Republic of Kenya

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

IPSAS 45

Property Plant & Equipment

Guideline

March 2024

TABLE OF CONTENT

1. Introduction

Background

The International Public Sector Accounting Standards Board (IPSASB) issued International Public Sector Accounting Standards (IPSAS) 45 "Property Plant and Equipment." in May 2023 for application for periods beginning 1st January 2025. In Kenya, the standard is applicable from 1st July 2025.

The objective of this Standard is to prescribe the accounting treatment for Property, Plant, And Equipment (PPE). The principal issues in accounting for PPE are the recognition of the assets, determination oftheir carrying amounts, depreciation charges, and impairment losses to be recognized in relation to them.

2. Scope

All entities using the IPSAS accrual accounting basis shall apply this Standard in accounting for PPE, except when another Standard requires or permits a different accounting treatment.

This standard applies to all PPE, which include:

a) **Heritage assets**, e.g., historical sites, archeological sites, paleontological items, monuments, scientific collections
b) **Infrastructure Assets,** e.g., power lines, roads, water systems, and communication network assets.
c) **Service Concession arrangements** after initial recognition and measurement. e.g., roads, bridges, tunnels, airports, energy distribution networks, prisons, or hospitals
d) **Weapon systems** such as warships, tanks, aircraft, and submarines.

This Standard does not apply to:

a) Biological assets except for bearer plants.
b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.
c) Property, plant, and equipment that are classified as held for sale.
d) The recognition and measurement of exploration and evaluation assets.

   However, this Standard applies to PPE used to develop or maintain the assets described in (a), (b) and (d).

3. Definitions of Key Terms

a) **Carrying amount:** This is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

b) **Class of property, plant, and equipment** means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosurein the financial statements.

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

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

e) **Property, plant, and equipment** are tangible assets that:
   - Are held for use in the production or supply of goods or services, for rental to others,or for administrative purposes; and
   - Are expected to be used during more than one reporting period.

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

g) **Useful life** is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset byan entity.

h) **Historical cost** is the consideration given to acquire, construct, or develop an asset plus transaction costs or the consideration received to assume a liability minus transaction costs at the time the asset is acquired, constructed, or developed or the liability is incurred.

i) **Current operational value** is the amount the entity would pay for an asset's remaining service potential at the measurement date.

j) **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

k) **Deemed cost** is an amount used as a substitute for transaction price at the measurement date.

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

m) **Recoverable service amount** is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

n) **Finite** Lasting for a known period or stated length of time.

o) **Indefinite** lasting for an unknown or unstated length of time.

4. Recognition

An item of Property, Plant, And Equipment shall be recognized if, and only if:

a) It is probable that future economic benefits or service potential associated with the item will flow to the entity, and
b) The item can be measured reliably.

Heritage Assets:
If an entity holds heritage property, plant, and equipment that meets the definition of an asset but does not meet the set recognition criteria, then they shall be disclosed in the notes to the financial statements. When information about the cost or current value of the heritage property, plant, and equipment becomes available, the entity shall, from that date, recognize the heritage property, plant, and equipment in accordance with the recognition criteria and apply the measurement principles set.

Unit of Measure for Recognition
An entity shall apply judgment in prescribing the unit of measure for recognition. An entity may, as appropriate:

- Disaggregate individually significant items, such as floors of a building, into separate units of account when the objective for which the entity holds the building is both for operational and financial capacity or

- Aggregate individually insignificant items in a similar class, such as library books, computer accessories, and small items of equipment, and apply the criteria to the aggregate value.

Items for safety and environmental reasons.
Auxiliary Items of PPE required for safety or environmental reasons qualify for recognition as assets because:

- they enable an entity to derive future economic benefits or service potential from related assets more than what could be derived had those items not been acquired, constructed, or developed.
- Without them, the entity is unable to operate the primary asset.

5. Measurement

Initial Measurement

An item of PPE that qualifies for recognition shall be measured at its cost except where the item is acquired through a non-exchange transaction.

PPE acquired through a non-exchange transaction shall be measured at its deemed cost. Initial measurement at deemed cost shall not constitute a revaluation.

