IPSAS 17 — PROPERTY, PLANT AND EQUIPMENT
as adopted by the Maltese Government

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CONTENTS Paragraph

International Public Sector Accounting Standard 17, *Property, Plant, and Equipment as adopted by the Maltese Government*, is set out in paragraphs 1–108A. All the paragraphs have equal authority. IPSAS 17[1] should be read in the context of its objective. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors,* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

[1]References to IPSAS 17 or any other IPSAS shall be taken as meaning 'as adopted by the Maltese Government'.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that 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 (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognised in relation to them.

Scope

2. **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 IPSAS;**

    (b) **In respect of operational heritage assets which are not recognised (refer to paragraph 11A) and non-operational heritage assets (refer to paragraph 11B). However, the disclosure requirements of paragraph 90A shall apply.**

3. **This Standard applies only to Central Government entities.**

4. [Not used]

5. This Standard applies to property, plant, and equipment

    including:

    (a) Specialist military equipment;

    (b) Infrastructure assets; and

    (c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor.*

6. This Standard does not apply to:

    (a) Biological assets related to agricultural activity (see IPSAS 27, Agriculture); or

    (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

    However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 6(a) or 6(b).

7. Other IPSASs may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, IPSAS 13, *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. IPSAS 32 requires an entity to evaluate the recognition of an item of property, plant and equipment used in a service concession arrangement on the basis of control of the asset. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

8. An entity using the cost model for investment property in accordance with IPSAS 16, *Investment Property* shall use the cost model in this Standard.

Heritage Assets

9. [Not used]

10. Some assets are described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (althoughthese characteristics are not exclusive to such assets):

    (a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

    (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

    (c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and

    (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

    Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

11. [Not used]

11A. Operational heritage assets have future economic benefits or service potential other than their heritage value, such as a historic building being used for office accommodation. In these cases, they shall be recognised and measured on the same basis as other items of property, plant and equipment. If the entity can demonstrate that the assets cannot be reliably measured, the entity may, following agreement with the pertinent government body, not recognise these assets, however the disclosure requirements of paragraph 90A shall apply.

11B. Non-operational heritage assets' future economic benefit or service potential, is limited to their heritage characteristics, for example, monuments and ruins. These assets shall not be recognised, however the disclosure requirements of paragraph 90A shall apply.

12. The disclosure requirements in paragraphs 88–94 (except for paragraph 90A) require entities to make disclosures about recognised assets. These requirements shall also apply to operational heritage assets, unless these assets cannot be reliably measured, as explained in paragraph 11A above.

Definitions

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

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

Class of property, plant and equipment 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.

Central Government entities means Government Ministries and Departments.

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

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Entity-specific value is the present value of the cash flows 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.

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Property, plant and equipment 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.**

Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

The residual value 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 were already of the age and in the condition expected at the end of its useful life.

Useful life 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 IPSASs are used in this Standard with the same meaning as in those Standards, and are published separately.

Recognition

14. **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.**

15. [Deleted]

16. [Deleted]

17. Spare parts and servicing equipment are usually carried as inventory and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant, and equipment, they are accounted for as property, plant and equipment.

18. This standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant and equipment.

19. 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.

20. [Not used]

Infrastructure Assets

21. 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 specialized 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 should 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

22. 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 IPSAS 21, *Impairment of Non-Cash-Generating Assets.*

Subsequent Costs

23. Under the recognition principle in paragraph 14, 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.

24. 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 14, 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 82–87).

25. 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 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

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

27. **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.**

28. An item of property, plant and equipment may be acquired through a non-exchange transaction. For example, land may be contributed to government by a developer at no or nominal consideration, to enable government to develop parks, roads, and paths in the development. An asset may also be acquired through a non-exchange transaction by the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.

29. For the purposes of this Standard, the measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph 27, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 44, and the supporting commentary in paragraphs 45–50, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Elements of Cost

30. 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.

    (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.

31. Examples of directly attributable costs are:

    (a) Costs of employee benefits (as defined in IPSAS 25, 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.

32. An entity applies IPSAS 12, *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 IPSAS 12 and IPSAS 17 are recognised and measured in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets.*

33. 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.

34. 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 output builds up; and

(c) Costs of relocating or reorganizing part or all of the entity's operations.

35. 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.

36. 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 operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). 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.

Measurement of Cost

37. The cost of an item of property, plant and equipment is the cash price equivalent or, for an item referred to in paragraph 27 its fair value 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.

38. 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 unless (a) the exchange transaction lacks commercial substance, or (b) 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.

39. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

40. 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.

41. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with IPSAS 13.

Measurement after Recognition

42. **An entity shall apply the cost model in paragraph 43 as its accounting policy. The revaluation model in paragraph 44 shall only apply in specific circumstances as determined by the pertinent government body. The chosen policy shall apply to an entire class of property, plant and equipment.**

Cost Model

43. **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

44. **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 54–56.**

45. The fair value of items of property 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 an asset is normally undertaken by a member of the valuation profession, who holds a recognized 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-specialized buildings, motor vehicles, and many types of plant and equipment.

