods or services; used during >1 reporting period
- “Normal” principles apply
- However, characteristics distinguish them from general PPE (next slide)
- Guidance added on how normal principles apply to infrastructure



Capitalisation thresholds

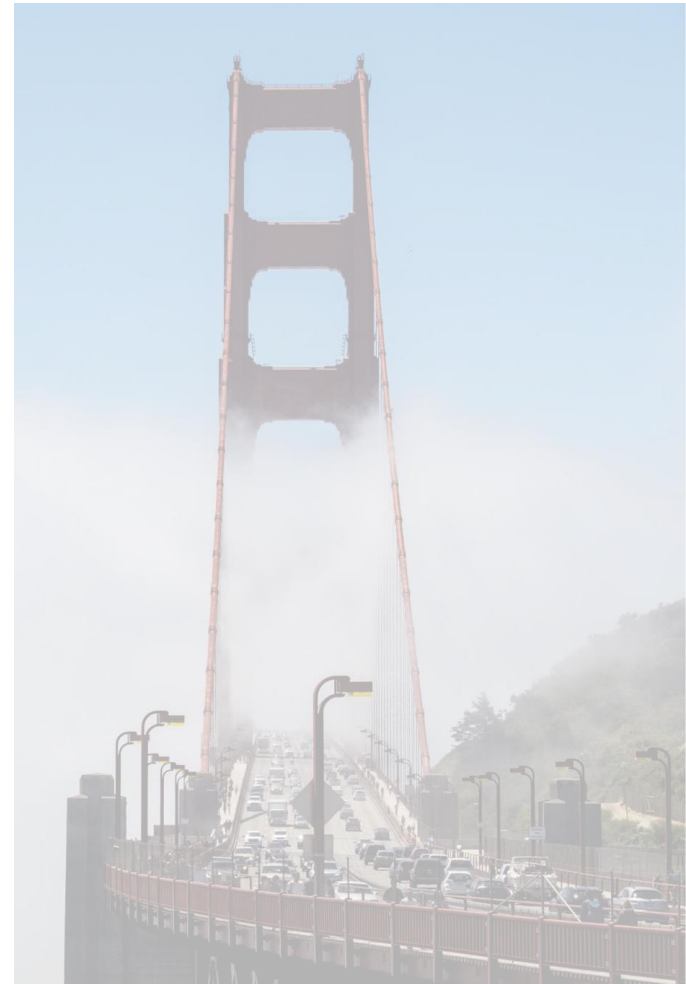
- Not specific to infrastructure & issue for management
- Factors to consider:
 - Information needs of users
 - Materiality
 - Cost-benefit

Unique characteristics of infrastructure assets

- Infrastructure assets not defined
 - subset of PPE
- Characterised as:
 - a) Networks or systems; and
 - b) Have long useful lives
- E.g.:
 - Electricity power systems
 - Road networks
 - Water systems

Parts / components of infrastructure

- Principle: allocate cost to significant parts, depreciate separately
 - E.g. substructure and surface of road



Parts / components of infrastructure

What to consider when identifying parts for financial reporting purposes?

