



AFRICAN ASSOCIATION OF ACCOUNTANTS - GENERAL
ASSOCIATION AFRICAINE DESOMPTABLES - GÉNÉRAUX
ASSOCIAÇÃO AFRICANA DE CONTADORES GERAIS

Collaborating for Prosperity

AAAG PPE ACCOUNTING GUIDELINES

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1.0 Introduction

- 1.1. Effective accounting for PPE is crucial to support efficient and sustainable public service delivery. These assets, like buildings, equipment, and infrastructure, are essential for providing services and are a vital part of the public sector's financial health. Properly managing and accounting for them enables member countries to optimise resource allocation, improve maintenance planning, and make informed decisions based on accurate data.
- 1.2. The **AAAG PPE (APPE)** Accounting Guide is designed to provide technical accounting guidance on the application of the principles set out in IPSAS 45 on the treatment of PPE (also known as fixed assets) in the preparation of the financial statements.
- 1.3. The Guide provides concise, practical guidance on applying IPSAS 45 to the recognition, measurement, depreciation, impairment, and disclosure of property, plant, and equipment (fixed assets) in the preparation of financial statements by member countries.
- 1.4. It interprets the requirements of IPSAS 45, illustrates their application through practical examples, and highlights areas where professional judgment is required. It is intended as a non-authoritative reference to support consistent understanding and implementation of IPSAS 45 across member countries. In the event of any conflict or inconsistency between this Guide and the standard, the provisions of IPSAS 45 shall take precedence.

2.0 Scope

This Guide applies to accounting for all property, plant, and equipment (PPE) within the scope of IPSAS 45, excluding biological assets and mineral rights. It is provided as a reference tool to assist member countries in applying the standard and does not replace or override the authoritative requirements of IPSAS 45.

3.0 Definition and recognition criteria

- 3.1. For the purposes of this Guide, an **asset** is defined as:

"A resource that is presently controlled by an MDA as a result of past transactions or events, and from which future economic benefits or service potential are expected to flow to that member country"
- 3.2. Simply, an asset represents something of value that the government of the MDA controls today whether cash, receivables, equipment, infrastructure, or

even intangible rights because of something that happened in the past, and from which it will derive economic value (e.g., through sale or use) or service potential (e.g., ability to deliver public services) in the future.

- 3.3. PPE are tangible assets 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 for more than one reporting period.
- 3.4. The cost of an item of PPE shall be recognized as an asset if, and only if:
 - a. it is probable that the future economic benefits or service potential associated with the item will flow to the MDA;
 - b. the cost or fair value of the item can be measured reliably;
- 3.5. Likewise, PPE acquired through an exchange transaction must be recognised as an asset at cost 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.
- 3.6. Under this recognition principle, a MDA must evaluate all PPE costs at the time they are incurred. These costs may include cost incurred initially to acquire or construct an item of PPE and costs incurred subsequently to add to, replace part of, or service the PPE.

4.0 PPE Capitalisation Threshold

- 4.1. MDAs are encouraged to determine the capitalization threshold that represents the minimum cost of an individual asset to be recognised as a PPE on the Statement of Financial Position provided it meets the definition above. This threshold helps streamline accounting processes by preventing the recording of numerous small-value assets, which can be time-consuming and costly to track.
- 4.2. Low value items of PPE below the threshold limit must be expensed at the time of purchase. However, for purposes of safeguarding such items, they may be recorded at nil value either in the fixed asset register or inventory system.
- 4.3. This threshold shall be applied on an individual asset or item basis.
- 4.4. However, Items with individual values below the threshold but which work together in the form of a group of network asset whose total value exceeds the threshold shall be recognized as part of the primary PPE. (Example: computer network, PABX system, sewerage components).

5.0 Assets classification

5.1 A class of PPE is a grouping of assets of a similar nature or function that is shown as a single line-item for reporting value and providing disclosure in the financial statements.

5.2 PPE should be classified into the following categories for reporting purposes:

Table A: PPE Category with some indicative examples:

Category	Indicative Examples
Land and Buildings	<ul style="list-style-type: none"> • Government lands • Office complexes • Warehouses
Infrastructure	<ul style="list-style-type: none"> • Roads and highways • Bridges and tunnels • Water supply networks
Heritage Assets	<ul style="list-style-type: none"> • National monuments • Historic buildings • Public sculptures and artworks
IT Hardware	<ul style="list-style-type: none"> • Desktop computers and laptops • Network servers and storage arrays
Fixtures, Furniture and Fittings	<ul style="list-style-type: none"> • Office desks and workstations • Filing cabinets and shelving • Built-in lighting and panelling
Equipment	<ul style="list-style-type: none"> • Printers and photocopiers • Generators and pumps • Welding machines
Specialised Equipment	<ul style="list-style-type: none"> • Medical imaging machines • Scientific research apparatus • Military radar and missile systems
Motor Vehicles	<ul style="list-style-type: none"> • Official cars and SUVs • Delivery trucks • Buses and ambulances
Capital Assets under Construction	<ul style="list-style-type: none"> • Buildings under construction • Equipment in installation phase • Infrastructure projects in progress

5.3 Where appropriate, the description of the above classifications may be amended for clarification, for example, "Specialised Equipment – Military Assets".

6.0 Initial Measurements

- 6.1. An item of PPE that meets the recognition criteria and exceed the capitalisation threshold, must be initially measured at cost. Additionally, PPE acquired through a non-exchange transaction shall be measured at its deemed cost at the date of acquisition.
- 6.2. The cost of an item of PPE comprises:
- a. 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. Examples of directly attributable costs are:
 - i. Costs of employee benefits (as defined in IPSAS 39, Employee Benefits) arising directly from the construction or acquisition of the item of PPE.
This should be limited to salaries and benefits of employees directly involved in the project delivery (example: project management or construction).
 - ii. Costs of site preparation (Example: land clearing, site house, fencing the site, excavation, cost demolishing an existing structure on site)
 - iii. Initial delivery and handling costs (Example: freight, insurance, port charges, clearance, asset delivery from port of entry)
 - iv. Installation and assembly costs (Example: installation of lifts, air conditioning unit)
 - v. Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes); and,
 - vi. Professional fees (example: Survey fees, legal fees, Architecture fees).
 - 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.

The provision for future site restoration costs should be recognised as a liability and only removed when the restoration work is completed.

For instance, if an MDA builds an asset on rented land and is obligated to return the site to its original condition once the lease ends, it must estimate the expense of dismantling the asset and cleaning up the land. This estimated amount is added to the asset's capital cost and then depreciated over the asset's useful life. The reasoning is that these restoration expenses are inherently tied to using the asset, so they need to be recognized gradually over the same period that the asset is in service rather than waiting until the actual restoration occurs.

If future site restoration costs are likely to be material but cannot be estimated reliably, the entity should recognize a contingent liability in accordance with IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets).

Example 1: Restoration Costs

On 1 January 2015, the Government Safety Department installed emergency response plant equipment (anticipated to serve for five years) under a legal requirement to restore the site to its original condition once the facility is decommissioned. The emergency response plant equipment has an expected residue value of 1%.