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

47. 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 government 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 specialized buildings and other man-made structures, fair value may be estimated using depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). 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.

48. If there is no market-based evidence of fair value because of the specialized nature of the item of plant, and equipment, an entity may need to estimate fair value using, for example, reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). 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. The indexed price method shall not be used when the production technology has changed significantly when compared with the previous period and when the capacity of the reference asset is not the same as that of the asset being valued.

49. 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.

50. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 54 and 55.

51. **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.

51A. Impairment losses and reversals of impairment losses of an asset under IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.

52. A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations.

53. The items within a class of property, plant, and equipment are revalued simultaneously in order 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.

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

55. **If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.**

56. **Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.**

57. The revaluation surplus included in net assets/equity in respect of an item of property, plant and equipment shall be transferred directly to accumulated surpluses or deficits when the assets are derecognised. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

58. [Not used]

Depreciation

59. **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.

60. 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.

61. 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.

62. 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.

63. [Not used]

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

65. 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 is 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 IPSAS 12). 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 IPSAS 31, *Intangible Assets*.

Depreciable Amount and Depreciation Period

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

67. **The residual value and the useful life of an asset shall be reviewed at least at each annual 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 IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

68. 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 does 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 should be reassessed and adjusted accordingly.

69. 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.

70. 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.

71. 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 when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal/sale unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.

72. The future economic benefits or service potential embodied in an item of property, plant and equipment are consumed by the entity principally through the use of the asset. 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 program, 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.

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

73. Therefore, the useful life of an asset is defined in terms of the asset's expected utility to the entity.

74. Land and buildings are separable assets and are accounted for 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.

75. If the cost of land includes the cost of site dismantlement, removal, and restoration, that 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

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

77. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the 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 IPSAS 3.**

78. Two depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods are the straight-line 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 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

79. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21, Impairment *of Non-Cash-Generating Assets* or IPSAS 26, Impairment *of Cash-Generating Assets*, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

Compensation for Impairment

80. **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.**

81. 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 IPSAS 21 or IPSAS 26, 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 replacement is determined in accordance with this Standard.

Derecognition

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

    (a) **On disposal; or**

    (b) **When no future economic benefits or service potential is expected from its use or disposal**

83. **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 IPSAS 13 requires otherwise on a sale and leaseback).**

83A. However, an entity that, in the course of its ordinary activities, routinely 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 as revenue in accordance with IPSAS 9, *Revenue from Exchange Transactions.*

84. 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 by donation). In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods. IPSAS 13 applies to disposal by a sale and leaseback.

85. If, under the recognition principle in paragraph 14, 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.

86. **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.**

87. 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 IPSAS 9, reflecting the effective yield on the receivable.

Disclosure

88. **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;**

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

(i) **Additions;**

(ii) **Disposals;**

(iii) **Acquisitions through entity combinations;**

(iv) **Increases or decreases resulting from revaluations under paragraphs 44, 54, and 55 and from impairment losses (if any) recognised or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(v) **Impairment losses recognised in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(vi) **Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;**

(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.**

(f) **The carrying amount of temporarily idle property, plant and equipment;**

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

(h) **The carrying amount of property, plant and equipment retired from active use and not held for disposal/sale;**

(i) **The amount of property, plant and equipment considered obsolete and written-off during the financial year; and**

(j) **The carrying amount of property, plant and equipment held for disposal/sale.**

89. **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.**

90. [Not used]

90A. The Financial Statements shall also disclose the description of non-operational heritage assets held by the entity, such as monuments, statues and archaeological sites (see paragraph 11B) and of operational heritage assets, when these assets cannot be reliably measured (see paragraph 11A).

91. In accordance with IPSAS 3, 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.

92. **If a class of property, plant and equipment is stated at revalued amounts, the following shall be disclosed:**

(a) **The effective date of the revaluation;**

(d) **Whether an independent valuer was involved;**

(c) **The methods and significant assumptions applied in estimating the assets' fair values;**

(d) **The extent to which the assets' 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;

(e) **The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;**

(f) **The sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and**

(g) **The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.**

93. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 88(e)(iv)–(vi).

94. [Not used]

Transitional Provisions

95-106. [Not used]

Effective Date

107-108. [Not used]

108A. Central Government entities shall apply this Standard for annual financial statements covering periods beginning or after DD/MM/YY. Earlier application is not permitted.

Appendix 1
Comparison with IPSAS 17

IPSAS 17 Property, Plant and Equipment as adopted by the Maltese Government is drawn from IPSAS 17 Property, Plant and Equipment.

