New Zealand Equivalent to International Accounting Standard 16

Property, Plant and Equipment (NZ IAS 16)

Issued November 2004 and incorporates amendments up to and including 30 November 2008

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants* and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

This Standard, on adoption, supersedes Financial Reporting Standard No. 3 *Accounting for Property, Plant and Equipment* (FRS-3).

* The New Zealand Institute of Chartered Accountants is the operating name of the Institute of Chartered Accountants of New Zealand, a body established under the Institute of Chartered Accountants of New Zealand Act 1996. All references to the New Zealand Institute of Chartered Accountants, or to the Institute, in this document mean the Institute of Chartered Accountants of New Zealand.

NZ IAS 16

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New Zealand Equivalent to International Accounting Standard 16 *Property, Plant and Equipment* (NZ IAS 16) is set out in paragraphs 1-83 and the Appendix. NZ IAS 16 is based on International Accounting Standard 16 *Property, Plant and Equipment* (IAS 16) (2003) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 16 should be read in the context of its objective and the IASB's Basis for Conclusions on IAS 16, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* (NZ Framework). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading. The paragraphs are denoted with "NZ" and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 16 *Property, Plant and Equipment*

This table lists the pronouncements establishing and substnatially amending NZ IAS 16. The table is based on amendments approved as at 30 November 2008.

Pronouncements	**Date approved (ASRB approval)**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IAS 16 *Property, Plant and Equipment*	Nov 2004 (Approval 9)	1 Jan 2005	1 Jan 2007
Approval of NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources*	April 2005 (Approval 54)	1 Jan 2006 Early application encouraged	1 Jan 2007
Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)	Jun 2005 (Approval 62)	1 Jan 2005	1 Jan 2007
Amendment to the *Framework for Differential Reporting*	Dec 2005 (Approval 76)	1 Jan 2005	1 Jan 2007
NZ IAS 23 *Borrowing Costs* (revised 2007)	Jul 2007 (Approval 90)	Early application permitted	1 Jan 2009
NZ IAS 1 *Presentation of Financial Statements* (revised 2007)	Nov 2007 (Approval 94)	Early application permitted	1 Jan 2009
Omnibus amendments (2007-1)	Nov 2007 (Approval 95)	Early application permitted	1 Jan 2008
NZ IFRS 3 *Business Combinations* (revised 2008)	Feb 2008 (Approval 98)	Early application permitted	1 Jan 2009
Improvements to NZ IFRSs	June 2008 (Approval 102)	Early application permitted	1 Jan 2009
Amendments to NZ IAS 23 *Borrowing Costs*	Nov 2008 (Approval 110)	Early application permitted	1 Jan 2009

Table of Amended Paragraphs in NZ IAS 16		
Paragraph affected	**How affected**	**By … [date]**
Paragraph 3	Amended	NZ IFRS 6 [April 2005]
Paragraph 5	Amended	Improvements to NZ IFRSs [June 2008]
Paragraph NZ 5.3	Inserted	Amendment to the *Framework for Differential Reporting* [Dec 2005]
Paragraph NZ 5.4	Inserted	Amendment to the *Framework for Differential Reporting* [Dec 2005]
Paragraph NZ 5.5	Inserted	Amendment to the *Framework for Differential Reporting* [Dec 2005]
Paragraph 6	Amended	Improvements to NZ IFRSs [June 2008]
Paragraph NZ 15.2	Amended	Omnibus amendments (2007-1) [Nov 2007]
Paragraph 23	Amended	NZ IAS 23 [Jul 2007]
Paragraph NZ 33.14	Amended	NZ IAS 23 [Jul 2007]
Paragraph NZ 33.14	Amended	Amendments to NZ IAS 23 [Nov 2008]
Paragraph 39	Amended	NZ IAS 1 [Nov 2007]
Paragraph NZ 39.2	Amended	NZ IAS 1 [Nov 2007]
Paragraph 40	Amended	NZ IAS 1 [Nov 2007]
Paragraph NZ 40.1	Amended	NZ IAS 1 [Nov 2007]