The transaction details are as follows:

DESCRIPTION	AMOUNT - CU
PURCHASE PRICE	10,000,000
DELIVERY COST	300,000
DISMANTLING COST AT THE END OF FIVE-YEAR USEFUL LIFE	400,000

Computation of Cost:

PURCHASE PRICE	10,000,000
DELIVERY COST	300,000
PV OF DISMANTLING COST (400,000 X 0.62092 ¹)	248,368
TOTAL COST	<u>10,548,368</u>

¹ – assumed: average borrowing rate at the time of acquisition is 10% (0.62092 is the PV factor of 1)

Computation of Interest Expense:

<u>YEAR</u>	<u>COMPUTATION OF INTEREST</u>	<u>INITIAL COST</u>	<u>INTEREST</u>	<u>CARRYING AMOUNT</u>
YEAR 1	248,368 x 10%	248,368	24,837	273,205
YEAR 2	273,205 x 10%		27,205	300,525
YEAR 3	300,525 x 10%		30,053	330,578
YEAR 4	330,578 x 10%		33,058	363,636
YEAR 5	363,636 X 10%		36,364	400,000

Computation of Depreciation Expense:

$$\text{Residual Value} = 10,300,000 \times 1\% = 103,000$$

Note: PV of dismantling cost shall not be included in the computation of residual value

$$\text{Depreciation Expense} = \frac{10,548,368 - 103,000}{5 \text{ years}} = \underline{2,089,074}$$

The accounting entries to recognize the equipment shall be as follows:

<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
January 1, 2015		
Equipment	10,548,368	
Bank		10,300,000
Other Provisions		248,368
To recognize purchase of emergency response plant equipment		

<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
YEAR 1 – DEC 2015		
DEPRECIATION-EQUIPMENT	2,089,074	
ACCUMULATED DEPRECIATION- EQUIPMENT		2,089,074
TO RECOGNIZE THE DEPRECIATION FOR THE YEAR		
YEAR 2 – DEC 2015		
INTEREST EXPENSES	24,837	
OTHER PROVISIONS		24,837
TO RECOGNIZE THE FINANCE CHARGES CORRESPONDING TO THE PROVISIONS FOR THE YEAR		

Example 2: Purchase of PPE

On 5 May 20x4 the Ministry of Finance bought a vehicle for CU30,500 with additional delivery costs at CU1,500. The vehicle was paid for on 25 June 20X4. The vehicle has a useful life of 5 years with no residual value. The Office of the Accountant General has set a capitalization threshold of CU3,000.

- 1) To record the purchase of the vehicle on 5 May 20x4
 - a. Delivery of the vehicle

The Ministry should capitalize the vehicle as PPE, since it meets the recognition criteria and capitalization threshold of CU3,000. Delivery costs should be capitalized as part of the cost of the asset. Since the Ministry has not paid for the vehicle, a liability must be recorded for the amount owing.

	DR	CR
PPE (vehicle)	30,500	
Delivery costs (vehicle)	1,500	
Accounts payable		32,000

- 2) To record the depreciation expense for May 20X4

It is necessary to allocate the cost of the asset as an expense in a rational and systematic manner over those periods expected to benefit from the use of the asset. Using the straight-line depreciation, the monthly charge to depreciation expense and accumulated depreciation would be CU533.33 ($32,000/5\text{yrs} = \text{CU}6,400/\text{year}$; $\text{CU}6,400/12\text{mths} = \text{CU}533.33/\text{month}$).

	DR	CR
Depreciation expense	533.33	
Accumulated depreciation		533.33

Full month of depreciation is charged regardless of the purchase timing of an asset in a given month (i.e. a mid-month purchase).

- 3) To record the payment of vehicle on 25 June 20X4

When the Ministry makes a payment, the liability account is reversed and cash account is reduced accordingly.

	DR	CR
Accounts payable	32,000	
Bank		32,000

- 6.3. Items of PPE may be required under existing laws, rules and regulations for safety or environmental reasons. The acquisition of such PPE, although not directly increasing the future economic benefits of or service potential of any particular existing item of PPE, may be necessary for the entity to obtain the future economic benefits or service potential from its other 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 recognized 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 as Non-Cash Generating Asset.

Costs not eligible for recognition as PPE.

- 6.4. The following are examples of costs that are expensed rather than recognized as elements of cost of a PPE:
- a. Costs of official 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.

7.0 Spare parts and servicing equipment

- 7.1. Spare parts and servicing equipment are usually carried as inventory and are expensed as consumed. The following are key exceptions to this:
- a. If the spare parts and servicing equipment can be used only in connection with an item of fixed assets (PPE), they may be accounted for as fixed assets (PPE).
 - b. Major spare parts and stand-by equipment qualify as fixed assets (PPE) when they are expected to be used for more than one period.
 - c. Major spare parts also form part of asset components.
- 7.2. Major spare parts and stand-by equipment qualify as PPE when an entity expects to use them for more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PPE, they are accounted for as PPE.
- 7.3. These items are classified as equipment and are accounted for as PPE on acquisition, providing they meet the recognition and threshold criteria:
- a. have a useful life of more than one year, and
 - b. contribute to increase in capability, and
 - c. meet the capitalisation threshold.
- 7.4. Some of these assets qualify as items of PPE in their own right, for example:
- a. buckets as part of tractors, loaders or diggers, or
 - b. guidance systems as part of armoured vehicles or tanks.

8.0 Major spare parts and stand-by equipment

- 8.1. A spare part is a major spare part if it is expected to be used for a period greater than one year and satisfies the following criteria:
 - a. The value of Spare Part is than the capitalisation threshold
 - b. Its useful life is more than 12 months
 - c. The Spare part is a significant component of the item of PPE
 - d. Spare part is a critical spare part – the item of PPE will not work without it and/or
 - e. Spare part extends capability or productive capacity of the item of PPE.
- 8.2. Major spare parts are parts that are necessary for the continued operation and use of an asset when replaced, and which account for a significant component of the principal fixed asset, for example an engine in an armoured personnel carrier.
- 8.3. Stand by equipment will generally function as an asset on a stand-alone basis or may be an item of equipment that increases the capability of the principal fixed asset.
- 8.4. Major spare parts and stand by equipment that meet the recognition criteria above will be capitalised on acquisition and will not be carried in inventory.
- 8.5. Spare parts other than major spare parts are carried in inventory and expensed as consumed in the process of repair and maintenance.
- 8.6. The carrying amount of those parts of the item that are replaced are derecognised.

9.0 Components of asset

- 9.1. Componentization is the separation of an asset into its significant components.
- 9.2. Each significant component of an asset that has a different useful life should be treated as its own asset and depreciated independently of the main asset, whenever it's practical to do so.
- 9.3. A major component of an item of PPE should be recorded and depreciated separately when:

- a. The component accounts for a significant amount of the original cost of the asset and
 - b. The component is capable of being replaced independently and
 - c. The component is critical – the item of PPE will not work as intended without it and/or
 - d. The component extends capability or productive capacity of the item of PPE
- 9.4. Usually, it is only necessary to record and depreciate the component separately where it has an expected useful life different to the expected useful life of the asset as a whole.
- 9.5. However, some MDA may have very complex assets with many different components each having different useful lives. Therefore, the application of the component approach would be time-consuming, cumbersome and an administrative burden. In order to mitigate this, only major (or significant) components should be treated separately.
- 9.6. For example:
- a. An aircraft and its engines may need to be treated as separate depreciable assets.
 - b. The building and air conditioning system/lifts may need to be treated as separate depreciable assets.

Example 3: Asset Componentisation

On 31 March 20X1, the Ministry of Transport bought an aircraft at the cost of CU500,000. Upon assessment, the engine of the aircraft was valued at CU200,000 and should be componentized from the aircraft's fuselage. The aircraft fuselage is said to have an estimated useful life of 20 years while the engine has a useful life of 40 years.