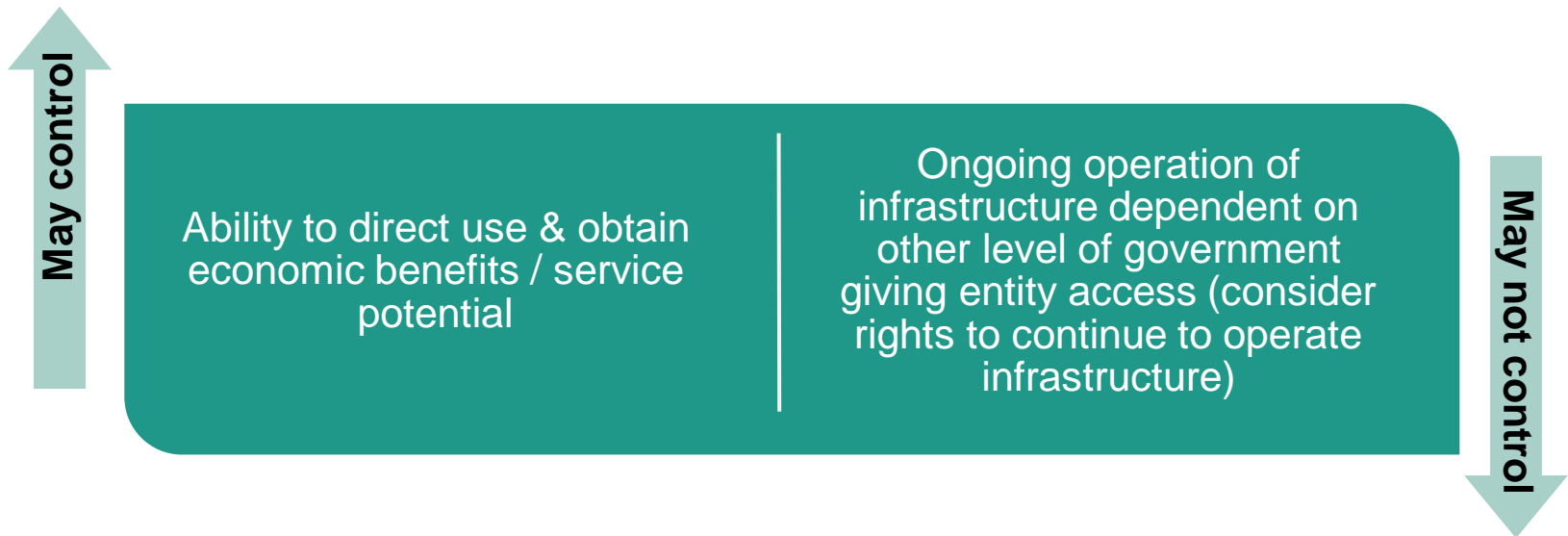
- ED 78 requires:
 - Depreciate separately if cost/value is significant
 - Significant parts may be grouped together if similar UL and depreciation method
- Indicators:
 - Separately identifiable and measurable
 - Significant value in relation to asset
 - Different estimated useful lives

Judgement

Land over and under infrastructure assets

Control – who recognises land where different entities own land & infrastructure

- Assess with reference to indicators of control
 - Legal ownership is only one indicator



Land over and under infrastructure assets

Control (cont.)

Example 1-Case A (see paragraphs IE1-IE3) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has legal ownership of the land and the right to direct access to land and to restrict or deny access of others to land.

- IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200-mile road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.
- IE2. The Provincial Government concludes that the National Government controls the land because the National Government:
- (a) Legally owns the land;
 - (b) Retains all the rights to the land, as it can cancel the binding arrangement at any point in time; and
 - (c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.
- IE3. While the province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the national government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this is insufficient to support its control of the land. Other indicators support control being retained by the national government.



4. Land over and under infrastructure assets

Control (cont.)

Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has unlimited and unrestricted use of the land.

- IE4. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.
- IE5. Even though the Provincial Government does not legally own the land, the Provincial Government concludes it controls the land because it:
- (a) Has the right to direct access to the land and to restrict or deny access of others to land because it has unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;
 - (b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and
 - (c) Ensures the land is used to achieve the Provincial Government's service potential objective whereby the land will allow the Provincial Government to build a road that will transport vehicles and goods between the two cities.



Land over and under infrastructure assets

Value – how determined; infrastructure is specialised & held for operational capacity

- Land is separate
- Current value model: FV / COV
- Techniques:
 - May not be market (specialised)
 - Use cost approach
 - ❑ Based on existing site e.g. agricultural or industrial



Management issues

Use of asset management plans for financial reporting purposes

- Only use if detailed, good internal controls, reliable, up-to-date
- Input to:
 - Depreciation (expected UL, pattern of consumption)
 - Determining significant parts (impacts depreciation, impairment, derecognition)
 - Estimated costs to maintain, restore, refurbish
 - Determine indicators of impairment

Management issues

Under-maintenance of assets

- When level of maintenance is insufficient to maintain service potential or UL
- Impact on measurement?
 - Indicator for impairment
 - Assessment of residual value and UL
 - No liability (no obligation for future maintenance expenses)

Proposed amendments - Measurement

Key proposals

Select subsequent measurement basis – objective for holding

1. Move generic measurement guidance

- E.g., what is historical cost / FV and how is it determined

2. Clarify initial measurement principles

- Cost
- Deemed cost if non-exchange
- FV if in exchange for non-monetary asset, or combination

3. Align FV to IFRS 13

- Continue to use the term but with same meaning as IFRS 13
- Assets held for financial capacity
- Considers highest and best use

4. Include COV

- Public sector current value measurement basis
- Assets held for operational capacity
- Considers current use

Disclosure



Changes to disclosure requirements

- Subheadings added
- New disclosure on unrecognised heritage assets
- Disclosure requirements from Measurement project on current value measurement
 - See presentation on ED 76 / ED 77