Elements of Cost

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.

Examples of directly attributable costs are:

a) Costs of employee benefits arising directly from the acquisition, construction, or development 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.
f) Professional fees.

The following costs shall not be included in the cost 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.
c) Costs of relocating or reorganizing part or all of the entity's operations.

Measurement of Cost
The cost of an item of Property, Plant, And Equipment is the cash price equivalent or deemed cost at the recognition date.

Sample Question

You are the financial director of a public sector entity that manages a diverse portfolio of assets, including a historical museum with valuable art collections (heritage assets), a newly constructed bridge (infrastructure asset) on a recently purchased piece of Land, and ongoing renovations of a historic building to serve as a new office space. Your entity has adopted IPSAS 45 for its financial reporting. Consider the following scenarios and answer the related questions:

Question 1: The Museum recently purchased a rare manuscript at an auction for KES 20 million. Additional costs were incurred for its authentication (KES 500,000), administration (KES 400,000), and transportation (KES 200,000) to the museum. Should this manuscript be recognized as an asset under IPSAS 45, and by how much?

Answer: Yes, the rare manuscript qualifies as an asset under IPSAS 45, which mandates the recognition of assets that are probable to bring future economic benefits and whose cost can be measured reliably. For the manuscript, this includes the auction purchase price (KES 20 million), authentication costs (KES 500,000), and transportation costs (KES 200,000). Administration costs, being indirect, are not capitalized. Hence, the manuscript's total capitalized cost is KES 20.7 million.

Question 2: The Museum decides to use part of its existing collection, valued at KES 15 million, to fund the manuscript's acquisition. How should the disposal of assets to acquire another asset be reflected under IPSAS 45?

Answer: The disposal of assets to acquire another asset should be accounted for as a part of the exchange transaction, reflecting the fair value of the assets given up.

Question 3: The construction of the new bridge involved costs for land acquisition (KES 100 million), design fees (KES 50 million), construction materials (KES 1 billion), labor (KES 300 million), cost of opening the new bridge (KES 5M) and interest payments during construction (KES 20 million). Which of these costs should be capitalized under IPSAS 45?

Answer: Under IPSAS 45, costs that should be capitalized for the bridge include design fees (KES 50 million), construction materials (KES 1 billion), labor (KES 300 million), and interest payments during construction (KES 20 million). These are directly attributable costs necessary to bring the asset to its intended location and condition for use. However, the cost of opening the new bridge (KES 5 million) typically would not be capitalized, as it is considered a postconstruction expense not directly attributable to the construction or acquisition of the bridge itself. Land costs shall be capitalized separately.

Question 4: After the bridge was completed, it was determined that additional safety features costing KES 50 million were needed due to updated regulations. How should these costs be treated under IPSAS 45?

Answer: The costs of additional safety features should be capitalized when they provide additional future economic benefits or enhance the bridge's service potential beyond its original assessment.

Question 5: After the bridge's completion, KES 10 million was spent landscaping the surrounding area for aesthetic purposes. Should these costs be capitalized under IPSAS 45?

Answer: Landscaping costs should be treated differently; they should be expensed unless they can be shown to provide additional future economic benefits.

Question 6: The renovations of the historic building include costs for structural enhancements (KES 100 million), aesthetic improvements (KES 30 million), and modernization of electrical systems (KES 50 million). How should each type of cost be treated under IPSAS 45?

Answer: Structural enhancements and electrical system modernization, totaling KES 150 million, should be capitalized. The treatment of aesthetic improvements depends on their impact on future economic benefits or service potential.

Question 7: The historic building's renovation project was interrupted, resulting in idle facility costs of KES 5 million for three months. Should these costs be included in the building's carrying amount?
Answer: According to IPSAS 45, costs not directly attributable to bringing an asset to the condition and location necessary for it to operate in the manner intended by management should not be capitalized. Therefore, the idle facility costs of KES 5 million should not be included in the building's carrying amount and should be recognized as an expense.