Journal entries

To record the purchase of the aircraft on 31 March 20X1, the Ministry should treat, both the aircraft fuselage and engine will as two separate assets as the costs are significant and both have different useful lives

	DR	CR
PPE (fuselage)	300,000	
PPE (engine)	200,000	
Accounts payable		500,000

10.0 Asset under construction

- 10.1. An asset under construction ('AUC') is an asset that is currently under development within the MDA over an extended period of time, which is not yet being used for its final intended purpose.
- 10.2. The cost of an AUC is determined using the same cost measurement principles above. AUC are not depreciated during the period of construction. When the asset is ready for use, the AUC will need to be reclassified to its appropriate category of PPE and commence depreciation.
- 10.3. Recognition of cost in the carrying amount of an item of PPE ceases when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Asset under construction shall be classified as PPE when completed and certificate of project completion (CPC) issued. Amount to be recognized at the point of CPC issued shall be the total project cost (including variation order). Total project cost includes penultimate payment which accrued at the point of CPC

- 10.4. Where the AUC is earmarked for transfer at inception, the treatment will depend on the substance of the contractual agreement as well as any legislation that could supplement or override those contractual terms.
- 10.5. For those development projects carried out by the MDA who legally own the assets, but the assets are transferred to third party when completed, during construction period, AUC shall be capitalized. When such AUC are completed and transferred to third party, AUC shall be expensed off to current year surplus or deficit.
- 10.6. For those development projects carried out by the MDA as legally required but MDA has no control over the asset and has no legal ownership, then the AUC shall be expensed off as a grant to a third party.
- 10.7. **Example: 4 Asset under Construction with progressive payments**

XYZ Contractors Ltd signed a contract with the Ministry of Education (MoE) to build a school at cost of work of CU10 million. The work commenced on 1 January 20X4. On 1 March 20X4, the Ministry made an advance payment amounting to CU1 million to XYZ Contractors Ltd. The project was expected to be completed on 1 June 20X5.

For each government project, the contractor has to provide deposit (akin to Performance Guarantee Sum) amounting to five percent (5%) of the contract sum to secure the performance of the contractor's obligation under the contract. The contractor may opt to use Performance Bond issued by an approved licensed bank or in the form of a performance guarantee sum whereby deduction shall be made from every interim payment. XYZ Contractors Ltd has opted for a performance guarantee sum.

The progress billing and payment schedule for project is as per below:

Date	Payment Schedule	Progress Billing	Advance payment	Performance Guarantee Sum (5%)	Cash outflow
01 March 20X4	Advance	-	(1,000,000)	-	(1,000,000)
01 May 20X4	Progress payment 1	(3,000,000)	250,000	300,000	(2,450,000)
01 July 20X4	Progress payment 2	(2,000,000)	250,000	200,000	(1,550,000)
01 September 20X4	Progress payment 3	(1,000,000)	250,000	-	(750,000)
01 November 20X4	Progress payment 4	(1,000,000)	250,000	-	(750,000)
01 January	Progress	(1,000,000)	-	-	(1,000,000)

20X5	payment 5				
01 March 20X5	Progress payment 6	(1,000,000)	-	-	(1,000,000)
01 June 20X5	Progress payment 7	(1,000,000)	-	-	(1,000,000)
Total		(10,000,000)	-	500,000	(9,500,000)

Performance Guarantee circular: 10% for each progress billing up until 5% of overall performance guarantee sum is reached

Journal entries

1) To record the advance payment to XYZ Contractors Ltd

	Dr	CR
Advance payment*	1,000,000	
Bank		1,000,000

*If the advance payment is held for less than 12 months, it will be classified as current asset. Otherwise, it is classified as non-current asset.

2) To record the first progressive payment on 01 May 20X4

On 01 May 20X4, the Ministry of Education accrued for the first progress payment based on completion progress certificate and progress bill of CU3million to XYZ Contractors Ltd.

	Dr	CR
Asset under construction	3,000,000	
Account payable		3,000,000

At settlement point, a 10% performance guarantee sum was retained by Ministry as required by Treasury's circular. The advance payment account was also utilized towards this payment.

	Dr	CR
Account payable	3,000,000	
Advance payment		250,000
Performance guarantee sum		300,000
Bank		2,450,000

3) To record the second progress payment on 1 July 20X4

1 July 20X4, the MoE accrued for the second progress payment of CU2 million to XYZ Contractors Ltd.

	Dr	CR
Asset under construction	2,000,000	
Account payable		2,000,000

At settlement point, 10% performance guarantee sum was retained by MoE. At this stage, all advance payment is now utilized for the first and second progress payments.

	Dr	CR
Account payable	2,000,000	
Advance payment		250,000
Performance guarantee sum		200,000
Bank		1,550,000

Treasury's circular requires 10% of performance guarantee sum to be retained from each progress billing settlement until 5% of overall contract performance guarantee sum is reached. 5% contract performance guarantee is reached by the 2nd progress billing hence no further performance guarantee sum is retained from subsequent progress billing.

4) To record the completion of construction and to recognize the asset under construction as asset

On 1 June 20X5, the MoE issued the Certificate of Project Completion. At that point of time, the total of work cost paid to XYZ Contractors Ltd is CU9.5 million and Performance Guarantee Sum reached its equivalent amount totaling 5% of the contract sum of CU 500,000.

This triggers a transfer journal to move asset from AUC to building.

	Dr	CR
PPE - building (school)	10,000,000	
Asset under construction		10,000,000

Subsequent payment towards building will need to be expensed unless it meets the capitalization criteria.

5) To record release of performance guarantee on 1 July 20X5

Assume no defect identified during retention period, thus full release of performance guarantee sum. Upon successful completion and sign off from MoE, the performance

guarantee is approved for release to XYZ Contractors Ltd.

	Dr	Cr
Performance guarantee sum	500,000	
Bank		500,000

Assume defect identified during retention period, thus partial release of performance guarantee sum.

During the warranty period, the MoE found that the contractor needed to repair a classroom and toilet due to defect of materials and workmanship. The contractor was reluctant to carry out the repair. The entity incurred CU200,000 to carry out the repair works.

- i) The repair work was carried out by Contractor B and the accompanying subsequent cost of repair is reduced from performance guarantee sum as it lowers the financial obligation to XYZ Contractors.

	Dr	Cr
Performance guarantee sum	200,000	
Bank (Contractor B)		200,000

The remaining balance of CU300,000 was paid to Contractor A as a partial payment on release of performance guarantee sum.

	Dr	Cr
Performance guarantee sum	300,000	
Bank (XYZ Contractors)		300,000

- 6) To record penalty imposed

Where the project was unreasonably delayed and behind schedule, action was taken to XYZ Contractors Ltd by imposing penalty of CU100,000 and by deducting penalty from the final payment. The final 7th progress billing of the project is CU1,000,000.

- i) Penalty imposed treated as a compensation to a loss of revenue by MoE

	Dr	Cr
Asset under construction	1,000,000	
Non tax revenue – penalty *		100,000
Account payable		900,000

The accounting treatment for penalty charged is based on substance of compensation expected from the developer. Where the penalty charge is expected to compensate loss of revenue, then this charge is taken to surplus or deficit, else the charge is reflected via an overall reduction to asset under construction.

- ii) Penalty imposed treated as a reduction/discount given by XYZ Contractors Ltd

	Dr	Cr
Asset under construction	900,000	
Account payable		900,000

- 7) To record the payment for an extension of building

On 15 June 20X2, the MoE instructed the XYZ Contractors Ltd to carry out the variation order to extend the building for a storeroom. The payment for variation order was made to the contractor amounting to CU200,000

As the additional cost incurred will generate future economic benefit, this cost is capitalized and added to current building cost.

	Dr	Cr
PPE - building (school)	200,000	
Bank		200,000

11.0 Non-Exchange Transactions - Donated Assets

- 11.1. When an asset is acquired for no consideration or at a nominal consideration, this is an asset acquired through a non-exchange transaction – for example a donated asset.
- 11.2. When an asset is acquired through a non-exchange transaction, it shall be measured at its fair value as at the date of acquisition. Such items may include the developers' contribution to the development of roads, paths or public parks etc. Where a reliable estimate of fair value is not available, an alternative approach may be depreciated replacement cost.
- 11.3. Assets acquired through non-exchange transaction are depreciated and are subject to impairment review on the same basis as for all other assets.
- 11.4. Donated PPE results in the recognition of income by the receiving MDA in the amount of the fair value of the PPE, provided that a reliable measure of fair value can be made. For example, in the case of a donated building, the asset is recognised at fair value of building and the corresponding credit (net of any consideration paid/payable) is brought to income.