The following are the significant differences between IPSAS 17 as adopted by the Maltese Government and IPSAS 17:

Section/s	IPSAS 17 (as adopted)	IPSAS 17
2(b)	Specifies that the exception refers to operational heritage assets which are not recognised and non-operational heritage assets.	Exception refers to heritage assets.
3	Applicability of Standard to Central Government entities.	Applicability of Standard to all public sector entities other than Government Business Enterprises
9, 11, 11A, 11B, 90, 90A	The Standard differentiates between operational and non-operational heritage assets. Operational heritage assets shall be recognised, measured on the same basis as other items of property, plant and equipment and be disclosed similarly to other recognised assets. If the entity can demonstrate that the assets cannot be reliably measured, the	The Standard does not differentiate between operational and non-operational heritage assets. The Standard does not require an entity to recognise its heritage assets. If it does, it must apply the disclosure requirements of the Standard, and may (but not required) apply the measurement requirements as well.

	entity may, following agreement with the pertinent government body, not recognise these assets; however, the disclosure requirements of paragraph 90A shall apply. Non-operational heritage assets shall not be recognised and limited disclosure is required.	
42	The Standard allows only the use of the cost model. The revaluation model may only be applied in specific circumstances as determined by the pertinent government body.	The Standard allows two options, the cost model and the revaluation model.
50	The Standard only allows one method - the elimination method- to account for accumulated depreciation on revaluation.	The Standard allows two options, the elimination method and the restated method.
51A	Impairment losses and reversals of impairment losses of an asset under IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset,	-

	or group of assets, belongs.	
78	The Standard only allows two depreciation methods: the straight line method and the units of production method.	The Standard proposes three depreciation methods which may be applied by an entity.
88, 94	The Standard requires the disclosure of information with regards to idle, fully depreciated that is still in use, retired from active use and not held for disposal/ sale, obsolete and written-off and held for disposal/ sale property, plant and equipment.	The Standard encourages the disclosure of information with regards to idle, fully depreciated that is still in use, retired from active use and held for disposal property, plant and equipment.

Appendix 2
Comparison with original draft

The following are the significant amendments from the original draft issued:

	Section/s	***Original* draft IPSAS 17 (as adopted)**	***Revised* draft IPSAS 17 (as adopted)**
A	2(b)	Exceptions referred to • a different accounting treatment adopted in another standard and • non-operational heritage assets.	Exceptions also refer to <u>operational heritage assets</u> - not recognised when they cannot be reliably measured.
B	5	Deleted.	Re-included.
C	11A, 12, 90A	Operational heritage assets shall be recognised and measured on the same basis as other items of PPE. *(Disclosure was only limited to include the description of non-operational heritage assets that are not recognised).*	Operational heritage assets shall be recognised and measured on the same basis as other items of PPE <u>unless the entity can demonstrate that operational heritage assets cannot be reliably measured. In this case, following agreement with the pertinent government body, the entity may not recognise these assets but disclose them as per requirements of paragraph 90A.</u> *[This decision was taken after taking into consideration cases* *where information would be difficult to obtain, and*

			the costs to obtain this information would outweigh any benefits to disclose the value of such assets].
D	11A, 42	No reference to 'pertinent government body.'	Reference to 'pertinent government body' *[This has been introduced to give the opportunity to ministries and departments to consult with a government body (such as the Treasury or any other body authorised at that time in specific circumstances) before taking any accounting decisions].*
E	21	Deleted.	Re-included. *[Specific reference to infrastructure assets in the standard may have added value for user, therefore original deletion was reconsidered].*
F	31(g), 37	Reference to capitalized borrowing costs (in accordance with *IPSAS 5, Borrowing Costs).*	Deleted. *[No reference to IPSAS 5 is being made as borrowing costs in Government are usually expensed; it is often difficult to establish a direct relationship*

			between the borrowing costs and the qualifying asset].
G	45 – 48, 53	Deleted.	Re-included. *[Reference to fair value, in the standard, albeit limited to revaluations in specific circumstances, may have added value for user, therefore original deletion was reconsidered]*.
H	51A	-	Impairment losses and reversals of impairment losses of an asset under IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs. *[Inserted in standard, following amendments made by IPSASB (July 2016) in IPSAS 21 and IPSAS 26]*.
I	71	Depreciation of an asset ceases <u>at the earlier of the date that the asset is classified as held for sale (or included in a disposal group</u>	Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset

		that is classified as held for sale) and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. .	becomes idle or is retired from active use and held for disposal/sale unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production. [*References to 'assets classified as held for sale', addressed on IFRS 5 - Non-Current assets held for sale and discontinued operations, have been removed as this inclusion was only in partial fulfilment of IFRS 5.* *Reference to other usage methods has been included, as the units of production method is now also being allowed (refer to paragraph 78)]*
J	78	The entity shall apply the straight-line method of depreciation.	Two depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods are the straight-line method and the units of production method. *[Units of production method was*

			reintroduced as an option to allow for *specific instances where this may be more appropriate]*.
K	88(h)	The carrying amount of property, plant and equipment retired from active use and not classified as held for sale.	The carrying amount of property, plant and equipment retired from active use and not held for disposal/sale. *[Refer to amendment to paragraph 71 above].*
L	88(j)	-	(j) The carrying amount of property, plant and equipment held for disposal/sale. *[Disclosure added to disclose the carrying amount of property, plant and equipment held for disposal/sale]*.