Subsequent Measurement

i. **Historical Cost Model**

Historical cost measurement basis provides monetary information about assets, liabilities, and related revenue and expenses, using information derived, at least in part, from the price of the transaction (or deemed cost, where applicable) or another event that gave rise to them.

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

ii. Current Value Model

After recognition, an item or part of an item of PPE whose current value can be measured reliably shall be carried at a revalued amount, being its current operational value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

The primary objective for which an entity holds an item or part of an item of PPE determines the current value measurement basis.

The measurement basis used to measure current value, either current operational value or fair value, shall be applied consistently to an item or part of an item of PPE at each measurement date unless the primary objective for which the entity holds an item or part of an item of PPE has changed. In that case, a change in the current value measurement basis, from current operational value to fair value, or vice versa, is appropriate.

Revaluation of PPE

Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the reporting date.

The frequency of revaluations depends upon the changes in the current values of the items of PPE being revalued.

It may be necessary to revalue PPE items only every three (3) or five (5) years where volatility in current values is insignificant. However, some items of PPE may experience significant and volatile changes in current value, necessitating annual revaluation.

Items within a class of PPE 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 at different dates.

If the carrying amount of a class of assets increases due to a revaluation, the increase shall be credited directly to the revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.

If the carrying amount of a class of assets decreases because of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

Revaluation increases and decreases relating to individual assets within a class of PPE must be offset against one another within that class but must not be offset in respect of assets in different classes.

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.

Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26 do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.

Accounting treatment for revalued PPEs

At the date of the revaluation, the asset is treated in one of the following ways:

a) The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset or
b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

A class of PPE is a grouping of assets of a similar nature or function in an entity's operations.

The following are examples of separate classes: land, operational buildings, machinery, ships, aircraft, weapons systems, motor vehicles, furniture and fixtures, office equipment, oil rigs, bearer plants, heritage collections, and Infrastructure.

When grouping property, plant, and equipment into classes, an entity may identify items of similar nature but held for distinct functions or vice versa.

6. Depreciation

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

Depreciation starts when the asset is available for use in the location and condition necessary for its use.

The depreciation charge for each period shall be recognized in surplus or deficit. However, in cases where the economic benefits or service potential embodied in an asset is absorbed in producing other assets, the depreciation charge is included as part of the cost of the produced asset.

Where an item of PPE is composed of different parts with varying useful lives, an entity shall allocate the initial cost recognized in respect of the PPE to its significant parts and depreciate each part separately. 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 together in determining the depreciation charge.

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.

Depreciation shall cease on the earlier of the asset's inclusion in a disposal group and the date it is derecognized.

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.

Depreciable Amount and Depreciation Period

The depreciable amount of an asset shall be allocated systematically over its useful life. The depreciable amount of an asset is determined after deducting its residual value.
The residual value and useful life of an asset shall be reviewed at least at each annual reporting date. If expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

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.

Sample Questions

Viwanda Ltd acquired a building for Kshs 600,000. On 30 June 2025, the accumulated depreciation on the building was Kshs 100,000. The company applies the revaluation model.

However, the market value of the building proved to be Kshs. 550,000 as at 30 June 2025.

Present financial position at of 30 June.2025.

After one year, the value of the building dropped sharply to Kshs 350,000 because of external factors (the world financial crisis). The Depreciation for the year was Kshs 22,000.

What will Viwanda Ltd recognize in its financial statements as of 30 June 2026?

Viwanda Ltd

Initial cost	600,000
Accumulated Depreciation	100,000
NBV at revaluation date	500,000
Revaluation at June 2025	
Fair value	550,000
Revaluation Surplus	50,000
Adjusting the Books Upon Revaluation	
Method 1	
Dr. Accumulated Depreciation	100,000
Cr. PPE Building	100,000
Dr. PPE building	50,000
CR. Revaluation surplus	50,000
Alternative	
Dr Accumulated Depreciation	50,000
Cr Revaluation Surplus	50,000
Year 2026	
Net book Value (550,000 – 22,000)	528,000
Fair value	350,000
Decrease in Value	178,000

Debit revaluation surplus 50,000 (Reversal of gains made in the past)	50,000
Debit Surplus/deficit (178,000-50,000)	128,000
Credit PPE	(178,000)

Fully Depreciated Assets

An asset whose depreciable amount has been fully allocated over its useful life such that it carrying amount is reduced to NIL would be considered fully depreciated.