12.0 Non-Exchange Transactions - Grants

- 12.1. An item of PPE may be acquired where part of the funding has been provided by way of capital grant from another body – this could be another government or an international organisation.
- 12.2. A capital grant is recognised when there is reasonable assurance that the MDA will comply with any conditions attached to the grant and that the grant will be received.
- 12.3. The grant is recorded as a credit balance in deferred income as it is received/receivable. The deferred income will be analysed in the statement of surplus and deficit between:
 - a. current, representing grant to be amortised over the next 12 month, and
 - b. non-current, representing the balance of deferred income to be amortised over a period longer than 12 months.
- 12.4. The grant is amortised over the same period as the useful life of the item of PPE to which it relates. In this way, the income (measured by amortising of deferred income) is matched with the related costs (measured by depreciation) on a systematic basis.

13.0 Assets Obtained Through Transfer of Functions

- 13.1. Where assets are transferred through a transfer of function, i.e. transfer of a building from one department to another, the accounting basis is to recognise the assets in the receiving/new department at the same carrying amount at which it was carried at by the transferring/old department.
- 13.2. For PPE assets and intangible assets, the cost and accumulated depreciation / amortisation amounts from the transferring entity's accounts are preserved when the assets are recognised in the receiving department's accounts.
- 13.3. Land and buildings are not adjusted to fair value prior to recognition (i.e. the recipient and transferor of the assets recognise the same values). There will generally be no need to revalue land and buildings transferred until after the date of transfer has been complete. Revaluation of the land and/or buildings transferred can be scheduled in the standard revaluation cycle.
- 13.4. The transferring department should assess at the date of transfer:
 - a. The cost of the asset
 - b. The accumulated depreciation, and
 - c. The remaining useful life of the assets

- 13.5. The department receiving the assets should at the date of transfer recognise the asset in their financial statements using the assessment under (a) to (c) above.
- 13.6. Any consideration paid should be the difference between the cost of the asset and the accumulated depreciation i.e. the carrying amount of the asset at the date of transfer.
- 13.7. If no consideration is paid, the corresponding net credit / debit reflecting the gain / loss is recognised within income / expenses, but outside of operating activities.

14.0 Subsequent costs

- 14.1. Once an item of PPE has been capitalised, there may be further costs incurred on that asset at a later date. Subsequent costs should be capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost of the item can be measured reliably.
- 14.2. Examples includes situations where the subsequent costs result in either an increase in productive capacity, an additional ability to generate future economic benefits/service potential or an extension in useful life.
- 14.3. Certain items of PPE, for example equipment, vehicles, aircraft, may require major maintenance over their useful lives, which may be classed as an upgrade.
- 14.4. An upgrade means a change, modification or improvement made to an item of PPE that improves the performance, capacity and/or capability of such equipment. An upgrade is sometimes referred to as an "overhaul" or a "rebuild". Where the
 - a. value and scope of the upgrade is significant,
 - b. performance, capacity and/or capability has been improved and
 - c. the cost can be reliably measured.
- 14.5. All other subsequent costs should be recognised as an expense in the period in which they are incurred. The cost of the day-to-day servicing of an item of PPE is not recognised as an asset because they do not add to the future economic benefits/service potential of the item.

14.6. Example 5: Treatment of subsequent cost incurred

The Ministry of Local Government purchased a building on 31 October 20X8 for CU800,000 with a useful life of 50 years. Subsequently after 10 years, the centralised air condition system was removed and reinstalled

with a new system. The cost of the original air condition system was CU80,000 and was accounted for as a separate component of asset.

The new air condition system was valued at CU140,000. At this point, the carrying amount of the original air condition was CU60,000. The cost of the air condition system was accounted for as a separate asset from the building.

Journal entries

- 1) To record the removal of the old, centralized air condition system

The carrying amount of the old air conditioner system amounts to CU60,000 at the point when it is removed.

	DR	CR
Accumulated depreciation	20,000	
Write off expense	60,000	
PPE (air conditioner)		80,000

- 2) To record the installation of the new centralized air condition system

The new air condition system installed amounts to CU140,000. At the point of installation, PPE account is debited and the cash account is reduced accordingly.

	DR	CR
PPE (air conditioner)	140,000	
Bank		140,000

- 3) To record the depreciation expense of new centralized air conditioner system

The new centralized air conditioner system will be depreciated over the remaining useful life of the building (i.e.40 years). The yearly depreciation expense amounts of CU3,500 (CU140,000 / 40).

	DR	CR
Depreciation expense	3,500	
Accumulated depreciation		3,500

Example 6: Major Replacement part of PPE

The engine of the Minister's vehicle is broken and need to be replaced. The cost of replacement amounting CU200,000. The carrying amount of the broken engine is estimated CU60,000 (determined based on depreciated replacement cost approach).

Journal entries

1. To derecognize the carrying amount of the broken engine

It is necessary to derecognise the carrying amount of broken engine. Since the cost of engine is not componentised from the vehicle, the Ministry needs to estimate the carrying amount. One of the methods that can be used is depreciated replacement cost approach as calculated below:

Depreciated Replacement Cost

Replacement cost	200,000
Accumulated Depreciation (CU200,000 / 10 years) x 5 years	(100,000)
Depreciated replacement cost/Carrying amount	100,000

	DR	CR
Write-off expense	100,000	
Acc. Dep.	100,000	
Vehicle (engine)		200,000

2. To record the cost of replacement

The replacement of engine is main component of the vehicle and it will increase the capability and useful life of the vehicle. Hence, these cost will be capitalized.

	DR	CR
Vehicle (engine)	200,000	
Bank		200,000

15.0 Subsequent measurement

15.1. After initial recognition of an item of PPE, MDA shall either use the Historical Cost model or the Current Value model as its accounting policy and shall apply that policy to an entire class of PPE.

15.2. Historical Cost Model

After initial recognition and classification of an asset as a PPE item, it may be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

16.0 Depreciation

- 16.1. Over time, an asset's value wears out, becomes obsolete or diminishes as it is being utilised. This loss in value is called depreciation, which is the systematic spreading of an asset's depreciable amount across its expected useful life. When a component of a PPE item represents a material portion of its cost and has a different useful life than the main asset, that component must be depreciated on its own.
- 16.2. Components of PPE that have identical useful lives and use the same depreciation method can be aggregated when calculating the depreciation expense.
- 16.3. For every asset, depreciation should be calculated monthly starting from the month it is placed into service. In the year an asset is disposed of (or derecognized), depreciation is charged only up until the month of disposal.
- 16.4. The depreciation charge for each accounting period shall be recognised in surplus or deficit, unless it is included in the carrying amount of another asset.
- 16.5. For example, where a fixed asset A is used in the production of another fixed asset B, which is in the course of construction (i.e. included in Capital Assets under construction) the depreciation charge on asset A is charged/debited to the cost of asset B rather than being recognised in surplus or deficit. (Dr Cost of fixed asset B, Cr Accumulated Depreciation fixed asset A, in each case with the depreciation charge for the period on fixed asset A).
- 16.6. Depreciation is recognized even if the current 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/or the asset tested for impairment and adjusted accordingly.
- 16.7. Heritage assets, where recognised, should be depreciated if appropriate.
- 16.8. Most buildings are deemed to have a useful life of 50 years, giving rise to annual depreciation of 2%. In the case of specialised industrial buildings for example warehouses, there may be a shorter useful life of 20 years, giving rise to annual depreciation of 5%.

16.9. Useful life

16.10. An item of PPE should be depreciated on a systematic basis over its useful life. Management must apply the best estimate in determining the useful life of the asset in accordance with its expected utility to the MDA.

16.11. Therefore, the expected useful life of an asset may be shorter than its economic life, which represents the number of years that the asset can be used by one or more subsequent users.

16.12. For instance, if you replace the engine of an armored personnel carrier—which originally had a six-year lifespan—when the vehicle itself only has three years of remaining service life, you must depreciate the new engine over those three years (the limiting useful life), not the full six. If the engine is expected to retain significant residual value at the end of that period, you would factor that into your depreciation calculation.