Table of Amended Paragraphs in NZ IAS 16		
Paragraph affected	**How affected**	**By … [date]**
Paragraph NZ 40.1A	Inserted	NZ IAS 1 [Nov 2007]
Paragraph 44	Amended	NZ IFRS 3 [Feb 2008]
Paragraph 68A	Inserted	Improvements to NZ IFRSs [June 2008]
Paragraph 69	Amended	Improvements to NZ IFRSs [June 2008]
Paragraph 73(e)(iv)	Amended	NZ IAS 1 [Nov 2007]
Paragraph 81B	Inserted	NZ IAS 1 [Nov 2007]
Paragraph 81C	Amended	NZ IFRS 3 [Feb 2008]
Paragraph 81D	Inserted	Improvements to NZ IFRSs [June 2008]
Paragraph 81E	Inserted	Improvements to NZ IFRSs [June 2008]

Introduction to NZ IAS 16

This Standard:

(a) prescribes requirements for recognition, measurement at recognition, measurement after recognition, and derecognition of property, plant and equipment;

(b) prescribes requirements for depreciation and impairment of property plant and equipment;

(c) prescribes disclosures in relation to property plant and equipment.

In adopting IAS 16 for application as NZ IAS 16 the following changes have been made.

For all entities NZ IAS 16:

(a) requires that valuations be conducted by an independent valuer, or by an employee with sufficient experience except where there is an active market or readily available price indices that establish the item's fair value with reasonable reliability. (paragraphs NZ 35.1 – NZ 35-3)

(b) includes guidance explaining that the cost model may be used for investment properties only where the fair value of the investment property is not reliably determinable on a continuing basis, as permitted by NZ IAS 40, paragraph 53, (paragraph NZ 5.2); and

(c) requires entities to disclose details in relation to the valuers and the total fair value of the property, plant, and equipment. (paragraph NZ 77.2).

For public benefit entities NZ IAS 16:

(d) includes examples of property, plant, and equipment held by public benefit entities (paragraph NZ 5.1);

(e) includes a definition of public benefit entities (paragraph NZ 6.1);

(f) requires that property, plant and equipment acquired at no cost or for a nominal cost be recognised initially at fair value and that the amount of the donation or subsidy be recognised in the statement of comprehensive income (paragraph NZ 15.1);

(g) includes guidance on application of depreciated replacement cost for public benefit entities (paragraphs NZ 33.1 to NZ 33.14);

(h) permits public benefit entities to account for revaluation of property, plant and equipment on a class basis (paragraphs NZ 39.1, NZ 40.1 to NZ 40.2);

(i) includes guidance regarding the use of asset management plans by public benefit entities (paragraphs NZ 61.1 and NZ 61.2); and

(j) exempts public benefit entities from disclosing historic cost information for revalued assets (paragraph NZ 77.1).

Profit-oriented entities that comply with NZ IAS 16 will simultaneously be in compliance with IAS 16.

Public benefit entities applying paragraphs NZ 15.1, NZ 39.1, NZ 40.1 to NZ 40.2 and NZ 77.1 will not comply with IAS 16. Public benefit entities applying paragraphs NZ 33.1 to NZ 33.13 may not comply with IAS 16.

Differential Reporting

Qualifying entities are given several concessions to the requirements of this Standard (as identified in the Standard).

New Zealand Equivalent to International Accounting Standard 16

Property, Plant and Equipment (NZ IAS 16)

OBJECTIVE

1 The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

SCOPE

2 This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

3 This Standard does not apply to:

(a) property, plant and equipment classified as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

(b) biological assets related to agricultural activity (see NZ IAS 41 *Agriculture*);

(c) the recognition and measurement of exploration and evaluation assets (see NZ IFRS 6 *Exploration for and Evaluation of Mineral Resources)*; or

(d) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)-(d).

4 Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, NZ IAS 17 *Leases* requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

5 An entity using the cost model for investment property in accordance with NZ IAS 40 *Investment Property* shall use the cost model in this Standard.

Public Benefit Entities

NZ 5.1 Examples of property, plant and equipment held by public benefit entities include, but are not limited to:

(a) water reticulation systems;

(b) sewerage systems;

(c) roads and pavements; and

(d) artefacts of cultural or historical significance.

All Entities

NZ 5.2 Under NZ IAS 40, paragraph 53, an entity is permitted to use the cost model for investment properties only where the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value are not available.

Qualifying Entities

NZ 5.3 Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (2005) are permitted to adopt the same rates of depreciation for financial reporting as for income tax purposes except when assets have been revalued in accordance with the revaluation model in NZ IAS 16. If this exemption is taken, the entity is not required to comply with the requirements of paragraphs 51 and 61.

