2. Property, Plant and Equipment

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| **OVERVIEW** | * Other property, plant and equipment are recognized initially at cost.
* Cost includes all expenditure directly attributable to bringing the asset to a working condition for its intended use.
* An asset’s depreciable amount is its cost less its residual value.
* Property, plant and equipment are depreciated over its useful life which should be reviewed at least at each reporting period.
* When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately. Prior to January 1, 2009, component accounting was deemed to be not applicable for the Group.
* 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 earlier of the date that the asset is classified as held for sale in accordance with IFRS 5 and the date it is derecognized. Therefore, depreciation does not cease when the asset becomes idle and is retired from active use unless the asset is fully depreciated.
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2.1 Purpose and scope

This policy provides guidance and rules on accounting for **property, plant and equipment (“PP&E”)** according to International Financial Reporting Standards.

This policy is applicable to PP&E held for own use, as well as property intended for future disposal (non‑current assets held for sale).

Some of the typical items included in PP&E are the following:

* Computer Hardware
* Land
* Buildings
* Automobiles and trucks
* Leasehold Improvements
* Machinery and Equipment

Furniture and Fixtures

This section does not provide guidelines on impairment testing for other PP&E. For guidance on impairment testing see Impairment Section 4.

2.2 Definition

PP&E comprises tangible assets held by a company for use in the production or supply of goods, or for administrative purposes, that are expected to be used for more than one period.

Spare parts and other miscellaneous items acquired by a company are classified as PP&E if they are expected to be used for more than one period; if not, they are classified as inventories.

* 1. Recognition and measurement

Threshold: The minimum threshold for capitalization of an item of PP&E is US$1,500. Items with a value smaller than the threshold can be capitalized if approved by Corporate Finance.

PP&E should be recognized as an asset when:

(1) it is probable that future economic benefits associated with the asset will flow to the Group,

 and

(2) the cost of the asset to the Group can be measured reliably.

The first criterion is normally fulfilled when the risks and rewards of the asset have passed to the Group. Certain “assets” do not in fact provide any future economic benefits, such as expenditures for safety or environmental reasons.

The second criterion is usually satisfied, as an asset is often acquired from a third party in an arm’s length transaction. The cost of a self‑constructed asset can be measured reliably from transactions with parties external to the Group for the acquisition of resources used during the implementation process, and within the Group’s own accounting system (e.g. salaries for labor used in the implementation process).

The general criteria for the existence of control should be applied to PP&E.

2.3.1 Initial Measurement

An item of PP&E which qualifies for recognition as an asset is initially measured at cost.

***The cost of an item of PP&E comprises:***

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| Purchase price after discounts and rebates |
| Import duties and non‑refundable purchase taxes |
| Costs of dismantling and restoring the site |
| \*Costs directly attributable to bringing the asset to the location and condition to be capable of operating |
| = Cost of an item of PP&E |

\* Costs directly attributable to bringing the asset to the location and condition to be capable of operating include the following:

* Initial delivery and handling costs
* Costs of testing whether the asset is functioning properly

Professional fees

Only incremental costs should be capitalized.

Examples of costs that are not costs of an item of PP&E:

* Costs of opening a new facility (no start‑up costs);
* Costs of introducing a new product or service;

Administration and other general overhead costs.

**Government Grants**

When the likelihood of the Group receiving a government grant is reasonably certain (such as the completion of an asset inspection by the government), a contra-asset should be established in the fixed asset ledger. This asset should be depreciated over the same period as the asset associated with the grant.

2.3.2 Costs of dismantling and removing the item

The cost of an item of PP&E comprises the costs of dismantling and removing the item and restoring the site on which it is located to the extent that such cost is recognized as a provision (see *Provisions*).

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| The Group does not currently have obligations to restore sites, and therefore does not have dismantling costs to recognize or dismantling provisions to record. However, if anything comes to attention of local controllers, they should consult Corporate Finance. |

2.3.3 Subsequent Measurement

Subsequent to initial recognition as an asset, an item of PP&E should be carried at its cost less any accumulated depreciation and any impairment losses.

The Group does not allow revaluation of an asset.

2.3.4 Subsequent expenditures

Any subsequent expenditure on the asset is recognized as PP&E only if it meets the general recognition criteria (i.e., it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably). Therefore, expenditure incurred simply to restore or maintain the level of future economic benefits is expensed as incurred.

2.4 Depreciation method and useful life

Subsequent to initial recognition, PP&E is depreciated on a systematic basis over its useful life and is reviewed at least at each reporting period.

***Useful life***

The useful life is either the period of time over which an asset is expected to be used or the number of productive or similar units expected to be obtained from using the asset.

The asset may continue to be capable of use after that period, but the judgment of the Group is that the asset will be disposed of first (i.e., the useful life of an asset may be shorter than its economic life (utilizable life)).