16.13. Annual Review

16.14. The depreciable amount of an asset should be allocated on a systematic basis over its useful life. 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.

16.15. The expected consumption pattern generally corresponds to an asset's useful life as measured by its achievable output. In practice, this means consulting the relevant department to see if any developments during the period have affected the assumptions used when the depreciation rate was originally established.

16.16. For instance, if operators note that a machine is not performing as anticipated and needs to be retired or replaced sooner than planned, this reflects a revision of the original estimate rather than impairment.

16.17. With regard to residual values, review of market trends in the respective areas and communication with personnel responsible for purchasing for example, could indicate if there has been any significant change such that residual values may need to be updated. Here, the purpose is to identify if there has been a change of such significance that it may lead to an asset or group of assets being materially mis-stated due to changes in the economy.

16.18. In cases where current expectations (over its useful life and residual value) differ from previous estimates, the entity shall then proceed to effect appropriate changes. Such changes shall be accounted for as an accounting estimation changes, according to the provisions of the relevant accounting policy.

16.19. The tables below list the depreciation and amortisation rates that correspond to the generally accepted useful lives for each category of PPE, as well as for intangible assets.

16.20. Depreciation Table - PPE

Class of Asset	Depreciation
Plant and machinery	10% over 10 years
Equipment	10% over 10 years
Furniture and fittings	10% over 10 years
IT Equipment hardware	20% over 5 years
Equipment – general	20% over 5 years
Motor vehicles	20% over 5 years
Land	0%
Buildings	0% to 5%
Specialised equipment - military assets	3% to 20%
Other specialist equipment	5% - 20%
Components/Major spare parts	Useful Life of the component/spare part asset

16.21. Amortisation Table – Intangible Assets

16.22. In the case of intangible assets, depreciation is referred to as “amortisation”.

For convenience, the amortisation table is included here.

Class of Intangible Asset	Amortisation Rate
Major IT operational software systems	10% over 10 years
Licences and software	20% over 5 years
Intangible assets - other	Amortised over the useful life of the asset

Example: 7 Computation of depreciation

The Foreign Affairs Department made the following purchases of PPE during 20X1:

- a. On 1st January 20X1, a printing machine with an estimated useful life of 10 years was purchased for CU50,000.
- b. On 1st April 20X1, 25 laptops with an estimated useful life of 5 years were purchased at a total cost of CU12,500
- c. On 1st July, a new office building was purchased for CU3,000,000 (land value CU500,000). The building has an estimated useful life of 50 years. The building was occupied and in use from 1 July.
- d. The treasury circular guided that all PPE below the individual cost of CU2,000 are to be expensed.

Computation of depreciation

- a. **Depreciation on Laptop:** No depreciation is charged on the laptops, as they are below the capitalisation threshold. They are expensed in full at time of purchase.
- b. Depreciation on printing machine: Full year depreciation on $\text{CU}50,000 \div 10 = \text{CU}5,000$ per annum. Residual value was estimated at ZERO – no significant value at end of useful life.
- c. **Depreciation on office building:** First, calculate Depreciable amount :
 - i) Total Cost less value of land = $\text{CU}3$ million less $\text{CU}500,000 = \text{CU}2.5$ million.
 - ii) Residual value estimated at $\text{CU}200,000$.
 - iii) Depreciable amount = $\text{CU}2.5$ million less $\text{CU}200,000 = \text{CU}2,300,000$.
 - iv) Annual depreciation = $\text{CU}2.3$ million $\div 50 = \text{CU}46,000$.
 - v) Depreciation for 20X1 – 6months, July to December = $\text{CU}46,000 \times 6/12 = \text{CU}23,000$

Journals

1. To record depreciation on printing machine

	DR	CR
Depreciation expense	5,000	
Accumulated Depreciation		5,000

Being depreciation charge in the surplus or deficit for 20X21 for printing machine and accumulated depreciations

2. To record depreciation on Office building

	DR	CR
Depreciation expense	23,000	
Accumulated Depreciation		23,000

Being depreciation charge in the surplus or deficit for 20X21 for Office building and accumulated depreciations

17. Impairment

- 17.1. Where an asset's recoverable service amount or recoverable amount is less than its carrying amount, it is reported at its recoverable service amount or recoverable amount and an impairment loss is recognized.
- 17.2. An entity would impair the cost of a PPE when it can demonstrate that the reduction in future economic benefits is expected to be permanent. Conditions that may indicate that the future economic benefits associated with a PPE have been reduced and impairment is appropriate include:
 - a. A change in the extent to which the asset is used.
 - b. A change in the manner in which the asset is used.
 - c. Significant technological developments
 - d. Physical damage.
 - e. Removal of the asset from service.
 - f. A decline in or cessation of, the need for the services provided by the asset;
 - g. A decision to halt construction of the asset before it is complete or in usable or saleable condition; and

- h. A change in the law or environment affecting the extent to which the asset can be used.

18. Revaluation

18.1. Measurement at Recognition

18.2. PPE such as land or buildings are initially recognised at cost in accordance with the recognition principles earlier outlined.

18.3. Where the asset is acquired on the open market, the cost is deemed to reflect the current value. Where the asset is acquired through a non-exchange transaction, i.e. for no consideration or for nominal consideration, such as a donated asset, the asset will be recognised at fair value at the date of acquisition. This means recognising under the Current Value model as outlined below.

18.4. In some situations, land and buildings acquired in the past will be recognised in the financial statements for the first time. The principles regarding initial recognition as described above will apply in this situation. However, unlike a recently acquired property, it will be necessary to revalue the property under the current value model immediately after initial recognition.

18.5. Current Value Model

18.6. After recognition, an item or part of an item of PPE whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and/or subsequent impairment losses. The primary objective for which an entity holds an item or part of an item of PPE determines the current value measurement basis. An item or part of an item of PPE held primarily for its operational capacity is measured at current operational value, and when it is held primarily for its financial capacity is measured at fair value.

18.7. If an item of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued.

18.8. Land and Buildings

18.9. The Current Value Model approach should generally be used to value operational land and buildings. Operational land and buildings are land and buildings acquired for use in the ongoing operations of the MDA.

18.10. There may be cases where the Valuer recommends that buildings are valued on the current value model and land based on the Market Approach. Under this method, land is measured at fair value, being the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

18.11. Where it is not possible to use the Market Approach to valuing of buildings as there is no active market, fair value or current operational value may be estimated using depreciated replacement cost, or the restoration cost or service units' approaches.

18.12. Holding of Investment Property, being land and/or buildings property held to earn rentals or for capital appreciation (or both) is very rare in the public sector. In the event of assets falling into this class, they would be valued at fair value under the Market Approach.

18.13. The normal cycle for revaluation of PPE should be every three or five years. However, the frequency of revaluations depends upon the changes in current values of the items of property, plant, and equipment being revalued. When the current 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 current value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of PPE with only insignificant changes in the current value.

18.14. PPE held for sale is valued at fair value.

18.15. Current Operational Value

18.16. Current operational value measures the value to the MDA of an asset held for its operational capacity in its current use.

18.17. Current use reflects

- a. The way an asset or group of assets is being used by the entity, and
- b. The policy objectives of the MDA operating the asset.

18.18. For example, the Department of Health is responsible for the wellbeing of citizens. Assets such as buildings are used to achieve the policy objective rather than for commercial purposes.

18.19. Whatever the specific valuation method adopted, the value is measured by reference to how and why the MDA is using the asset rather than how/why it might be used by a third party.

19. Assessing Land and Buildings Value

19.1. There are two approaches to assessing Land and Buildings current operational value being:

- a. Market Approach
- b. Cost Approach – Current Replacement Approach

19.2. Land may be subject to restrictions or impediments i.e. historic designation, easements, land use zoning, environmental factors, services, and access, and

as such, this must be taken into account when assessing the value of Land.

