ACCOUNTING STANDARDS BOARD

STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

PROPERTY PLANT AND EQUIPMENT

(GRAP 17)

Issued by the
Accounting Standards Board
February 2010

Acknowledgement

This Standard of Generally Recognised Accounting Practice (GRAP) is drawn primarily from the International Public Sector Accounting Standard (IPSAS) on *Property, Plant and Equipment* issued by the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB). The International Federation of Accountants (IFAC) was founded in 1977 with its mission to develop and enhance the profession with harmonised standards. IPSASB has issued a comprehensive body of IPSASs, which will be used to produce future Standards of GRAP. Extracts of the IPSAS on *Presentation of Financial Statements* are reproduced in this Standard of GRAP with the permission of the IPSASB.

The approved text of the IPSASs is that published by the IFAC in the English language. The IPSASs are contained in the IFAC Handbook of International Public Sector Accounting Pronouncements and are available from:

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GRAP 17

PROPERTY, PLANT AND EQUIPMENT

This Standard was originally issued by the Accounting Standards Board (the Board) in November 2004. Since then, it has been amended as follows with:

- Improvements to the Standards of GRAP, issued by the Board in February 2010.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 21 *Impairment of Non-cash-generating Assets*
  - GRAP 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*
  - GRAP 26 *Impairment of Cash-generating Assets*
  - GRAP 103 *Heritage Assets*
- Improvements to the Standards of GRAP, issued by the Board in March 2012.
- Consequential amendments following the revisions to GRAP 5 *Borrowing Costs* and GRAP 100 *Discontinued Operations* in 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfers of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfers of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*

A marked up copy of the amendments made to GRAP 17 as part of the Improvements project (2013) and the consequential amendments to GRAP 105, 106 and 107 is available on the website.

Introduction

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

(a) departments (including national and provincial and government components);

(b) public entities;

(c) trading entities (as defined in the PFMA);

(d) constitutional institutions;

(e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and

(f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

(a) government business enterprises (as defined in the PFMA);

(b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and

(c) entities under the ownership control of any of these entities.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.

The Standard of GRAP on *Property, Plant and Equipment* is set out in paragraphs .01 to .93. All paragraphs in this Standard of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP,* the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

.01 The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that the users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant and equipment, except:

(a) when a different accounting treatment has been adopted in accordance with another Standard of GRAP;

(b) biological assets related to agricultural activity (see Standard of GRAP on Agriculture);

(c) heritage assets (see Standard of GRAP on Heritage Assets);

(d) the recognition and measurement of exploration and evaluation assets (see the International Financial Reporting Standard on Exploration for and Evaluation of Mineral Resources;

(e) mineral rights, and mineral reserves such as oil, natural gas and similar non-regenerative resources; and

(f) to the initial recognition and initial measurement of property, plant and equipment acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b) to (d).

.03 This Standard applies to property, plant and equipment including:

(a) specialist military equipment; and

(b) infrastructure assets.

.04 Other Standards of GRAP may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, the Standard of GRAP on *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

.05 An entity using the cost model for investment property in accordance with the Standard of GRAP on *Investment Property* shall use the cost model in this Standard.

Definitions

.06 The following terms are used in this Standard with the meanings specified:

<u>Carrying amount</u> (for the purpose of this Standard) is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

<u>Class of assets</u> means a grouping of assets of a similar nature or function in an entity's operations, that is shown as a single item for the purpose of disclosure in the financial statements.

<u>Cost</u> is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

<u>Depreciable amount</u> is the cost of an asset, or other amount substituted for cost, less its residual value.

<u>Depreciation</u> is the systematic allocation of the depreciable amount of an asset over its useful life.

<u>Entity-specific value</u> is the present value or service potential of the benefits an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

<u>Property, plant and equipment</u> are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

The <u>residual value</u> of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

<u>Useful life</u> is:

(a) the period over which an asset is expected to be available for use by an entity, or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Recognition

.07 ***The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:***

(a) ***it is probable that future economic benefits or service potential associated with the item will flow to the entity, and***

(b) ***the cost or fair value of the item can be measured reliably.***

.08 Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory in accordance with the Standard of GRAP on *Inventories*.

.09 This Standard does not prescribe the unit of measure for recognition, i.e. what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

.10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

.11 Specialist military equipment will normally meet the definition of property, plant and equipment and should be recognised as an asset in accordance with this Standard.

Infrastructure assets

.12 Some assets are commonly described as "infrastructure assets". While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

(a) they are part of a system or network;

(b) they are specialised in nature and do not have alternative uses;

(c) they are immovable; and

(d) they may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and shall be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Initial costs

.13 Items of property, plant and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognised as an asset because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with the Standards of GRAP on *Impairment of Cash-generating Assets* or *Impairment of Non-cash-generating Assets,* as appropriate.

