Property Plant Equipment Revaluations and Impairment

Impairment Losses [EXPENSE]

If the non-current asset's CARRYING AMOUNT > RECOVERABLE AMOUNT; it must be written down to its RECOVERABLE AMOUNT. Impairment losses can be reversed.

Impairment Losses [EXPENSE]; Increase Impairment Loss = Debit

REVALUATION SURPLUS/ GAIN ON DISPOSAL = EQUITY

Impairment Loss Recognition

Example; Recognition of impairment loss where either Cost Model or Fair value method is used

X has a machine CA = 500.000

RA= 350.000

When RA < CA -> Impairment Loss (+) DEBIT

Impairment loss is reducing the revaluation surplus; reduce equity so debit

Cost Model

Impairment Loss	Db	150.000	
Machine	Cr		150.000

Fair Value Method; there was a previous revaluation increment of $60.000. SO we should eliminate the revaluation increment and recognize impairment loss.

Impairment Loss	Db	90.000	
Revaluation Surplus	Db	60.000	
Machine	Cr		150.000

Measuring PPE

AASB 116 *Property, Plant and Equipment* can be measure on COST or FAIR VALUE; entity can switch either method; if its measured at cost; AASB 136 is to be applied

AASB136 -> NCA should be written down to its Recoverable amount when its CA is > RA.

Impairment loss as the amount which the CA exceeds RA

If values change regularly and changes are material, revaluations might be necessary each reporting period

Impairment Losses [EXPENSE]; Increase Impairment Loss = Debit

REVALUATION SURPLUS/ GAIN ON DISPOSAL = EQUITY-> Credit

Fair Value Model

Example 1; Reversal of a previous impairment loss FAIR VALUE and cost

2010 -> Cost 2.5 Million

2011 -> RA = $2 M (COST METHOD)

2012-> FV = $2.8 M (decided to revalue in this year and found out the FV)

Journal Entries

2010	Land	Db	2.5 Million		
	Cash	Cr		2.5 Million	
2011	Impairment Loss	Db	500k		
	Land	Cr		500k	
2012	Land		Db	800k	
	Reversal of Prev Impairment Loss		Cr		500k
	Revaluation Surplus		Cr		300k

AASB136 -> NCA should be written down to its Recoverable amount when its CA is > RA.

Intangibles

Non-monetary assets without physical substance

- Patent, goodwill, research and development, trademarks.
- Must be separately disclosed in the statement of financial position

Identifiable Intangible Assets

A specific value can be placed on each asset; can be separately identified and sold.
Brand names, trademarks, licenses, copyrights.
[Internally generated = developed within the organization rather than acquired at cost from external party]

Unidentifiable Intangible Assets

Cannot be separately sold; such as goodwill.
CANNOT BE INTERNALLY GENERATED. (AASB 3)

Recognition Intangible Assets (AASB 138)

INTERNALLY GENERATED NO NO NO NO ☺
Only can be recognized on balance sheet upon acquisition from an external part "when there is cost"
Cost includes purchase price + legal fees, taxes and deducting discounts. + installation cost
Expense on Internally generated must be expensed

To summarize:
Probable that the FEB will flow to entity
Cost can be measured reliably
There is control over FEB
NOT INTERNALLY GENERATED.

Expenditure on an intangible item that was initially recognized as an expense (written off) shall not be recognized as part of the cost of an intangible asset at a later date.

Acquired intangible assets can be revalued to fair value if there is an **active market on it.**

Example 1
1. spent $250 000 promoting the recognition of its brand name;
2. acquired a patent (a right to produce a certain product) for a cost of $400 000; and
3. spent $90 000 acquiring a customer database but after further consideration is not sure that the list will provide very many new customers.

1 is an expense; internally generated
2 is an intangible asset!
3 is an expense; because the economic benefit is not probable

Amortization of Intangible Assets (AASB 138)

Intangible assets have limited useful of life (Except goodwill) -> needs to be amortized.
Amortization begins when the asset is AVAILABLE FOR USE; capable of operating (Same like PPE)
Residual value for intangibles with finite lives is zero unless;

- **there is a commitment by third party to purchase the asset at the end of useful life.**
- **There is an active market of the asset.**

Useful life and residual value is reviewed annually
If the asset has an indefinite life there is no requirement to amortise—instead the asset should be subject to impairment testing at the end of each reporting period.
If there is an impairment loss (RA <CA) it will be shown as an expense

1) <u>Eliminate Dividends Payable by B</u>

Dividend Payable	Db	50.000	
Dividends Declared	Cr		50.000

2) <u>Eliminate Dividend Receivable by A</u>

Dividends Income	Db	50.000	
Dividends Receivable	Cr		50.000

3) <u>Consolidation for Investment in B</u>

Retained Earnings	Db	300.000	
Share Capital	Db	500.000	
Investment	Cr		800.000

Intragroup Debt Elimination

P owes $100.000 to S
Interest is 5000

Accounts Payable	Db	100.000	
Account Receivable	Cr		100.000

Interest Payable	Db	5000	
Interest Receivable	Cr		5000

Intragroup Services [S do something from P]

S Provided professional service to P and charged service for $50.000

Service Revenue	Db	50.000	
Service Expense	Cr		50.000

S rent building P. Paid 10.000

Rent Revenue	Db	10.000	
Rent Expense	Cr		10.000

Step by Step

Group = P + S P Elimination of intra group transaction

<u>Step 1</u>

Calculation of goodwill / Gain on bargain purchase
Elimination entry on Date of acquisition (DOA)

<u>Step 2</u>

Elimination of intra group transitions

1) Intra group debt/ Interest
2) Intra group services/ rent etc. [company is providing service intra group]
3) Intra group sale of inventory (a) closing inventory; b) opening inventory)
4) Intra group sale of Non-current assets
5) Intra group dividends