19.3. Market Approach/Fair value

- 19.4. Applying the market approach (fair value) to measure the current operational value of an asset requires the existence of market transactions involving identical or comparable assets that include the same characteristics as the asset being measured.
- 19.5. In many cases, the current operational value of an asset can be established by reference to the buying price of a similar asset with similar remaining useful life or remaining service potential in an active and liquid market.
- 19.6. A similar asset may exist when an asset, comparable to that being valued, was recently acquired, constructed or developed.
- 19.7. Market evidence of land values in a similar or alternative use, which is located adjacent (or in close proximity) to the land asset being valued may be considered reliable. In addition to third party transactions, arm's-length purchases or sales by the MDA will provide relevant market evidence.
- 19.8. For land and buildings, this is an evidence-based market approach, which requires detailed analysis of the asset itself as well as the relativity to comparable transactions considered. It is prudent to ensure that appropriate valuation expertise and market knowledge is applied.

19.9. Cost Approach- Current Replacement Cost

- 19.10. Applying the cost approach to measure the current operational value of an asset involves considering the current replacement cost of the asset.
- 19.11. There are various examples in the public sector of assets whose specifications are such that there are few (if any) similar assets, and a market approach to assessing a current operational value is unlikely to be appropriate.
- 19.12. For specialised buildings and other man-made structures, fair value may be estimated using:
 - a. Depreciated replacement cost, or
 - b. The restoration cost, or
 - c. Service unit's approaches.
- 19.13. 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.
- 19.14. Depreciated Replacement Cost is the cost to reproduce or replace the gross service potential of the asset (whichever is lower), depreciated to reflect the asset in its used condition.
- 19.15. For example, the current operational value of a school may be established by

reference to the market – what is the buying price of components used to build the school, depreciated to reflect the school in its used condition.

19.16. The replacement or reproduction cost includes only required capacity to meet the demand for goods or services the asset provides.

19.17. It may be necessary to procure advice from a Quantity Surveyor on replacement costs of buildings. The fair value of land is determined by the market approach even when applying the Depreciated Replacement Cost (DRC) approach to the property.

19.18. Gains and Losses on Revaluation

19.19. A gain on revaluation is recognised in net assets, under a revaluation reserve.

19.20. A revaluation loss should be charged against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of the same asset. Any additional loss must be expensed in the surplus or deficit.

19.21. Example 8: Revaluation – Increase in Value

On 15 February 20X3, the Ministry of Local Government bought a property for CU5 million. The land value was estimated at CU2 million and the buildings element at CU3 million. The economic useful life of the building is taken as 50 years.

Annual depreciation of CU60,000 was charged from 20X3 and on 31st December 20X8, the carrying value of the property was CU4.7 million. (CU2m plus (CU3m less accumulated depreciation CU60,000x5)).

On 31st December 20X9, the property was revalued to CU6.5 million with an estimated split between land and buildings of CU3 million and CU3.5 million respectively. There was no change to the useful economic life so the remaining useful life is 45 years as the building is 5 years old.

Journal entries

1) To calculate revaluation surplus and revised annual depreciation

	Land – CU'000	Buildings - CU'000	Total - CU'000
Original Cost - 15 Feb 20X3	2,000	3,000	5,000
Estimated useful life – years		50	
Annual depreciation – 2%		60	
5 year Accumulated depreciation – 31 Dec 20X8 (5 x CU60)		300	
Carrying amount – 31 Dec 20X8	2,000	2,700	4,700
Revaluation surplus	1,000	800	1,800
Revalued amount - 31 Dec 20X8	3,000	3,500	6,500

Revised depreciable value		3,500	
Remaining useful life (50-5)		45	
Revised annual depreciation (CU3.5m/45)		78	

	DR CU'000	CR CU'000
Gross property value - Land	1,000	
Gross property value - Buildings	500	
Accumulated depreciation - Buildings	300	
Revaluation Reserve		1,800
Being revaluation surplus on property as at 31 Dec 20X8		

19.22. Example: Revaluation – Decrease in Value

The property in example above was revalued after a further 5 years (as at 31st December 20X8), and the fair value had fallen to CU4.55million, with CU2.1 million relating to land and CU2.45 million to buildings. Remaining useful life at 31st December 20X8 is 40 years as 10 years have passed.

Journal entries

1) To calculate revaluation surplus and revised annual depreciation

	Land – CU'000	Buildings CU'000	Total CU'000
Revalued amount - 31 Dec 20X8	3,000	3,500	6,500
Estimated useful life – years		45	
Revised annual depreciation (CU3.5m/45)		78	
5-year accumulated depreciation – 31 Dec 20X8 (5 x CU78)		390	
Carrying amount – 31 Dec 20X8	3,000	3,110	6,110
Revaluation deficit	(900)	(660)	(1,560)
Revalued amount - 31 Dec 20X8	2,100	2,450	4,550
Revised depreciable value		2,450	
Remaining useful life (50-10)		40	
Revised annual depreciation (CU2.45m/40)		61.250	

	DR CU'000	CR CU'000
Revaluation Reserve – reversal of revaluation surplus created Dec 20X8	1,560	
Gross property value - Land		900
Gross property value – Buildings (3,500 - 2,450)		1,050
Accumulated depreciation - Buildings	390	
Total	1,950	1,950
Being set off on revaluation surplus previously recognised		

20. Derecognition

20.1. An item of any class/category of PPE shall be derecognised from financial statements:

- a. On disposal of the asset, (by sale, donating, entering either into a finance lease or any other reasons).
- b. When the recognition criterion for future economic benefits or service potential is no longer met or
- c. If an asset is included in the financial statements and part of that asset needs to be replaced, the cost of the replacement part is derecognised from the asset. (partial de-recognition)

20.2. Partial Derecognition

20.3. If it is not possible to determine the carrying amount of the significant component of the asset being replaced, then the cost of the replacement may be used as the estimated cost of the replaced part/component at the date of acquisition or construction.

20.4. The replacement part/component will be disclosed as a separate line item to the original asset and will be depreciated on a straight-line basis over the useful life of the replacement part.

20.5. Example 9: Calculation of Gain / Loss on Disposal

The printing machine bought for CU50,000 on 1st January 20X1 with an estimated useful life of 10 years was sold for CU40,000 on 16th April 20X5. Residual value was estimated at Nil.

Calculation of gain or loss on disposal

Gain/loss on disposal = Proceeds on disposal less carrying amount (Cost less Accumulated Depreciation).

- i) Cost = CU50,000.
- ii) Accumulated depreciation = (Cost/useful life) x 3.25 years (no depreciation in month of disposal) – asset held for 3 years and 3 full months = 3.25) So calculation = (CU50,000 ÷ 10) x 3.25 = CU11,625
- iii) Carrying amount = CU50,000 - CU11,625 = CU38,375
- iv) Gain on disposal = CU40,000 - CU38,375 = CU1,625

Journals recording disposal of printing machine and extract of Gain /Loss on Disposal Account:

	DR	CR
Bank	40,000	
Accumulated Depreciation	11,625	
Fixed Assets - printing machine		50,000
Gain on Disposal of Asset		1,625

21. Ownership of Government Asset on Third Party Land

- 21.1. Sometimes, Government assets may be sitting on third party land. Such assets can be accounted for as PPE if control over the assets can be demonstrated under the following circumstances:
 - a. Formal agreement/lease arrangement with the landowner that gives to Government the right to control/use the land for a specific period of time, and
 - b. Control empowered by a legal stature that gives the government the right to control/use the land.
- 21.2. Assets sitting on third party land that are accounted for as PPE should be disclosed in the notes to the financial statements.

