

SPECIFIC ITEMS

SECTION 3061

property, plant and equipment

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PURPOSE AND SCOPE

- .01 This Section establishes standards for the recognition, measurement, presentation and disclosure of property, plant and equipment (tangible capital assets). This Section applies to property, plant and equipment recognized under LEASES, Section 3065.
- .02 This Section does not deal with goodwill or intangible assets (see GOODWILL AND INTANGIBLE ASSETS, Section 3064), with the impairment of property, plant and equipment (see IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063) or with the disposal of property, plant and equipment (see DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475). This Section also does not deal with special circumstances when it may be appropriate to undertake a comprehensive revaluation of all the assets and liabilities of an enterprise (see COMPREHENSIVE REVALUATION OF ASSETS AND LIABILITIES, Section 1625).
- .02A This Section does not apply to productive biological assets (see AGRICULTURE, Section 3041).

DEFINITIONS

- .03 The following terms are used in this Section with the meanings specified:
- (a) **Property, plant and equipment** are identifiable tangible assets that meet all of the following criteria:
- (i) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other property, plant and equipment;
 - (ii) have been acquired, constructed or developed with the intention of being used on a continuing basis; and
 - (iii) are not intended for sale in the ordinary course of business.
- Spare parts and servicing equipment are usually carried as inventory and recognized in net income as consumed. However, major spare parts and standby equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment. Property, plant and equipment and intangible assets, as defined in GOODWILL AND INTANGIBLE ASSETS, paragraph 3064.08, are referred to collectively as "capital assets".
- (b) **Cost** is the amount of consideration given up to acquire, construct, develop, or better an item of property, plant and equipment and includes all costs directly attributable to the acquisition, construction, development or betterment of the asset including installing it at the location and in the condition necessary for its intended use. Cost includes any asset retirement cost accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110.

- (c) **Mining properties** are items of property, plant and equipment represented by the capitalized costs of acquired mineral rights and the costs associated with exploration for and development of mineral reserves.
- (d) **Net carrying amount** of an item of property, plant and equipment is cost less both accumulated amortization and the amount of any write-downs.
- (e) **Net recoverable amount** of an item of property, plant and equipment is its estimated future net cash flow from use together with its residual value.
- (f) **Oil and gas properties** are items of property, plant and equipment represented by the capitalized costs of acquired oil and gas rights and the costs associated with exploration for and development of oil, gas and related reserves.
- (g) **Rate-regulated property, plant and equipment** are items of property, plant and equipment held for use in operations meeting all of the following criteria:
 - (i) The rates for regulated services or products provided to customers are established by or are subject to approval by a regulator or a governing body empowered by statute or contract to establish rates to be charged for services or products.
 - (ii) The regulated rates are designed to recover the cost of providing the services or products.
 - (iii) It is reasonable to assume that rates set at levels that will recover the cost can be charged to and collected from customers in view of the demand for the services or products and the level of direct and indirect competition. This criterion requires consideration of expected changes in levels of demand or competition during the recovery period for any capitalized costs.
- (h) **Rental real estate** is real estate held primarily to generate income through rental to others (i.e., not held for sale in the ordinary course of business). It includes rental property under development and developed property that is intended to be held for rental. In addition, it includes land designated for development as rental property.
- (i) **Residual value** is the estimated net realizable value of an item of property, plant and equipment at the end of its useful life to an enterprise.
- (j) **Salvage value** is the estimated net realizable value of an item of property, plant and equipment at the end of its life. Salvage value is normally negligible.
- (k) **Service potential** is used to describe the output or service capacity of an item of property, plant and equipment and is normally determined by reference to attributes such as physical output capacity, associated operating costs, useful life and quality of output.
- (l) **Useful life** is the period over which an asset, singly or in combination with other assets, is expected to contribute directly or indirectly to the future cash flows of an enterprise.

MEASUREMENT

Cost

- .04 *Property, plant and equipment shall be recorded at cost.*
- .05 The cost of an item of property, plant and equipment includes the purchase price and other acquisition costs such as option costs when an option is exercised, brokers' commissions, installation costs including architectural, design and engineering fees, legal fees, survey costs, site preparation costs, freight charges, transportation insurance costs, duties, testing and preparation charges. In addition, if the cost of the asset acquired other than through a business combination is different from its tax basis on acquisition, the asset's cost would be adjusted to reflect the related future income tax consequences if the future income taxes method is chosen (see INCOME TAXES, Section 3465). It may be appropriate to group together individually insignificant items of property, plant and equipment.
- .06 The cost of each item of property, plant and equipment acquired as part of a basket purchase (i.e., when a group of assets is acquired for a single amount), is determined by allocating the price paid for the basket to each item on the basis of its relative fair value at the time of acquisition.
- .07 When, at the time of acquisition, a portion of the acquired item of property, plant and equipment meets the criteria in DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, to be classified as held for sale at the acquisition date, that portion of the item is measured at fair value less cost to sell. The remainder of the acquired item is measured at the cost of acquisition of the entire item less the amount assigned to the portion to be sold. For example, if a portion of land acquired is to be resold, the cost of the land to be retained would be the total cost of the purchase minus the fair value less cost to sell of the portion of land held for sale. When, at the time of acquisition, a portion of the acquired item of property, plant and equipment is not intended for use because it will be abandoned, its cost and any costs of disposal, net of any estimated proceeds, are attributed to that portion of the acquired asset that is intended for use. For example, the cost of acquired land that includes a building that will be demolished comprises the cost of the acquired property and the cost of demolishing the building.
- Acquisition, construction or development over time**
- .08 The cost of an item of property, plant and equipment includes direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity.

