PBE IPSAS 17 Property Plant and Equipment (PPE) – Difference to NZ IFRS (PBE)

	NZ IAS 16 (PBE)	PBE IPSAS 17	Difference
1	Under the cost model, NZ IAS 16 (PBE) requires, after initial recognition, an item of PPE shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under the revaluation model, NZ IAS 16 (PBE) requires, after initial recognition, an item of PPE shall be carried at its fair value less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. To determine whether an item of PPE is impaired, an entity applies NZ IAS 36 (PBE) *Impairment of Assets*. NZ IAS 16 (PBE) provides the following definitions: *An <u>impairment loss</u> is the amount by which the carrying amount of an asset exceeds its recoverable amount.* *<u>Recoverable amount</u> is the higher of an asset's fair value less cost to sell and its value in use.* NZ IAS 16.30-31 & 63	The PBE IPSAS 17 treatment for subsequent measurement of PPE is the same as NZ IAS 16 (PBE). Under the cost model, PBE IPSAS 17 requires, after initial recognition, an item of PPE shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses. Under the revaluation model, PBE IPSAS 17 requires, after initial recognition, an item of PPE shall be carried at its fair value less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. However, to determine whether an item of PPE is impaired, an entity applies PBE IPSAS 21 *Impairment of Non-cash Generating Assets* or PBE IPSAS 26 *Impairment of Cash Generating Assets* as appropriate. PBE IPSAS 17 provides the following definitions *An <u>impairment loss of a cash generating asset</u> is the amount by which the carrying amount of an asset exceeds its recoverable amount* *An <u>impairment loss of a non-cash generating asset</u> is the amount by which the carrying amount of an asset exceeds its recoverable service amount* *<u>Recoverable amount</u> is the higher of a cash generating asset's fair value less cost to sell and its value in use.* *<u>Recoverable service amount</u> is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.* PBE IPSAS 17.13 & 43-44 & 79	NZ IAS 16 (PBE) and PBE IPSAS 17 have almost identical treatment for initially recognising, and subsequently measuring PPE. However, when referring to impairment, PBE IPSAS 17 distinguishes between PBE IPSAS 21 for non-cash generating assets and PBE IPSAS 26 for cash generating assets. NZ IAS 16 (PBE), references one impairment standard – NZ IAS 36 (PBE). As a result, we have compared the following standards in separate tables: (a) NZ IAS 36 (PBE) and PBE IPSAS 21; and (b) NZ IAS 36 (PBE) and PBE IPSAS 26. While we have identified differences, NZ IAS 36 (PBE), PBE IPSAS 21 & PBE IPSAS 26 are similar in that if the recoverable amount of an asset is less than its carrying amount, the carrying amount of an asset must be reduced to its recoverable amount (i.e. impaired). The broad definition of recoverable amount (i.e. the higher of its fair value less cost to sell and value in use) is also the same across the three standards but application of recoverable amount differs depending on the circumstances.

	NZ IAS 16 (PBE)	PBE IPSAS 17	Difference
2	NZ IAS 16 (PBE) contains no disclosure requirements with respect to unrecognised heritage assets.	PBE IPSAS 17 requires a description of any unrecognised heritage assets, including an estimate of value, where current information is available. PBE IPSAS 17.94.1.	A description of unrecognised heritage assets is now required, plus estimates of value where current information is available.
3	NZIAS 16 (PBE) allows a choice between *a class of asset basis* or an *individual asset basis* when accounting for revaluations of PPE. Under the class of asset basis, revaluation increases and decreases, relating to individual assets within a class of PPE, may be offset against one another. Under an individual basis revaluation increases and decreases are accounted for separately for each specific asset within the asset class and cannot be offset against revaluations increases or decreases of other specific assets. NZ IAS NZ16.39.1-39.2	PBE IPSAS 17 requires accounting for revaluations only on a class of asset basis. PBE IPSAS 17.42	Asset revaluations must now always be done on a class of asset basis. However, we do not expect that this will make a significant difference in practice for Government reporting entities, as current Crown accounting policy is based on the class of asset basis and this is consistent with the requirement in PBE IPSAS 17.