NZ 5.4 Qualifying entities are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

NZ 5.5 Qualifying entities are not required to provide a reconciliation between the carrying amount at the beginning and end of the period as required by paragraph 73(e). However, entities using this exemption must still comply with sub paragraphs 73(e)(v) to 73(e)(vii) which require disclosure, by each class of property, plant and equipment, of impairment losses recognised, impairment losses reversed and depreciation.

DEFINITIONS

6 The following terms are used in this Standard with the meanings specified:

***Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.**

***Cost* is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when**

initially recognised in accordance with the specific requirements of other New Zealand equivalents to IFRSs, eg NZ IFRS 2 *Share-based Payment.*

***Depreciable amount* is the cost of an asset, or other amount substituted for cost, less its residual value.**

***Depreciation* is the systematic allocation of the depreciable amount of an asset over its useful life.**

***Entity-specific value* is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.**

***Fair value* is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.**

An *impairment loss* is the amount by which the carrying amount of an asset exceeds its recoverable amount.

***Property, plant and equipment* are tangible items 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 during more than one period.

***Recoverable amount* is the higher of an asset's fair value less costs to sell and its value in use.**

The *residual value* of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

***Useful life* is:**

(a) the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

Public Benefit Entities

NZ 6.1 The following term is used in this Standard with the meaning specified:

***Public benefit entities* are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.**

RECOGNITION

7 The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and

(b) the cost of the item can be measured reliably.

8 Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by 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.

9 This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.

10 An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

Initial Costs

11 Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the entity is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with NZ IAS 36 *Impairment of Assets*.

Subsequent Costs

12 Under the recognition principle in paragraph 7, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in profit or loss as incurred. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these

expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

13 Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be acquired to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 67-72).

14 A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

MEASUREMENT AT RECOGNITION

15 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

Public Benefit Entities

NZ 15.1 In respect of public benefit entities, notwithstanding paragraph 15, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition. The fair value of the asset received must be recognised in the statement of comprehensive income.

NZ 15.2 In most instances when property, plant and equipment is acquired, the cost of the item provides a measure of its value to the entity at the date of acquisition. When property, plant and equipment is donated, or the acquisition is subsidised, the cost of the item (if any) is not a reliable indication of its value to the entity. This Standard therefore requires the fair value of such items to be determined as a substitute for the cost of purchase, and the amount of the donation or subsidy received to be recognised as income in the statement of comprehensive income.

Elements of Cost

16 The cost of an item of property, plant and equipment comprises:

(a) its 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.

(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.

17 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in NZ IAS 19 *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees.

18 An entity applies NZ IAS 2 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with NZ IAS 2 or NZ IAS 16 are recognised and measured in accordance with NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

19 Examples of costs that are not costs of an item of property, plant and equipment are:

(a) costs of 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 customer (including costs of staff training); and

(d) administration and other general overhead costs.

20 Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to

be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) costs of relocating or reorganising part or all of an entity's operations.

21 Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in profit or loss and included in their respective classifications of income and expense.

22 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see NZ IAS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. NZ IAS 23 *Borrowing Costs* establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of Cost

23 The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with NZ IAS 23.

24 One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is

reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

25 An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows are expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred; or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity having to perform detailed calculations.

26 The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

27 The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with NZ IAS 17 *Leases*.

28 The carrying amount of an item of property, plant and equipment may be reduced by government grants in accordance with NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

MEASUREMENT AFTER RECOGNITION

29 An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Cost Model

30 After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

31 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its 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 end of the reporting period.

32 The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

33 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, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

Public Benefit Entities

NZ 33.1 In the context of this Standard and in relation to public benefit entities, depreciated replacement cost is a method of valuation that is based on an estimate of:

(a) in the case of property:

(i) the fair value of land; plus

(ii) the current gross replacement costs of improvements less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity; and

(b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimisation for obsolescence and relevant surplus capacity.

NZ 33.2 Fair value is defined in paragraph 6 of this Standard. Depreciated replacement cost is an acceptable estimate of the fair value of an asset only where the fair value of the asset is not able to be reliably determined using market-based evidence in accordance with paragraph 33 of this Standard.

NZ 33.3 In the context of this Standard and in relation to public benefit entities, depreciated replacement cost is based on the reproduction cost of a specific asset. In principle, it reflects the service potential embodied in the asset. However, in some cases the reproduction cost of the specific asset is adjusted for optimisation in determining depreciated replacement cost.