- .09 For a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. An enterprise applies the method of accounting for exploration costs that it considers to be appropriate to its operations and applies the method consistently to all its properties.
- .10 For an oil and gas property, the cost of the asset comprises acquisition costs, development costs and certain exploration costs depending on whether the enterprise accounts for its oil and gas properties using the full cost method or the successful efforts method. An enterprise applies the method of accounting for acquisition, exploration and development costs that it considers to be appropriate to its operations and applies the method consistently to all its properties.
- .11 The cost of an item of property, plant and equipment that is acquired, constructed, or developed over time includes carrying costs directly attributable to the acquisition, construction, or development activity (such as interest costs when the enterprise's accounting policy is to capitalize interest costs.) For an item of rate-regulated property, plant and equipment, the cost includes the directly attributable allowance for funds used during construction allowed by the regulator.
- .12 Capitalization of carrying costs ceases when an item of property, plant and equipment is substantially complete and ready for productive use. Determining when an asset, or a portion thereof, is substantially complete and ready for productive use requires consideration of the circumstances and the industry in which it is to be operated. Normally, it would be predetermined by management with reference to such factors as productive capacity, occupancy level, or the passage of time.
- .13 Net revenue or expense derived from an item of property, plant and equipment prior to substantial completion and readiness for use is included in the cost.

Betterment

- .14 The cost incurred to enhance the service potential of an item of property, plant and equipment is a betterment. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved. The cost incurred in the maintenance of the service potential of an item of property, plant and equipment is a repair, not a betterment. If a cost has the attributes of both a repair and a betterment, the portion considered to be a betterment is included in the cost of the asset.
- .15 A redevelopment project that adds significant economic value to rental real estate is treated as a betterment. When a building is removed for the purpose of redevelopment of rental real estate, the net carrying amount of the building is included in the cost of the redeveloped property, as long as the net amount considered recoverable from the redevelopment project exceeds its cost.

Amortization

- .16 *Amortization shall be recognized in a rational and systematic manner appropriate to the nature of an item of property, plant and equipment with a limited life and its use by the enterprise. The amount of amortization that shall be charged to income is the greater of:*
 - (a) *the cost less salvage value over the life of the asset; and*
 - (b) *the cost less residual value over the useful life of the asset.*
- .17 Property, plant and equipment is acquired to earn income or supply a service over its useful life. An item of property, plant and equipment, other than land that normally has an unlimited life, has a limited life. Its useful life is normally the shortest of its physical, technological, commercial and legal life. Amortization is the charge to income that recognizes that life is finite and that the cost less salvage value or residual value of an item of property, plant and equipment is allocated to the periods of service provided by the asset. Amortization may also be termed depreciation or depletion.
- .18 The cost of an item of property, plant and equipment made up of significant separable component parts is allocated to the component parts when practicable and when estimates can be made of the lives of the separate components. For example, initial leasing costs may be identifiable as a separable component of the cost of rental real estate and engines may be a separable component of an aircraft.
- .19 Different methods of amortizing an item of property, plant and equipment result in different patterns of charges to income. The objective is to provide a rational and systematic basis for allocating the amortizable amount of an item of property, plant and equipment over its estimated life and useful life. A straight-line method reflects a constant charge for the service as a function of time. A variable charge method reflects service as a function of usage. Other methods may be appropriate in certain situations. For example, an increasing charge method may be used when an enterprise can price its goods or services so as to obtain a constant rate of return on the investment in the asset; a decreasing charge method may be appropriate when the operating efficiency of the asset declines over time.
- .20 Factors to be considered in estimating the life and useful life of an item of property, plant and equipment include expected future usage, effects of technological or commercial obsolescence, expected wear and tear from use or the passage of time, the maintenance program, results of studies made regarding the industry, studies of similar items retired, and the condition of existing comparable items. As the estimate of the life of an item of property, plant and equipment is extended into the future, it becomes increasingly difficult to identify a reasonable basis for estimating the life.

Review of amortization

- .21 *The amortization method and estimates of the life and useful life of an item of property, plant and equipment shall be reviewed on a regular basis.*
- .22 Significant events that may indicate a need to revise the amortization method or estimates of the life and useful life of an item of property, plant and equipment include:
- (a) a change in the extent the asset is used;
 - (b) a change in the manner in which the asset is used;
 - (c) removal of the asset from service for an extended period of time;
 - (d) physical damage;
 - (e) significant technological developments;
 - (f) a change in the law, environment, or consumer styles and tastes affecting the period of time over which the asset can be used.

Asset retirement obligations

- .23 Obligations associated with the retirement of property, plant and equipment are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110.

DISCLOSURE

- .24 *For each major category of property, plant and equipment there shall be disclosure of:*
- (a) *cost;*
 - (b) *accumulated amortization, including the amount of any write-downs; and*
 - (c) *the amortization method used, including the amortization period or rate.*
- .25 *The net carrying amount of property, plant and equipment not being amortized, because it is under construction or development, or has been removed from service for an extended period of time, shall be disclosed.*
- .26 *The amount of amortization of property, plant and equipment charged to income for the period shall be disclosed.*
- .27 The presentation and disclosure requirements of IMPAIRMENT OF LONG-LIVED ASSETS, Section 3063, and DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, apply to property, plant and equipment.
- .28 Major categories of property, plant and equipment are determined by reference to type (for example, land, buildings, machinery, leasehold improvements), operating segment and/or nature of operations (for example, manufacturing, processing, distribution, rental real estate).

EFFECTIVE DATE

- .29 Except as specified in paragraphs 3061.30-.31, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
- .30 Amendments to paragraphs 3061.25-.26, issued in October 2015, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2016. Earlier application is permitted.
- .31 AGRICULTURE, Section 3041, issued in November 2019, added paragraph 3061.02A and amended paragraph 3061.05. An enterprise shall apply those paragraphs when it applies Section 3041.

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