A change in the useful life is accounted for prospectively as a change in accounting estimate.

For example, a subsidiary within the Group acquires equipment at the beginning of N and its useful life is estimated at this stage to be 8 years. As of August 31, N+3, the carrying amount of the machine is 240. In the beginning of N+4, the subsidiary revises the estimated useful life downwards to a further two years from that date. Therefore, the carrying amount of 240 should be depreciated over the next two years.

The purpose of depreciation is not the recognition of decreases in the value of PP&E; rather, the purpose is to allocate the cost of an asset over its useful life on a systematic basis. Therefore, depreciation must be recognized even if the value of the asset is being maintained by regular repair and maintenance.

The depreciation charge for each period is recognized as an expense in the income statement.

An asset’s depreciable amount is its cost less its residual value.

***Residual value***

Residual value is the estimated amount that the Group 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. The estimated residual value is based on similar assets that have reached the end of their useful lives at the date that the estimate is made. In many cases the residual value will be zero because the asset will be scrapped at the end of its useful life.

For example, the Group buys a machine costing $400 and plans to use the machine for three years before selling it on the second‑hand market. At the date of acquisition similar machines that are three years old are traded for $150 on the second‑hand market. The residual value is therefore $150 and accordingly the depreciable amount is $250.

The Group does not historically assume any residual value with the exception of India, who has the ability to sell assets and recover part of their costs. Assets are depreciated up to 95% of the assets cost. The remaining 5% is an offset against funds received for recycling the asset.

The residual value of an asset should be reviewed at least at each reporting period and the changes in the residual value are accounted for prospectively.

If the residual value of an asset increases to an amount equal to or more than the asset’s carrying amount, the asset’s depreciation charge will be zero. The Group would resume charging depreciation when the residual value falls below the asset’s carrying amount.

**In most cases, the economic life of other PP&E corresponds to its useful life**

The carrying amount of PP&E should be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset is estimated. If the PP&E’s estimated recoverable amount is less than its carrying value, an impairment loss is recognized (see *Impairment* for specific guidance).

***Methods of depreciation***

The depreciation method for an asset should reflect the pattern in which the Group consumes the asset’s economic benefits. Annual depreciation is to be charged on depreciable tangible fixed assets using the straight‑line method assuming it reflects the consumption pattern. This method should be applied consistently.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

As mentioned above, the depreciable amount of an asset is determined after deducting the residual value of the asset.

Useful lives to be used for individual tangible fixed assets will be within the following ranges, depending on the specific useful life of such assets at the subsidiary concerned.

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** | **Description/Example** | **SAP Account**  | **Life** |
| Construction In Progress | Fixed asset expenditure not yet put in service | 150000 | Does not depreciate |
| Land | Purchase price paid for land | 150100 | Does not depreciate |
| Buildings | Purchase price for physical building and any building improvements and equipment such as HVAC, sprinklers etc) | 150110 | 20 - 30 years |
| Land Improvements | Costs incurred to grade land should be included in buildings | 150300 | 0-20 years |
| Leasehold Improvements | Costs to enhance leased property such as store and office build outs, may include furniture and fixtures that are unique to a store or office location | 150400 | Lesser of useful life or lease term |
| Machinery and Equipment | Warehouse and factory machinery and equipment such as racks, forklifts, production equipment | 150500 | 3-10 years |
| Furniture and Fixtures | Office furniture and fixtures | 150600 | 3-7 years |
| Automobiles | Cars, trucks and vans | 150700 | 3 cars; 5 trucks  |
| Data Handling Equipment | Office and warehouse automatically operated equipment used to interpret data such as label printers | 150800 | 3 years |
| Molds and Dyes | Hollow forms and dye equipment used in manufacturing  | 151100 | 1-4 years |
| Small Tools | Tools used to perform equipment maintenance or complete production | 151200 | 1-4 years |

The application of a useful life for any asset higher than the amounts stated in the range above or the use of other depreciation methods requires approval of Corporate Finance in advance.

***Illustration of the straight‑line depreciation method***

The cost of a machine is $150. It has a residual value of $30 and a useful life of eight years.

Depreciable amount = $150 – $30 = $120

Annual depreciation = $120/$8 = $15

Therefore, the annual depreciation charge is:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Yr1  | Yr2  | Yr3  | Yr4  | Yr5  | Yr6  | Yr7  | Yr8  |
| 15  | 15  | 15  | 15  | 15  | 15  | 15  | 15  |

If the machine is sold at the end of the year N+8 for $20, the loss on disposal is $10 ($20 price – $30 residual value).

***Commencement of depreciation***

Depreciation of an asset begins when an item of PP&E 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).