NZ 33.4 Optimisation refers to the process by which a least-cost replacement option is determined for the remaining service potential of an asset. This process recognises that an asset may be technically obsolescent or over-engineered, or the asset may have greater capacity than that required. Hence optimisation minimises, rather than maximises, a resulting valuation where alternative lower cost replacement options are available. In determining depreciated replacement cost, optimisation is applied for obsolescence and relevant surplus capacity.

NZ 33.5 Obsolescence may arise from factors such as outmoded design and functionality of an asset and changed code requirements preventing reconstruction of an asset in its current form. In determining depreciated replacement cost, optimisation for obsolescence is made by reducing the reproduction cost of the specific asset held to the cost of a modern equivalent asset that provides equivalent service potential to that of the specific asset held.

NZ 33.6 Surplus capacity may arise from either over-design or from surplus components of an asset. In determining depreciated replacement cost, optimisation is applied only to surplus capacity that is not required currently and for which there is no reasonable prospect it will ever be required in utilising an asset in its current form. Optimisation is not applied to surplus capacity that, while rarely or never used, is necessary for stand-by or for safety purposes.

NZ 33.7 In determining depreciated replacement cost, the extent of any reduction in value for surplus capacity subject to optimisation depends on whether that surplus capacity has an alternative use to the current use of the asset. Where there is no alternative use, the optimised value of the surplus capacity is zero. Where there is an alternative use, the optimised value of the surplus capacity is the value of the highest and best alternative use of that capacity.

NZ 33.8 To illustrate the distinction described in paragraph NZ 33.7 between surplus capacity not having an alternative use to the current use of the asset and that which does, consider the following example. Assume depreciated replacement cost is to be determined for a network of water pipes where the pipe diameter is greater than currently required or ever expected to be required (including that necessary for stand-by or for safety purposes). There is also a discrete segment of the piping network that is similarly not required for the current use of the asset but which can be closed off and used for other purposes, such as a liquid storage facility. In this case, the surplus diameter of the piping would be disregarded for valuation purposes but the surplus segment of the piping network would be valued at its highest and best alternative use.

NZ 33.9 In most cases, surplus capacity subject to optimisation is expected to be disregarded in determining the depreciated replacement cost of an asset. Such surplus capacity is unlikely to have an alternative use unless it is physically and operationally separable from the required capacity.

NZ 33.10 In determining depreciated replacement cost, optimisation for obsolescence and relevant surplus capacity is applied only to the extent that it reflects the most probable use of the asset that is physically possible, appropriately justified, legally permissible and financially feasible.

NZ 33.11 As evident from the definition of depreciated replacement cost, optimisation is applied only in determining the depreciated replacement cost of plant and equipment and in determining an estimate of the value of the improvements component of the depreciated replacement cost of property. Optimisation is not applied in determining the value of the land component of the depreciated replacement cost of property. The value of the land component will always reflect the fair value of the actual land held, in terms of both its size and location.

NZ 33.12 In instances where the land is underutilised, the fair value of the land will be determined by reference to the highest and best use of such land. For example, in a case where specialised manufacturing facilities are located in a prime central business district site but the operation would be able to be run from a smaller sized and/or less valuable alternative site offering the same service potential, the fair value of the land would be the open market value of the entire central business district-located site.

NZ 33.13 The fair value of land would normally be determined from market-based evidence. However, in the rare instances where extensive works have been carried out in order to prepare land for use in the entity's business, available market evidence will normally relate to land of the same size and in the same general vicinity but which is priced for uses that are sub-optimal relative to the use for which the works were carried out. In these rare instances the fair value of the land should be determined by having regard to the replacement cost of the land. For example, consider the case where an airport or port company acquires a section of seabed, fills it in and builds a seawall in order to produce flat land for use in the entity's business. The reclaimed land is in the precise location where the entity requires land. Market evidence may exist for other land of the same size and in the same general vicinity as the reclaimed land, but that other land is not suitable for the use intended by the entity. Thus, the market evidence on the fair value of that other land is not relevant to the reclaimed land, and the best indicator of the fair value of the reclaimed land would be the replacement cost of that land. Land resulting from extensive works by a local or central government body in constructing new roading provides a similar example.

NZ 33.14 If an entity elects to capitalise borrowing costs in accordance with NZ IAS 23, an amount equal to the amount of borrowing costs that would be embodied in the fair value of the asset is included as a component of depreciated replacement cost. The inclusion of such an amount as a component of depreciated replacement cost is consistent with the principle underlying the inclusion in the initial cost of an asset of borrowing costs eligible for capitalisation as permittted by NZ IAS 23. The amount to be included as a component of depreciated replacement cost is determined on the basis of the average debt-to-equity ratio and average cost of debt applicable to entities undertaking the same activities as the entity reporting.