Fully depreciated assets shall continue to be held in the books of an entity unless they satisfy the derecognition criteria.

Disclosures on the values of fully depreciated assets should be provided in line with the disclosure requirements.

Finite and Indefinite Useful Lives

An entity shall assess whether the useful life of an item of PPE is finite or indefinite and, if finite, the length of or number of production or similar units constituting that useful life. Land usually has an indefinite useful life. Property, plant, and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to or be used to generate net cash inflows for the entity.

An item of PPE with a finite useful life is depreciated over the useful life. An item of PPE with an indefinite useful life is not depreciated.

The useful life of PPE should reflect evidence of factors that could affect it at the time of estimating the asset's useful life.

The useful life of an item of PPE may be extraordinarily long or even indefinite. Uncertainty about an asset's useful life when it is extraordinarily long does not justify choosing a life that is unrealistically short.

Depreciation Method

The depreciation method shall reflect the pattern in which the entity is expected to consume the asset's future economic benefits or service potential.

A variety of depreciation methods can be used to allocate an asset's depreciable amount 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.

The depreciation method applied to an asset shall be reviewed at each annual reporting date for any change in expected pattern of consumption of economic benefits and/or service rendering potential embodied in the asset, if there has been a significant change, 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 IPSAS 3**.**

Illustrative Example

Coastal Plc.'s CFO is working on the closing of the year 2025's accounts. She performs the review of the machines used in the process of the production and assembly of Coastal's products(cars) and finds out:

On 1st January 2025, a Machine bought in January 2023 at Kshs 800,000 with an initial useful life of 6 years has its useful life extended by two years beyond the initial assessment.

After revaluation, the value of the machine was Kshs 600,000 as of 1 January 2025.

Required:

- Netbook Value as at 31st December 2024
- Netbook value as at 31st December 2025

Solution

Acquisition date:	1-Jan-2023
Original estimated useful life	6
Cost:	800,000
Original annual depreciation charge:	133,333
Acc depreciation @1-Jan-2025:	266,667
Carrying amount @1-Jan-2025	533,333

Revaluation

Carrying amount before revaluation	533,333
Fair value	600,000
Revaluation surplus	**33,333**

Dr. PPE (building)	33,333
Cr. Revaluation surplus	33,333

Net Book Value at 31st December 2025

Calculating depreciation charge:	
Revalued amount	600,000
Remaining useful life:	6 years

Depreciation charge	100,000
Net Book Value	500,000

Timings of Asset Revaluation

When revaluation is done at the start of the year, it shall be accounted for immediately, and depreciation shall be charged on the revalued amount over the remaining useful life.

Where revaluation is carried out at the end of the year, the asset revaluation gain/loss would be calculated based on the new carrying amount, at which point the revaluation shall be accounted for.
When revaluation takes place in the middle of the year or during the year, the carrying amount of the asset should be established as at the date of revaluation. Once the asset is revalued, the depreciation for the year would be based on the revalued amount.

Sample Question

You are the Accountant for XYZ Public Entity, tasked with managing the financial records of a building asset. The scenario below unfolds over three years, with specific financial events impacting the building's value.

a) Year one: Depreciation

The building was initially valued at KES 2,000,000 at the beginning of Year 1. The entity applies a straight-line depreciation method at an annual rate of 2%.

Question: What journal entries will you record at the end of Year 1 to account for depreciation? Consider the depreciation expense and its impact on the net book value (NBV) of the building.

b) Year 2: Impairment Loss Due to Fire

In Year 2, the building suffered damage from a fire, leading to some damage. At the beginning of Year 2 the building is revalued and determined to have a value of KES 1,900,000.

Question: What journal entries will you record to recognize the impairment loss? Also, detail the depreciation entries needed at the end of Year 2.

c) Year 3: Mid-Year Revaluation After Repairs

Halfway through Year 3, after repairs and refurbishment the building is revalued and found to have a value of KES 2,250,000.