22. Heritage Assets

- 22.1. Heritage assets are those assets intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting authority in pursuit of its overall objectives in relation to the maintenance of heritage.
- 22.2. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, historic motor vehicles, civic regalia, decorations (medals), museum and gallery collections and works of art.
- 22.3. If heritage assets meet the definition of an asset, but does not meet the recognition criteria for PPE and hence not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the MDA shall disclose:
 - a. The difficulties in obtaining a reliable measurement that prevented recognition; and
 - b. The significance of the unrecognized heritage PPE in relation to delivery of the entity's objectives.
- 22.4. When information about the cost or current value of the heritage PPE is available, the MDA shall, from that date, recognize it in accordance with recognition criteria for PPE and apply the following measurement principles:
- 22.5. **Heritage Asset - Operational**
- 22.6. Where operational heritage assets are recognised in the financial statements, they shall be valued in the same way as other assets of that general type (buildings, for example) and shall be included in the statement of capital assets.
- 22.7. In situations where heritage assets have service potential and are being used by the MDA as Operational Assets (i.e. Buildings), they are recognised and measured on the same basis as other items of PPE.

22.8. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset where that expenditure meets IPSAS 45 recognition principle.

22.9. Heritage Asset - Non-Operational

22.10. Where non-operational heritage assets are recognised in the financial statements, they shall be valued at cost or fair value, provided the information is available:

- a. They should be presented in the notes to statement of financial position separately from other tangible assets.
- b. The notes to the statement of financial position should identify separately those classes of heritage assets being reported at cost and those at fair value.

23. Disclosure requirements

23.1. The financial statements shall disclose for each category of PPE the following information:

- a. The measurement based used in determining the carrying amount of the items of PPE (i.e. historic cost or fair value, OR deemed cost when first-time adoption of accrual accounting),
- b. The Depreciation method used (i.e. straight-line depreciation).
- c. The useful life of the assets or the depreciation rate used to calculate the depreciation of the year;
- 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 including movement of the year showing:
 - i) Additions;
 - ii) Disposals;
 - iii) Acquisitions through entity combinations;
 - iv) Increases or decreases resulting from revaluations under and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 – Impairment of non–cash-generating asset.
 - v) Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 – Impairment of non–cash-generating asset;
 - vi) Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 – Impairment of non–cash-generating asset;
 - 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

- 23.2. The financial statements shall also disclose for each class of PPE recognised in the financial statements:
- a. The existence and amounts of restrictions on title, and PPE pledged as securities for liabilities;
 - b. The amount of expenditures recognised in the carrying amount of an item of PPE in the course of its construction;
 - c. The amount of contractual commitments for the acquisition of PPE
 - d. If it is not disclosed separately on the face of the Statement of Revenue and Expenditure, the amount of compensation from third parties for items of PPE that were impaired, lost or given up that is included in net income.
- 23.3. Other changes. Where MDA use a number of valuation methods, the note to the financial statements should provide:
- a. The effective date of the revaluation;
 - b. 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 owners;
 - f. The sum of all revaluation surpluses or deficits for individual items of PPE within that class.
- 23.4. MDA are required to disclose 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 period in accordance with IPSAS 3 – Accounting policies, changes in accounting estimates and errors. For PPE (excluding heritage assets), such disclosure may arise from changes in estimates with respect to:
- i) Residual values;
 - ii) The estimated costs of dismantling, removing, or restoring items of PPE;
 - iii) Useful lives; and
 - iv) Depreciation methods

24. References

- 1) IPSAS 45 – PPE
- 2) Ireland CGAM 17 PPE - Version 1.0
- 3) Malaysia Accrual Accounting Manual v3.0 (Sept. 2021)
- 4) Philippines Government Accounting Manual Vol I (2014)

Appendix 4: Template Accounting Policy

Set out below is a template accounting policy for PPE together with a sample note of possible critical accounting estimates and assumptions.

Template Accounting Policy
Accounting policy – PPE
Land and buildings
Land and buildings are initially recognised at cost. Land is subsequently carried at revalued amount less accumulated impairment losses. Buildings are subsequently carried at the revalued amounts less accumulated depreciation and impairment losses.
Other PPE
All other assets classes are measured at cost, less accumulated depreciation and impairment losses.
Individual assets are capitalised if their cost is greater than CU2,000.
Additions and subsequent expenditure
New additions and subsequent expenditure relating to PPE that has already been recognised is capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the MDA and the cost of the item can be measured reliably.
The costs of day-to-day servicing of property, plant, and equipment are recognised in surplus or deficit as they are incurred.
In most instances, an item of PPE is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.
Disposals
Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in surplus or deficit. When a revalued asset is sold, the amount included in the property revaluation reserve in respect of the disposed asset is transferred to net assets.
Revaluations
Land and buildings are revalued where fair value can be measured reliably and shall be carried at a revalued amount, being 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 and whenever their carrying amounts are likely to differ materially from their fair value. Land and building revaluation movements are accounted for on a class-of- asset basis.

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 to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in surplus.

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 loss. 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.

Depreciation

Land is not depreciated. Depreciation on other items of property, plant, and equipment is calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives. The useful lives and associated depreciation rates of major classes of property, plant, and equipment have been estimated as follows:

Class of asset	Estimated useful life- years	Rate
Buildings	50	2%
Plant and machinery	10	10%
Furniture, fittings	10	10%
Office Equipment	5	20%
IT Equipment	5	20%
Specialist equipment	5-20	20 - 5%
Vehicles	5	20%

The depreciation charge for the period is recognised in surplus or loss.

Leasehold improvements are depreciated over the shorter of the unexpired period of the lease or the estimated remaining useful lives of the improvements.

The depreciation method, residual value and useful lives of PPE are reviewed and adjusted if applicable, at each Statement of Financial Position date. The effects of any revision are recognised in surplus or loss when the changes arise.

Impairment

Property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use

Value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to its recoverable amount. For revalued assets, the impairment loss is debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets. However, the decrease shall be recognised in surplus or loss to the extent that it exceeds a revaluation increase of the same class of assets previously recognised in revaluation surplus.

For assets not carried at a revalued amount, the reversal of an impairment loss is recognised in surplus or loss.

Critical accounting estimates and assumptions

The following table illustrates an example of critical accounting estimates and assumptions that may be applied.

Appendices

Appendix 1: PPE – Illustrative Note

The table set out illustrative disclosure notes for PPE assets for a MDA with a wider range of PPE.