34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

35 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

(a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its depreciated replacement cost.

(b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.

All Entities

NZ 35.1 Subject to paragraph NZ 35.3 valuations shall be conducted either:

(a) by an independent valuer; or

(b) where an entity employs a person sufficiently experienced to conduct a valuation, by that person, so long as the valuation has been subject to review by an independent valuer.

NZ 35.2 The fair value of property, plant and equipment is determined or reviewed by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property, plant and equipment being valued.

NZ 35.3 For plant and equipment, where there is an active market or readily available price indices that establish the item's fair value with reasonable reliability, the valuation need not be conducted or reviewed by an independent valuer or experienced employee.

36 If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

37 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an entity's operations. The following are examples of separate classes:

(a) land;

(b) land and buildings;

(c) machinery;

(d) ships;

(e) aircraft;

(f) motor vehicles;

(g) furniture and fixtures; and

(h) office equipment.

38 The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

39 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Public Benefit Entities

NZ 39.1 Public benefit entities may account for revaluations of property, plant and equipment on a class of asset basis.

NZ 39.2 If the carrying amount of a class of assets is increased as a result of a revaluation, public benefit entities that elect to account for revaluations on a class of asset basis shall recognise the net revaluation increase in other comprehensive income and accumulate it in equity under the heading of revaluation surplus. However, the net revaluation increase shall be recognised in profit or loss to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in profit or loss.

40 If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

Public Benefit Entities

NZ 40.1 If the carrying amount of a class of assets is decreased as a result of a revaluation, public benefit entities that elect to account for revaluations on a class of assets basis under paragraph NZ 39.1 shall recognise the net revaluation decrease in profit or loss. However, the net revaluation decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in any revaluation surplus in respect of that same class of asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

NZ 40.1A The increase or decrease in a class of asset's carrying amount recognised in other comprehensive income in accordance with paragraph NZ 39.2 and NZ 40.1 shall be presented as a component of other comprehensive income in the statement of other comprehensive income (see NZ IAS 1 (as revised in 2007)).

NZ 40.2 Public benefit entities that elect to adopt the class of asset basis under paragraph NZ 39.1 shall offset revaluation increases and revaluation decreases relating to individual assets within that class of property, plant and equipment, but shall not offset such revaluation increases and revaluation decreases in respect of assets in different classes.

41 The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

42 The effects of taxes on income, if any, resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with NZ IAS 12 *Income Taxes*.

Depreciation

43 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

44 An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favourable or unfavourable lease terms relative to market terms.

45 A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

46 To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

47 An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

48 The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

49 The depreciation charge for a period is usually recognised in profit or loss. However, sometimes, the future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see NZ IAS 2). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with NZ IAS 38 *Intangible Assets*.

Depreciable Amount and Depreciation Period

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

51 The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

52 Depreciation is recognised even if the fair 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 do not negate the need to depreciate it.

53 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

54 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

55 Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with NZ IFRS 5 and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(a) expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

57 The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of the entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the entity with similar assets.

58 Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An

increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

59 If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

Depreciation Method

60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

61 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with NZ IAS 8.

Public Benefit Entities

NZ 61.1 The use of an asset management plan by an entity to manage items of property, plant and equipment does not negate the requirement to charge depreciation to reflect the consumption of economic benefits in accordance with paragraph 60 of this Standard. An appropriate depreciation charge will be determined only if each significant part of an item of property, plant and equipment is depreciated separately as required by paragraph 43 of this Standard.

NZ 61.2 An approach that has previously been adopted by some entities in accounting for infrastructure assets is commonly referred to as the long-run-average-renewals-approach (LRARA). The expense for the period that results from the application of LRARA is not an appropriate estimate of depreciation for the purposes of this Standard. The application of LRARA does not comply with this Standard because the expense for the period is determined based on projected expenditure for a limited future period rather than based on the consumption of the service potential embodied in the carrying amount of the asset.

62 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

Impairment

63 To determine whether an item of property, plant and equipment is impaired, an entity applies NZ IAS 36 *Impairment of Assets*. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.

64 [Deleted by IASB]

Compensation for Impairment

65 Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

66 Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of items of property, plant and equipment are recognised in accordance with NZ IAS 36;

(b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining profit or loss when it becomes receivable; and

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.