Question: what entries will you pass in Year 3 to reflect the adjusted value of the building?

Solution

Year One:

Journal entries will be as follows:

- Dr. Depreciation Kshs 40,000 (2% X 2M)
- Cr. Accumulated Depreciation Kshs 40,000
- NBV will be Kshs 1,960,000. (2M -40,000)

Year two:

A fire destroys part of the building at the beginning of year two. The building is now estimated to be valued at Kshs. 1900,000. Assume a remaining useful life of 50 years.

The entries at the beginning of the year are:

- Dr Loss on Impairment with Kshs.60,000. (NBV of Kshs 1.96m – 1.9m)
- Cr. Buildings with Kshs.60,000

The Carrying amount of the building will be Kshs.1,900,000

The entries at the end of the year are:

- Dr. Depreciation Kshs 38,000. (1.9 m/ 50 years)
- Cr. Accumulated Kshs 38,000
- Cr. Building with Kshs 38,000

The NBV of the building will be Kshs 1,862,000. (Kshs 1.9m – 38,000)

Year Three

In the middle of year 3, after repairs and refurbishment, the building is revalued at Kshs.2,250,000. What entries will you pass to recognize the change? Assume a remaining useful life of 50 years.

The entries at the middle of the year are:

- Dr. Depreciation Kshs 19,000
- Cr. Accumulated depreciation Kshs 19,000

As a result of revaluation, we first reverse the Accumulated depreciation by

- Dr. Accumulated depreciation Kshs 57,000
- Cr. Revaluation reserve Kshs 57,000

The carrying amount of the asset is Kshs 1,843,000; factoring in the revalued amount of Kshs 2,250,000, the revaluation gain is Kshs 407,000.

First, let's recognize the increase in value.

- Dr. Building with Kshs 407,000
- Cr. Revaluation Surplus Kshs 347,000
- Cr Impairment loss (Income statement) Kshs 60,000

This recognizes the reversal of the previously recognized impairment loss and the revaluation gain and raises the value of the asset to Kshs 2,250,000

The Revalued amount of the building is Kshs, 2,250,000,

the entries at the end of the year:

Depreciation charge 22,500(2,250,000*2%* 6/12) being half-year depreciation charge.

- Dr. Depreciation Kshs 22,500
- Cr. Accumulated depreciation Kshs 22,500.

The NBV of the building at the end of year 3 in the financial position will now be Kshs.2,227,500.

7. Impairment

Impairment occurs when the carrying amount is greater than the recoverable amount.

An entity shall apply IPSAS 21 or IPSAS 26 to determine whether an item of PPE is impaired.

Example (Impairment)

ABC Co. has a vehicle with a carrying value of Kshs 100,000, which has suffered physical damage.

According to the company's calculation, the vehicle has a net realizable value of Kshs.80,000 and a value in use of Kshs.75,000. Make the Journal entry for the impairment loss.

Solution

The recoverable amount of the vehicle is its net realizable value of Kshs. 80,000, which is higher than its value in use. However, it is still lower than the vehicle's carrying value of Kshs. 100,000.

Therefore, ABC Co. must record an impairment loss of Kshs. 20,000 (Kshs. 100,000 – Kshs. 80,000). The double entry for recording the loss is as follows.

- Dr. Impairment loss Kshs. 20,000
- Cr Accumulated Impairment losses on Balance Sheet Kshs. 20,000

After the loss, ABC Co.'s expenses will increase by Kshs. 20,000, while its total assets would decrease by the same amount as well.

8. Derecognition

Property Plant and Equipment is derecognized when:

- It is disposed of.
- There are no future economic benefits or service potential from its use or disposal.

Upon derecognition, any gain or loss is included in the statement of financial performance. The gain or loss is not revenue.

Where the replacement of a part of an asset is recognized separately, the carrying amount of the replaced part is derecognized regardless of whether it was depreciated separately. Where it is not practicable to determine the carrying amount of the replaced part, an entity may use the cost of the replacement as an indication of what the cost of the replaced part was at the time of acquisition, construction, or development.