Subsequent costs

.14 Under the recognition principle in paragraph .07, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

.15 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph .07, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs .73 to .79).

.16 A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at recognition

.17 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

.18 Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

.19 An item of property, plant and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to a municipality by a developer at nil or nominal consideration, to enable the municipality to develop parks, roads and paths. An asset may also be acquired through a non-exchange transaction by the exercise of powers of expropriation. Under these circumstances the cost of the item is its fair value as at the date it is acquired. In determining the fair value of an item of property, plant and equipment acquired through a non-exchange transaction, the entity applies the principles in paragraphs .35 to .38.

.20 For the purposes of this Standard, the measurement at recognition of an item of property, plant and equipment, acquired through a non-exchange transaction, at its fair value consistent with the requirements of paragraph .18 does not constitute a revaluation.

Elements of cost

.21 The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

.22 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in the Standard of GRAP on *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees.

.23 An entity applies the Standard of GRAP on *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with the Standard of GRAP on *Inventories* or this Standard are recognised and measured in accordance with the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*.

.24 Examples of costs that are not costs of an item of property, plant and equipment are:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customers (including costs of staff training); and

(d) administration and other general overhead costs.

.25 Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's outputs build up; and

(c) costs of relocating or reorganising part or all of the entity's operations.

.26 Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised in surplus or deficit and included in their respective classifications of revenue and expense.

.27 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see the Standard of GRAP on *Inventories*). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in self-constructing an asset is not included in the cost of the asset. The Standard of GRAP on *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of cost

.28 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the allowed alternative treatment in the Standard of GRAP on *Borrowing Costs*.

.29 One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value if the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

.30 The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

.31 The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with the Standard of GRAP on *Leases*.

Measurement after recognition

.32 An entity shall choose either the cost model in paragraph .33 or the revaluation model in paragraph .34 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost model

.33 After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

.34 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs .44 and .45.

.35 The fair value of items of land and buildings is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment.

.36 For some assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some entities may have significant holdings of such assets.

.37 If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialised buildings and other man-made structures, an entity may need to estimate fair value using a depreciated replacement cost approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation because of its significance to the community.

.38 If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

.39 The frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

.40 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

(a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost; or

(b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs .44 and .45.

.41 If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

.42 A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) land;

(b) operational buildings;

(c) roads;

(d) machinery;

(e) electricity transmission networks;

(f) ships;

(g) aircraft;

(h) specialist military equipment;

(i) motor vehicles;

(j) furniture and fixtures; and

(k) office equipment.

.43 The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

.44 If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

.45 If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

.46 Some or all of the revaluation surplus included in net assets in respect of an item of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the asset is derecognised. This may involve transferring some or the whole of the surplus when the assets to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

.47 Guidance on the effects of taxes on revenue, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with the International Accounting Standard on *Income Taxes*.

Depreciation

.48 ***Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.***

.49 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

.50 A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

.51 To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

.52 An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

.53 ***The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.***

.54 The depreciation charge for a period is usually recognised in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see the Standard of GRAP on *Inventories*). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with the Standard of GRAP on *Intangible Assets*.

Depreciable amount and depreciation period

.55 ***The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.***

.56 ***The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate***

in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

.57 Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

.58 Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life is reassessed and adjusted accordingly.

.59 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

.60 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

.61 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

.62 The future economic benefits or service potential embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

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

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle;

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and

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

.63 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

.64 Land and buildings are separable assets and are accounted separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

.65 If the cost of land includes the costs of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Depreciation method

.66 The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity.

.67 The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

.68 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

Impairment

.69 To determine whether an item of property, plant and equipment is impaired, an entity applies the Standards of GRAP on *Impairment of Cash-generating Assets* or *Impairment of Non-cash-generating Assets,* as appropriate. These Standards explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset and when it recognises, or reverses the recognition of, an impairment loss.

.70 A plan to dispose of an asset before the previously expected date is an indicator of impairment, which requires the calculation of an asset's recoverable amount or recoverable service amount for the purpose of determining whether the asset is impaired.

Compensation for impairment

.71 Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

.72 Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of items of property, plant and equipment are recognised in accordance with the Standards of GRAP on *Impairment of Cash-generating Assets* or *Impairment of Non-cash-generating Assets*, as appropriate*;*

(b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) compensation from third parties for items of property, plant and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

Derecognition

.73 The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal (including disposal through a non-exchange transaction); or

(b) when no future economic benefits or service potential are expected from its use or disposal.