DERECOGNITION

67 The carrying amount of an item of property, plant and equipment shall be derecognised:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

68 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless NZ IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

68A However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with NZ IAS 18 *Revenue*. NZ IFRS 5 does not apply when assets that are held for sale in the ordinary course of business are transferred to inventories.

69 The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in NZ IAS 18 for recognising revenue from the sale of goods. NZ IAS 17 applies to disposal by a sale and leaseback.

70 If, under the recognition principle in paragraph 7, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

71 The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

72 The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with NZ IAS 18 reflecting the effective yield on the receivable.

DISCLOSURE

73 The financial statements shall disclose, for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:[*]

(i) additions;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with NZ IFRS 5 and other disposals*;*

(iii) acquisitions through business combinations;

[*] Refer to paragraph NZ 5.5 of this Standard for a description of the concession available to qualifying entities.

(iv) increases or decreases resulting from revaluations under paragraphs 31, 39 and 40 and from impairment losses recognised or reversed in other comprehensive income in accordance with NZ IAS 36;

(v) impairment losses recognised in profit or loss in accordance with NZ IAS 36;

(vi) impairment losses reversed in profit or loss in accordance with NZ IAS 36;

(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

(ix) other changes.

74 The financial statements shall also disclose:

(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

***(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;**

(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and

***(d) if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.**

75 Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and

(b) accumulated depreciation at the end of the period.

76 In accordance with NZ IAS 8 an entity discloses 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 periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, removing or restoring items of property, plant and equipment;

(c) useful lives; and

(d) depreciation methods.

77 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

(a) the effective date of the revaluation;

(b) whether an independent valuer was involved;

(c) the methods and significant assumptions applied in estimating the items' fair values;

(d) the extent to which the items' 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) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and**

(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Public Benefit Entities

NZ 77.1 Public benefit entities are not required to disclose, for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model, as required by paragraph 77(e).

All Entities

NZ 77.2 An entity shall disclose in respect of each valuation conducted in accordance with paragraph NZ 35.1:

(a) the name of each valuer;

(b) a statement in respect of each valuer as to whether they are an employee of the entity or whether they are contracted as an independent valuer;

(c) the total fair value of property, plant and equipment valued by that valuer;

(d) where the valuation has been conducted by an employee of the entity the name of the independent valuer who reviewed the valuation; and

(e) the date(s) of such valuations.

NZ 77.3 Where an entity has not used an independent valuer because there is an active market or readily available price indices that establish the fair value an item of plant or equipment with reasonable reliability in accordance with paragraph NZ 35.3, an entity shall disclose this fact.

78 In accordance with NZ IAS 36 an entity discloses information on impaired property, plant and equipment in addition to the information required by paragraph 73(e)(iv)-(vi).

79 Users of financial statements may also find the following information relevant to their needs:

(a) the carrying amount of temporarily idle property, plant and equipment;

(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with NZ IFRS 5; and

(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

TRANSITIONAL PROVISIONS

80 The requirements of paragraphs 24-26 regarding the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

EFFECTIVE DATE

81 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

81A [Not used]

81B NZ IAS 1 (as revised in 2007) amended the terminology used throughout New Zealand equivalents to IFRSs. In addition it amended paragraphs 39, NZ 39.2, 40, NZ 40.1 and 73(e)(iv) and inserted NZ 40.1A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies NZ IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

81C NZ IFRS 3 *Business Combinations* (as revised in 2008) amended paragraph 44. An entity shall apply that amendment for annual periods beginning on or after 1 July 2009. If an entity applies NZ IFRS 3 (revised 2008) for an earlier period, the amendment shall also be applied for that earlier period.

81D Paragraphs 6 and 69 were amended and paragraph 68A was added by *Improvements to NZ IFRSs* issued in June 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and at the same time apply the related amendments to NZ IAS 7 *Statement of Cash Flows.*

81E Paragraph 5 was amended by *Improvements to NZ IFRSs* issued in June 2008. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2009. Earlier application is permitted if an entity also applies the amendments to paragraphs 8, 9, 22, 48, 53, 53A, 53B, 54, 57 and 85B of NZ IAS 40 at the same time. If an entity applies the amendment for an earlier period it shall disclose that fact.

WITHDRAWAL OF OTHER PRONOUNCEMENTS

82-83 [Paragraphs 82 and 83 are not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

Appendix

Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

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The amendments contained in this appendix when this Standard was issued in 2003 have been incorporated into the relevant pronouncements published in this volume.