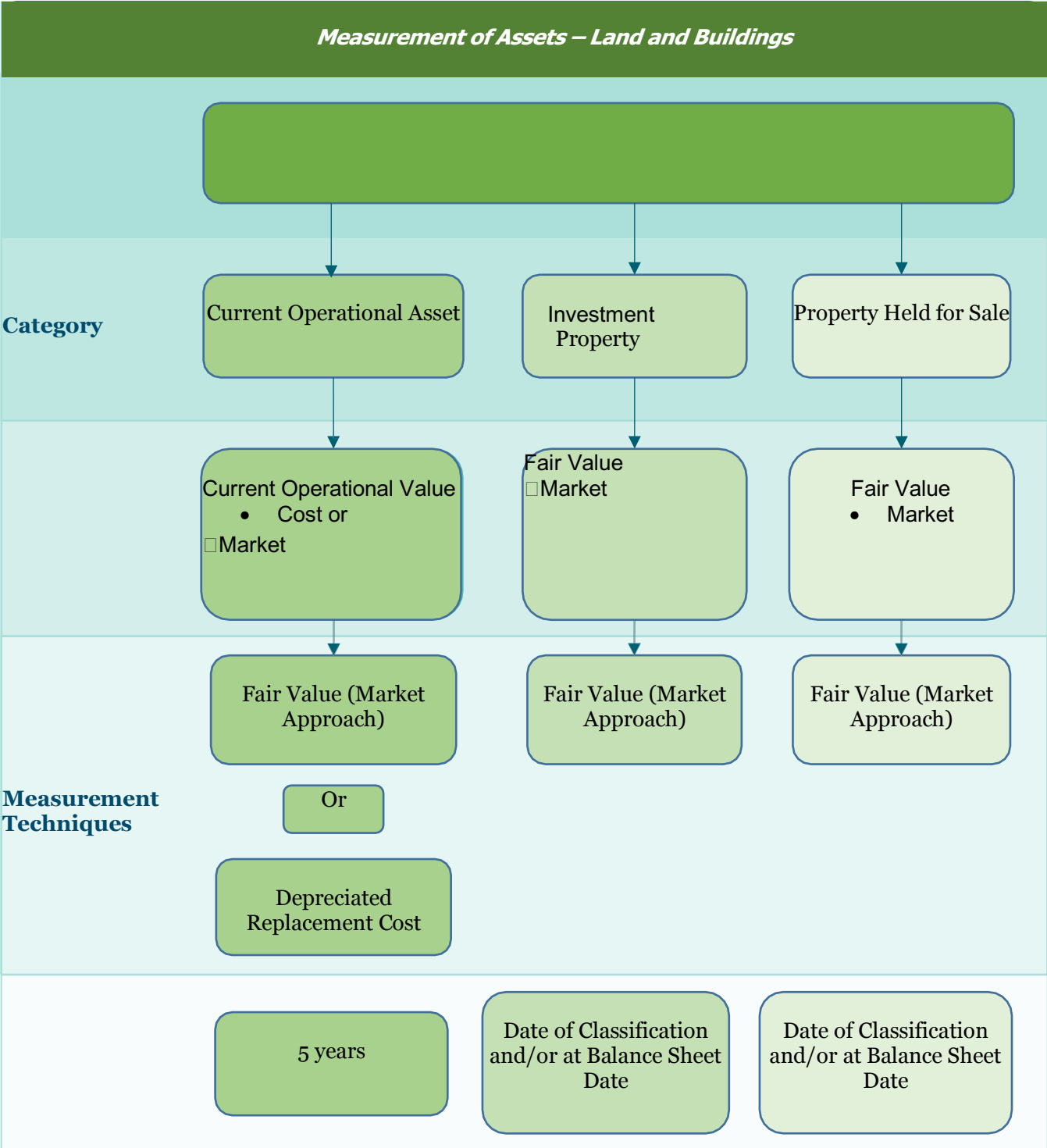
	Land	Buildings	Infra-structure	IT and Office equipment/ Furniture and fittings	Plant and machinery	Specialised equipment	Motor vehicles	Total
	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000	CU'000
Cost or valuation								
Balance at 1 January 20X1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Additions	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Revaluation increase	xxx	xxx	0	0	0	0	0	xxx
Transfer to held for sale	(xxx)	(xxx)	0	0	0	0	0	(xxx)
Disposals	0	0	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Balance at 31 December 20x1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Additions	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Revaluation increase	0	xxx	xxx	0	0	0	0	xxx
Transfer to held for sale	(xxx)	(xxx)	0	0	0	0	0	(xxx)
Disposals	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Balance at 31 December 20x2	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Accumulated depreciation and impairment loss								
Balance at 1 January 20x1	0	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Depreciation Expense	0	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Elimination on revaluation	0	(xxx)	0	0	0	0	0	(xxx)
Elimination on transfer to held for sale	0	(xxx)	0	0	0	0	0	(xxx)
Elimination on disposal	0	0	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	((xxx)
Impairment losses	0	xxx	xxx	xxx	0	0	0	xxx
Balance at 31 December 20x1	0	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Depreciation Expense	0	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Elimination on revaluation	0	(xxx)	0	0	0	0	0	(xxx)
Elimination on transfer to held for sale	0	(xxx)	0	0	0	0	0	(xxx)

Elimination on disposal	0	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Impairment losses	0	0	0	xxx	xxx	0	0	xxx
Balance at 31 December 20x2	0	xxx	xxx	xxx	xxx	xxx	xxx	xxx
Carrying Amounts - Net Book Value								
At 1 January 20x1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
At 31 December 20x1	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
At 31 December 20x2	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx

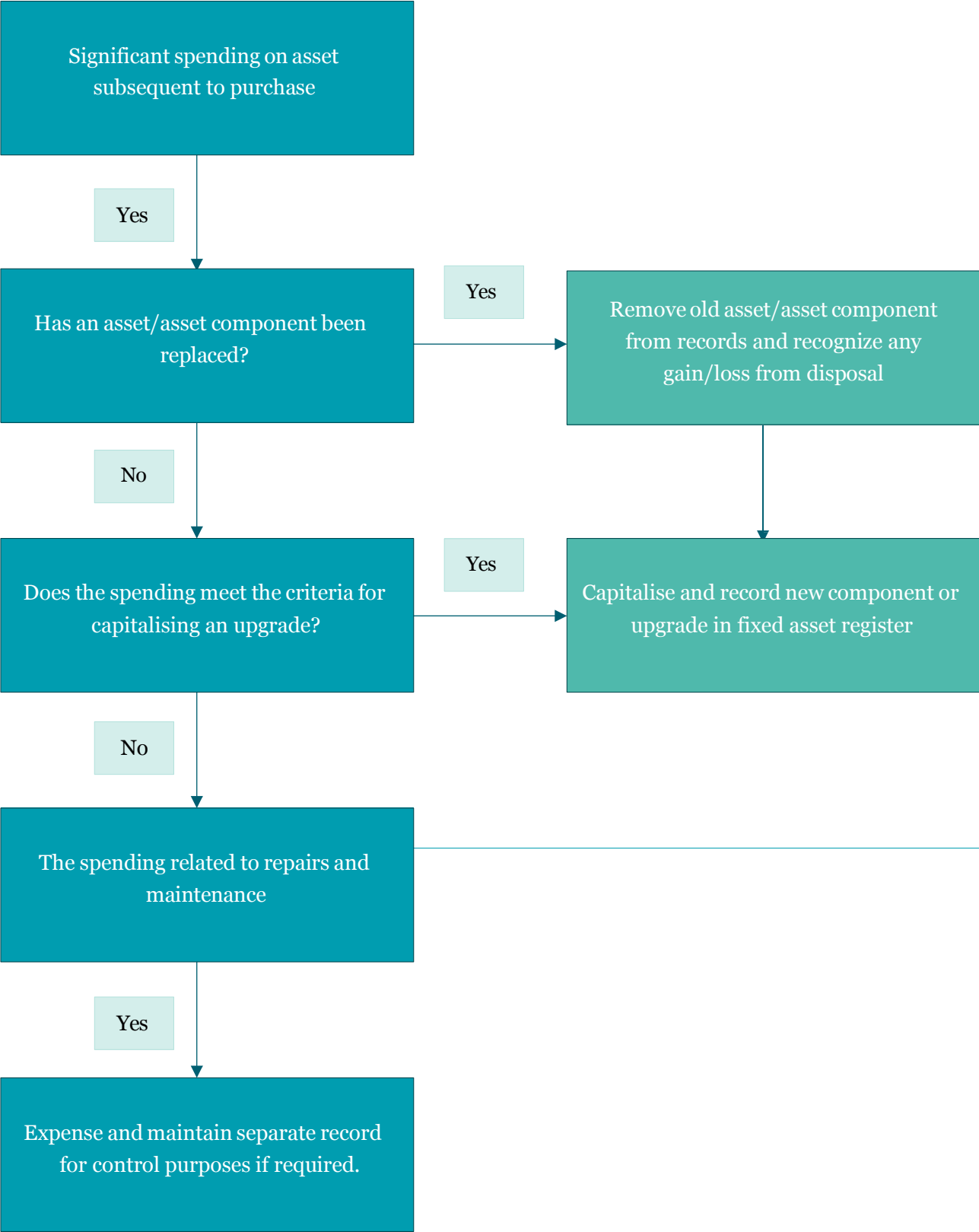
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Appendix 2: Measurement of assets – Land and buildings



Appendix 4: Capitalisation of Subsequent Expenditure



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