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4	Under NZ IAS 16 (PBE) if there is no market-based evidence of fair value (because of the specialised nature of the item of property plant and equipment and the item is rarely sold) the entity may need to estimate fair value using an income or depreciated replacement cost approach. NZ IAS 16.33	Similarly NZ IAS 16 (PBE), PBE IPSAS 17 allows the use of fair value estimates in situations where there is no market-based evidence of fair value because of the specialised nature of the PPE. However, PBE IPSAS 17 allows the following three approaches to fair value specialised assets: • depreciated replacement cost (DRC) approach; or • restoration cost approach, or • Service units approach Guidance on these approaches is included in the application guidance to IPSAS 17 and IPSAS 21 *Impairment of Non-cash Generating Assets*. The entity will be required to disclose which approach has been used. In addition, PBE IPSAS 17 excludes the additional criterion, for a specialised asset – that the item is rarely sold. PBE IPSAS 17.47-48	Under NZ IAS 16 (PBE) fair value for specialised assets may be estimated using an income or depreciated replacement cost approach. Under PBE IPSAS 17, fair value for specialised assets may be estimated using the depreciated replacement cost approach, restoration cost approach or the service units approach. Given the widespread use of the DRC approach to valuing specialised and non-cash generating assets within the Government reporting entity under NZ IFRS, we would not expect a significant change in practice because of the additional approaches provided in PBE IPSAS 17. Also we do not expect significant changes in practice because PBE IPSAS 17 excludes the additional requirement criteria for a specialist asset – *that the item is rarely sold.*
5	Guidance on the application of depreciated replacement cost is contained within the main body of the standard as a ‘PBE paragraph’. NZ IAS 16 NZ 33.1 to NZ 33.12	Guidance on the use of depreciated replacement cost is now included as application guidance in an appendix, which is integral to the standard. The DRC application guidance has been based on the previous DRC guidance from NZ IAS 16 (PBE) but has been revised to reflect more recent guidance from the valuation profession. PBE IPSAS 17 Application Guidance	The placement of guidance within the standard has been moved and updated but we do not expect any significant changes to application in practice.

	NZ IAS 16 (PBE)	PBE IPSAS 17	Difference
6	Under NZ IAS 16 (PBE) an item of PPE acquired at a subsidised cost or by donation will be recorded at fair value upon initial recognition and the amount of the donation or subsidy received is recognised as income in the Statement of Comprehensive Income. NZ IAS 16 NZ15.1-2	PBE IPSAS 17 requires that where an asset is acquired through a non-exchange transaction, its cost shall be measured at fair value as at the date of acquisition. The explicit accounting treatment for the donation or subsidy received is contained within PBE IPSAS 23 Revenue from *Non-Exchange Transactions.* PBE IPSAS 17.27	We expect in practice there will be no significant change in accounting treatment of PPE acquired at a subsidised cost or by donation. However, the reference to PBE IPSAS 23 does open the possibility of the gain not being recognised immediately in surplus or deficit. Where the contract for the asset acquired in non-exchange transaction includes a return condition, a liability may need to be recognised in accordance with IPSAS 23 (although we think this is a relatively rare scenario within the Government reporting entity).
7	Entities qualifying for differential reporting concessions are permitted to adopt the same depreciation rates used for income tax purposes (except where assets have been revalued). NZ IAS 16.NZ 5.3	The old GAAP differential reporting framework has been removed from the new framework. The concession allowing the use of income tax depreciation rates by some entities has been removed.	Entities can no longer use the income tax depreciation rates as a proxy for the depreciation requirements in PBE IPSAS 17 – unless the income tax rates reflect the expected pattern of consumption of future economic benefits.
8	Entities qualifying for differential reporting concessions are not required to provide the reconciliation between the carrying amount at the beginning and end of the period required by paragraph 73(e). NZ IAS 16.NZ 5.5	The old GAAP differential reporting framework has been removed from the new framework. The concession not requiring a reconciliation of the opening to closing carrying amount for each class of assets by some entities has been removed.	A reconciliation of the opening to closing carrying amount for each class of assets is required for both Tier 1 and Tier 2. However, a Tier 2 entity does not need to prepare this reconciliation for prior years.