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

The consideration receivable on disposal of PPE is recognized initially at its fair value, and where the payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount (current price) of the consideration and the cash price equivalent is recognized as interest revenue.
When PPE previously revalued is disposed of, any remaining surplus on the revaluation should be transferred to the accumulated surplus.

Note:
If an entity routinely sells items of PPE that it has held for rental to others during its activities, it 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 recognized as revenue.

IPSAS 44 Non-Current Assets Held for Sale and Discontinued Operations does not apply when assets that are held for sale in the ordinary course of its operations are transferred to inventories.

Illustrative Example
An entity has equipment whose historical cost is Kshs. 150 million. The equipment has an accumulated depreciation of Kshs. 70 million has been sold for Kshs. 100 million. How is the sale accounted for?

Solution.

As at the date of sale, the carrying amount of the asset is:

- Equipment at cost 150 million
- Acc Dep 70 million
- Carrying Amount 80 million

The entity will reverse the cost and the accumulated depreciation and then account for the derecognition.

- Dr. Acc Dep 70 million

- Cr Equipment 150 million

- Dr. Bank 100 million
- Cr Gain on sale of the equipment 20 million.

9. Disclosures

General Disclosures.

The financial statements shall disclose, for each class of PPE recognized in the financial statements:

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.
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 are classified as held for sale in accordance with IPSAS 44 and other disposals.
    iii. Acquisitions through public sector combinations
    iv. Increases or decreases resulting from revaluations under paragraphs 29, 36, and 37 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate.
    v. Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate.
    vi. Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate.
    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.
    ix. Other changes.

Specific Disclosures

- The existence and amounts of restrictions on title and PPE pledged as securities for liabilities.
- The amount of expenditure recognized in the carrying amount of an item of PPE during its construction or development.
- The amount of contractual commitments for the acquisition, construction, or development of PPE.

Disclosures where there is no presentation in the Statement of Financial Performance.

- The amount of compensation from third parties for PPE impaired, lost, or given up included in surplus or deficit.
- The amounts of proceeds and costs included in surplus or deficit that relate to items produced that are not an output of the entity's ordinary activities and which line item(s) in the statement of financial performance include(s) such proceeds and cost.

Disclosure on estimates and judgements

- Depreciation method and rates
- Useful life

Disclosures for PPE stated at revalued amounts.

- The effective date of the revaluation.
- Whether an independent valuer was involved.
- The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners.
- The sum of all revaluation surpluses for individual items of PPE within that class.
- The sum of all revaluation deficits for individual items of PPE within that class.

Other Encouraged Disclosures

- The carrying amount of temporarily idle PPE.
- The gross carrying amount of any fully depreciated PPE that is still in use.
- The carrying amount of PPE retired from active use and not classified as held for sale in accordance with IPSAS 44.
- When the historical cost model is used, the current value (current operational value or fair value) of PPE is materially different from the carrying amount.

Disclosure of unrecognized heritage assets

If, at initial measurement, heritage assets are not recognized in the financial statements because the cost or current value cannot be measured reliably, an entity shall disclose:

- The difficulties in obtaining a reliable measurement that prevented recognition.
- The significance of the unrecognized heritage PPE in relation to the delivery of the entity's objectives.

o

Current Value Measurement Disclosures

Objectives of current value measurement disclosures is to provide information on:

1. The valuation techniques and inputs used to develop the measurements for PPE measured at current operational value or fair value in the statement of financial position after initial recognition.
2. The effect of the measurements on surplus or deficit or net assets/equity for the period for fair value measurements using significant unobservable inputs (Level 3) or current operational value measurements estimated using significant unobservable inputs.

To meet the above two objectives, an entity should consider disclosing the following:

a) The level of detail necessary to satisfy the disclosure requirements.
b) How much emphasis should be placed on each of the various requirements?
c) How much aggregation or disaggregation to undertake.
d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

Entities are required to disclose any additional information to ensure the objectives are met.

Disclosures for PPE that are measured at Current Operational Value or Fair Value.