.74 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is

derecognised (unless the Standard of GRAP on Leases requires otherwise on a sale and leaseback).

.75 However, an entity that in the course of its ordinary activities sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised in accordance with the Standard of GRAP on *Revenue from Exchange Transactions*.

.76 The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g. by sale, by entering into a finance lease or through a non-exchange transaction). In determining the date of disposal of an item, an entity applies the criteria in the Standard of GRAP on *Revenue from Exchange Transactions*, for recognising revenue from the sale of goods. The Standard of GRAP on *Leases* applies to disposal by a sale and leaseback.

.77 If, under the recognition principle in paragraph .07, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

.78 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

.79 The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with the Standard of GRAP on *Revenue from Exchange Transactions* reflecting the effective yield on the receivable.

Disclosure

.80 The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions;

(ii) disposal;

(iii) acquisitions through a transfer of functions between entities under common control, transfer of functions between entities not under common control or a merger;

(iv) increases or decreases resulting from revaluations under paragraphs .34, .44 and .45 (if any);

(v) impairment losses recognised in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets, as appropriate (if any);

(vi) impairment losses reversed in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets, as appropriate (if any);

(vii) depreciation;

(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and

(ix) other changes.

.81 The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:

(a) the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;

(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and

(d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

.82 Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) depreciation, whether recognised in surplus or deficit or as part of the cost of other assets, during a period; and

(b) accumulated depreciation at the end of the period.

.83 In accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period, or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;

(c) useful lives; and

(d) depreciation methods.

.84 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

(b) whether an independent valuer was involved;

(c) the methods and significant assumptions applied in estimating the items' fair values;

(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and

(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

.85 In accordance with the Standards of GRAP on *Impairment of Cash-generating Assets* or *Impairment of Non-cash-generating Assets*, as appropriate, an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph .80(e)(iv) to (vi).

.86 Users of financial statements may also find the following information relevant to their needs:

(a) the carrying amount of any item of property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity;

(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) the carrying amount of property, plant and equipment retired from active use and not classified as a discontinued operation in accordance with the Standard of GRAP on *Discontinued Operations*; and

(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional provisions

Initial adoption of the Standards of GRAP

.87 ***The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.***

Amendments to Standards of GRAP

.88 ***Paragraphs .05, .19 and .20 were amended and paragraph .75 was added by the Improvements to GRAP issued on 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

.89 ***Paragraphs 44, .45, .73, .76, .80 and .86 were amended by the Improvements to the Standards of GRAP issued on 1 April 2012. An entity shall apply these amendments prospectively in accordance with the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.***

.90 ***Paragraphs .06, .08, and .29 were amended by the Improvements to the Standards of GRAP issued on 1 April 2014. An entity shall apply these amendments retrospectively for annual periods beginning on or after 1 April 2015. If an entity elects to apply these amendments earlier, it shall disclose this fact.***

Effective date

Initial adoption of the Standards of GRAP

.91 ***An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.***

Entities already applying Standards of GRAP

.92 ***An entity shall apply amendments to this Standard of GRAP for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 April 2015, it shall disclose that fact.***

Withdrawal of the Standard of GRAP on *Property, Plant and Equipment* (2004)

.93 This Standard supersedes the Standard of GRAP on *Property, Plant and Equipment* issued in November 2004.

Comparison with International Public Sector Accounting Standard on *Property, Plant and Equipment* (December 2006)

The Standard of GRAP on *Property, Plant and Equipment* is drawn primarily from the International Public Sector Accounting Standard on *Property, Plant and Equipment* (IPSAS 17). The main differences between the Standard of GRAP on *Property, Plant and Equipment* and the International Public Sector Accounting Standard on *Property, Plant and Equipment* are as follows:

- The Standard of GRAP on *Property, Plant and Equipment* has incorporated changes to the International Accounting Standard on *Property, Plant and Equipment* (IAS 16) under the Improvements project of the International Accounting Standards Board (IASB) up to April 2009. Paragraphs included relate to the exclusion of investment property under construction.
- IPSAS 17 provides guidance on property, plant and equipment that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance. This guidance has been excluded from this Standard, as guidance is included in the Standard of GRAP on *Revenue from Non-exchange Transactions*.
- Under IPSAS 17, revaluation increases and decreases may be offset on a class of asset basis. Under this Standard, revaluation increases and decreases may only be offset against the individual asset.
- Transitional provisions applicable to this Standard are dealt differently than in IPSAS 17.
- The appendix with the illustrative disclosure has been deleted from this Standard.