Transitional provisions

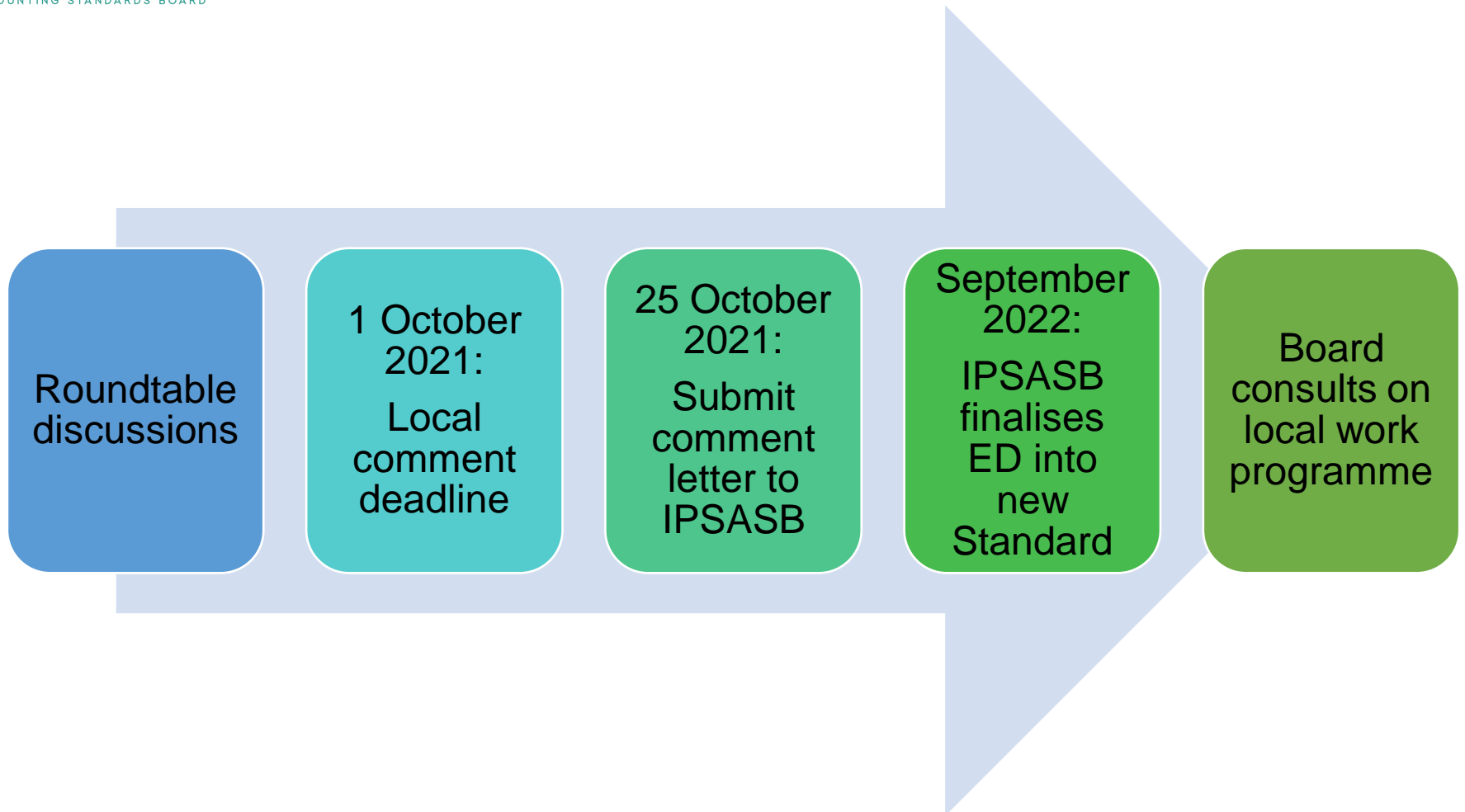


Transitional provisions

- Retrospectively i.a.w. IPSAS 3
- Except:
 - May elect to measure heritage assets at deemed cost when reliable cost information unavailable
 - Prospective to future transactions: Initial measurement of item of PPE acquired in exchange of assets transactions

Next steps

Next steps





Questions?



Keep informed



Keep informed

- FAQs.
- COVID-19 - www.asb.co.za/covid-19/
- Research papers.
- Newsletter.
- Social media.
- Translations of Standards.



Keep informed

Accounting Guidelines by OAG –
<https://oag.treasury.gov.za>



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