Summary of IFRS for – Tangible Non Current Assets (IAS 16, IFRS 5 & IAS 40)

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What is Tangible NCA ?

Tangible = Physical / Touchable Assets, NCA = which is not current assets (not satisfying all 4 conditions)

Which IFRS's governs the provisions for Tangible NCA

Property Plant & Equipment – IAS 16	NCA held for Sale – IFRS 5	Investment Property – IAS 40
Recognition Criteria		
PPE to be recognized when - • It is probable that future economic benefits will flow to the entity, and • Cost can be reliably measured	NCA to be classified as held for sale if - • Asset is immediately available for sale in the present condition, and • Sale is highly probable **(See Explanation 1)**	• Asset is held for earning rental income / capital appreciation
Initial Measurement –		
Costs to be capitalized – • Purchase price less trade discounts, rebates, refundable taxes & duties *(in case of deferred credit only take cash price equivalent, interest element to be expensed to SOCI over period of credit)* • Costs incurred for bringing the asset to the location & condition necessary	NCA held for sale to be recognized at <u>LOWER OF</u> – • Carrying amount, or • Fair Value less cost to sales. ***(Carrying value is to be computed as per IAS 16 till the date of change in classification)***	Both cost or revaluation models are permitted.

for its intended use. • Present Value of initial estimation of restoring the site ***(Don't forget unwinding of discount !)*** • Borrowing costs only for qualifying assets **(See Explanation 2)**	***(Any impairment loss to be recognized to SOCI)***	
	Subsequent measurement –	
Two models are permitted – • Cost Model, or • Revaluation Model (Fair Value)	LOWER OF – • Carrying amount, or • Fair Value less cost to sales.	Two models are permitted – • Cost Model, or • Revaluation Model (Fair Value)
	Accounting Treatment –	

• Depreciation to be charged (irrespective of model opted for) on SLM / WDV / Production units method on depreciable amount. ***(Don't forget component accounting for depreciation !)***
• For revaluation Model –
  • Loss on revaluation is adjusted to previously recognized revaluation surplus, if any. Otherwise to SOCI
  • Gain on revaluation is adjusted to previously recognized loss to SOCI, if any. Otherwise to OCI.
	• No depreciation to be charged once assets is classified as NCA held for sale.
	• Any loss on FV to be recognized as impairment loss to SOCI.
	• Any gain on FV to be recognized only to the extent of previously recognized impairment loss.
		• Gain or loss on revaluation is recognized to SOCI

	De-recognition / change of plans –	

• If asset is sold / disposed off / no future economic benefits are expected, or • Assets get classified as per IFRS 5 or IAS 40	• Change of plans i.e. NCA held for sale is decided not to be sold ***(measurement at LOWER OF – recoverable amount on date of decision or possible carrying value had the asset not been classified as held for sale)***	

Explanation 1 for sale to be considered as highly probable, following conditions must be satisfied –

- The appropriate level of management must be committed to complete the sell.
- Active programe for finding suitable buyer & complete the sale must be initiated.
- The asset is marketed at a price that is reasonable considering its present fair value.
- The sale is expected to be completed within 12 months.
- It is unlikely that any significant changes will be made in the plan.

Explanation 2 Borrowing costs

- Qualifying asset is an asset which takes substantial time to gent complete for its intended use / sale
- Borrowing costs to be capitalized which are specifically borrowed, take weighted average if generally borrowed.
- Segregate the portion of borrowing costs between land and building, as no depreciation to be charged on land portion.