1. The current operational value or fair value measurement at the end of the reporting period.
2. If there has been a change in measurement basis (e.g., changing from current operational value to fair value), a disclosure of that change and the reason(s) for the change.
3. **For current operational value measurements,** whether the current operational value measurements are estimated using observable or unobservable inputs. **For fair value measurements**, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3).
4. For current operational value or fair value measurements estimated using unobservable inputs:
   - A description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement.
   - If there has been a change in measurement technique (e.g., changing from a cost approach to a market approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it.

- For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value or fair value measurements estimated using significant unobservable inputs, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement.

  An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure, an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity.

5. For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

- Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized.
- Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized.
- Purchases and sales (each of those types of changes is disclosed separately).

For fair value measurements categorized within Level 3 of the fair value hierarchy or for current operational value estimated using significant unobservable inputs, the entity should also disclose the following:

6. The amount of the total gains or losses for the period included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those items of PPE held at the end of the reporting period and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized.
7. A description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period).

8. A narrative description of the sensitivity of the current operational value or fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower current operational value or fair value measurement. If there are

interrelationships between those inputs and other unobservable inputs used in the current operational value or fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the current operational value or fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with a description of the measurement techniques and inputs.

An entity may further disaggregate classes of PPE based on the measurement bases applied, the level of the fair value hierarchy within which the fair value measurement is categorized, or the extent to which the current operational value uses observable or unobservable inputs.

Fair value measurements categorized within level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, have a greater degree of uncertainty and subjectivity and, therefore, may need disaggregation into more classes.

For each class of PPE measured on the historical cost basis in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall only disclose the following:

- Any change in measurement basis and the reason(s) for the change, e.g., from current operational value to fair value.
- For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs. For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3).
- For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using significant unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in current operational value or fair value measurements from period to period).

Note: An entity to present the quantitative current value measurement disclosures in a tabular format unless another format is more appropriate.

10. Effective Date and Transition.

Entities that adopt this standard earlier than the effective date are encouraged to disclose this fact. However, this standard can only be adopted early for entities that apply IPSAS 43, IPSAS 44, and IPSAS 46 at or before the date of initial application of the Standard.

An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, except that:

1. An entity may elect to measure heritage assets at their deemed cost when reliable cost information about these assets is not available at the date of application of this standard.
2. If, on initial application of this Standard, there is a difference between the previous carrying amount at fair value and the new carrying amount at fair value or current operational value, an entity shall recognize that difference as an adjustment to the opening accumulated surplus or deficit (or other component of net assets/equity, as appropriate) without restatement of comparative information.

11. Frequently Asked Questions

Q1. What is the effective date for IPSAS 45?

- 1st January 2025. However, In Kenya, the effective date is 1st July 2025.

Q2. What new areas does IPSAS cover compared to IPSAS 17?

- IPSAS 45 removes the scope exclusion of heritage assets and provides their characteristics, accounting treatment, and disclosure requirements.

- The standard also provided additional guidance for infrastructure assets, describing their characteristics and applicable accounting treatments.

- IPSAS provides changes in the measurement of PPE. It provides guides on initial measurement for PPE acquired through non-exchange transactions. For subsequent measurement, the standard provides two current value measurements: current operational value and fair value.

Q3. What is the initial recognition criteria for property, plant, & equipment?

- Property, plant, and equipment should be recognized as assets when it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

Q4. What are the depreciation methods allowed for property, plant, and equipment?

- IPSAS 45 allows for various depreciation methods, such as the straight-line method, the diminishing balance method, and the units of production method. The method chosen should reflect the pattern in which the entity consumes the asset's economic benefits.

Q5: **What are the disclosure requirements for property, plant, and equipment in IPSAS-compliant financial statements?**

- IPSAS requires entities to disclose information such as the measurement model used for property, plant, and equipment, depreciation methods employed, revaluation policies, and restrictions on title or assets pledged as security.

Disclaimer:
This guideline has been prepared as guidance to public sector entities in Kenya for the implementation of IPSAS 45. However, it does not serve as an advisory or complete standard documentation or a replacement for IPSAS 45. For further engagements on IPSAS 45, reach out to us at acctstandards@psasb.go.ke