In addition, when an item of PP&E is substantially complete, but is not yet in use, a company should ensure that the asset is reviewed for potential indicators of impairment (see *Impairment*).

2.5 Component accounting

When an item of PP&E comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately. An item of PP&E should be separated into parts (“components”), when those parts are significant in relation to the total cost of the item.

When a company depreciates some parts of an item of PP&E separately it depreciates the remainder of the item separately. The remainder consists of the parts of the item that are not significant individually. If a company has varying expectations for these parts, it should use approximation techniques to estimate an appropriate depreciation pattern for the remainder to reflect the consumption pattern and/or useful of its parts.

Although individual components are accounted for separately, the financial statements continue to disclose a single asset (unless it includes components of different classes – for example: building and land).

A separate component may be either a physical component or a non‑physical component that represents a major inspection or overhaul.

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| Prior to January 1, 2009, component accounting was deemed to be not applicable for the Group. Please consult with Corporate finance in cases where new facts and circumstances would lead to apply component accounting to some specific assets. |

2.6 De-recognition

2.6.1 Compensation received

Compensation for the loss or impairment of PP&E is recognized in the income statement when receipt is virtually certain (see *Provisions*). The loss or impairment of the PP&E is recognized in the income statement as an expense when it occurs.

2.6.2 Retirements and disposals

When an item of PP&E is disposed of or permanently withdrawn from use, a gain or loss is recognized for the difference between any net proceeds received and the carrying amount of the asset.

Gains and losses upon the disposal of PP&E should be reported on a net basis where they arise from similar transactions. However, such gains and losses are reported separately if they are considered to be material.

The gain or loss on de-recognition is included in the income statement as “other operating income” or “other operating expenses” but it is not classified as revenue.

In determining the “net” proceeds received, generally all directly attributable incremental costs of disposal, such as advertising, legal fees, stamp duty, agency fees and removal costs, are deducted. It also would be appropriate to deduct any amounts recognized as liabilities under IAS 37 (see *Provisions*) in relation to the disposal of the asset, such as provisions made for probable claims under warranties in the sales agreement or for an agreed schedule of repairs to be done at the current owner’s expense.

Depreciation should be recognized even when an asset is idle and retired from active use unless the asset is held for sale.

2.7 Disclosures

**The financial statements shall disclose, for each class of PP&E:**

(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) assets classified as held for sale or included in a disposal Company classified as held for sale in accordance with IFRS 5 and other disposals;

(iii) acquisitions through business combinations;

(iv) increases or decreases resulting from revaluations and from impairment losses recognized or reversed in other comprehensive income.

(v) impairment losses recognized in profit or loss

(vi) impairment losses reversed in profit or loss

(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 company; and

(ix) other changes.

**The financial statements shall also disclose:**

(a) the existence and amounts of restrictions on title, and PP&E pledged as security for liabilities;

(b) the amount of expenditures recognized in the carrying amount of an item of PP&E in the course of its construction;

(c) the amount of contractual commitments for the acquisition of PP&E; and

(d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of PP&E that were impaired, lost or given up that is included in profit or loss.

**The following information should be disclosed at each financial year‑end:**

|  |  |  |
| --- | --- | --- |
| **Cost** |  |  |
| Balance at January 1, 20XX |  |  |
| Acquisitions through business combinations |  |  |
| Other additions |  |  |
| Disposals |  |  |
| Effect of movements in foreign exchange rates |  |  |
| Balance at December 31, 20XX |  |   |
|  |  |  |
| Balance at January 1, 20XX |  |  |
| Other additions |  |  |
| Disposals |  |  |
| Effect of movements in foreign exchange rates |  |  |
| Other movements |  |  |
| Balance at December 31, 20XX |  |   |
|  |  |  |
| **Depreciation and impairment losses** |  |  |
| Balance at January 1, 20XX |  |  |
| Depreciation charge for the year |  |  |
| Impairment losses |  |  |
| Disposals |  |  |
| Effect of movements in foreign exchange rates |  |  |
| Balance at December 31, 20XX |  |   |
|  |  |  |
| Balance at January 1, 20XX |  |  |
| Depreciation charge for the year |  |  |
| Impairment losses |  |  |
| Disposals |  |  |
| Effect of movements in foreign exchange rates |  |  |
| Other movements |  |  |
| Balance at December 31, 20XX |  |   |
|  |  |  |
| **Carrying amounts** |  |  |
| At January 1, 20XX |  |  |
| At December 31, 20XX |  |  |
| At January 1, 20XX |  |  |
| At December 31, 20XX |  |  |

Included in other PP&E are certain assets under finance leases. As of December 31, 20XX assets under finance leases were US$X,XXX. Accumulated depreciation related to finance leases was US$X,XXX.

The impairment loss was recognized in selling, general and administrative expenses in the Income Statement during 20XX.