

EXPOSURE DRAFT

National Accounting Standard for Commercial Organisations (NASCO 7)

PROPERTY, PLANT AND EQUIPMENT

General Provisions

1. This standard has been prepared in accordance with article 6 of Accounting Law of Azerbaijan Republic and based on International Accounting Standard 16 Property, Plant and Equipment.
2. This standard should be used, taking into account additional provisions contained in Rules of Bookkeeping and also in Explanations and Recommendations on its Application.
3. In the case of conflict between previous legislation and this standard this standard will prevail.

Objective

4. The objective of this Standard is to prescribe the accounting treatment and requirements for disclosure of property, plant and equipment.

Scope

5. This standard should be applied in the case of presentation of all financial statements which are declared consistent with National Accounting Standards for Commercial Organizations.
6. This standard applies to both the financial statements of an individual enterprise and to the consolidated financial statements for a group of enterprises.
7. This standard applies to all types of commercial enterprises that prepare financial statements in accordance with Article 9 of the Accounting Law of the Azerbaijan Republic.
8. This standard should be applied in the case of all items of property, plant and equipment except those excluded by paragraphs 9 and 10 of this standard.
9. This standard shall not be applied when another National Accounting Standard for Commercial Organisations requires or permits a different accounting treatment and disclosure requirements.
10. Specifically, this standard does not apply to:
 - (a) Biological Assets related to agricultural activity¹;
 - (b) Investment Property²;
 - (c) Rights to and reserves of natural and non-regenerative resources³.
11. This Standard does not prescribe the unit of measure for recognition, i.e. 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.

Definitions

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

¹ This will be covered by a later NASCO based on IAS 41

² This will be covered by a later NASCO based on IAS 40

³ This in line with the 2003 IAS 16 which seeks to clarify the position – the inclusion of the terms “rights” and “reserves” is critical to the scope.

Property, plant and equipment are non-current tangible assets that are held by an enterprise for use:

- (i) in the production or supply of goods or services;
- (ii) rental to others; or
- (iii) for administrative purposes.

Depreciation is the systematic allocation of the depreciable amount of an item of property, plant or equipment over its useful life.

Depreciable amount is the cost of an item of property, plant or equipment, or where an item of property, plant or equipment is revalued, the revalued amount, less its residual value.

Useful life of an item of property, plant or equipment is either:

- (i) the period of time over which the item of property, plant or equipment is expected to be used by the enterprise; or
- (ii) the number of production or similar units expected to be obtained from the item of property, plant or equipment by the enterprise.

Historical cost of an item of property, plant or equipment is the amount of cash or cash equivalents paid or the fair value of any other consideration given to acquire an asset at the time of its acquisition or construction.

Fair Value of an item of property, plant and equipment is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Residual value of an item of property, plant and equipment is the net amount which the enterprise expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

Value in use (or entity specific value) of an item of property, plant and equipment is the present value of the cash flows to a subject of accounting 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.

Recoverable amount is the higher of an item of property, plant and equipment's net selling price and its value in use.

Gross carrying amount is the carrying amount of the asset before accumulated depreciation and impairment losses are deducted.

Carrying amount of an asset is the amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses.

A class of property, plant and equipment is a grouping of assets of a similar nature and use in an enterprise's operations. Any item of property, plant and equipment being constructed or developed shall be classified in a separate class until the construction or development is complete. For example:

- (i) Land;
- (ii) Buildings;
- (iii) Machinery and Equipment;
- (iv) Vehicles;
- (v) Other items;
- (vi) Assets in the course of construction.

Similar items of property, plant and equipment – items of property, plant and equipment that are used in a same way for fulfilment of a similar function and having similar value.

Recognition of Property, Plant and Equipment

13. An item of property, plant and equipment should be recognised as an asset in accordance with Conceptual Framework to National Accounting Standards, viz:
 - (a) when it is probable that an economic benefit will flow to the enterprise; and
 - (b) the value of the asset can be reliably measured.
14. In determining whether an item satisfies the first criterion for recognition, a subject of accounting needs to assess the degree of certainty attaching to the flow of future economic benefits on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits will flow to the subject of accounting necessitates an assurance that the subject of accounting will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when both the risks and rewards have passed to the subject of accounting. Before this transfer occurs, the transaction to acquire the item of property, plant and equipment can usually be cancelled without significant penalty and, therefore, the item of property, plant and equipment is not recognised in the financial statements.

Usually the transfer of risks and rewards coincides with the transfer of ownership rights related to the item of property, plant and equipment.
15. The second criterion for recognition is usually satisfied through the purchase of the asset, when its cost is identified as the purchase price. In the case of a self-constructed asset, a reliable measurement of the cost can be made from the transactions with parties external to the enterprise for the acquisition of the materials, labour and other inputs used during the construction process.
16. Not only incoming but also previously recognised items of property, plant and equipment should satisfy recognition criteria of property, plant and equipment.
17. In identifying what constitutes a separate item of property, plant and equipment, judgement is required in applying the criteria in the definition to specific circumstances or specific types of enterprises. It may be appropriate to aggregate individually insignificant items, such as moulds, tools and dies, and to apply the criteria to the aggregate value.
18. Under the recognition principles in paragraph 13, 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.
19. Most spare parts and servicing equipment are usually carried as part of inventories (covered by NASCO 8 – Inventories) and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the enterprise 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 and their use is expected to be irregular, they are accounted for as property, plant and equipment and are depreciated over a time period not exceeding the useful life of the related asset.
20. An entity allocates the total expenditure on an asset to its component parts and accounts for each component separately when the components have different useful lives or provide benefits to the enterprise in a different pattern. In those circumstances, it is necessary to use of different depreciation rates and methods. For example, the airframe and engines of an aircraft need to be treated as separate depreciable assets if they have different useful lives.
21. Property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, while not directly increasing the future economic benefits of any particular existing item of property, plant and equipment may be necessary in order for the enterprise to obtain the future economic benefits from its other assets. When this is the case, such acquisitions of property, plant and equipment qualify for recognition as assets, in that they enable future economic benefits from related assets to be derived by the enterprise in excess of what it could derive if they had

not been acquired. For example, a chemical manufacturer may have to install certain new chemical handling processes in order to comply with environmental requirements on the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because, without them, the enterprise is unable to manufacture and sell chemicals.

22. 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.

Initial Measurement of Property, Plant and Equipment

23. An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost.
24. Where an item of property, plant of equipment is purchased its cost is measured at its historical cost.
25. Where an item of property, plant and equipment is acquired as a result of a swap or barter transaction, and this transaction is deemed to have commercial substance, its cost is measured at its fair value. When the fair value of the item of property plant and equipment acquired cannot be measured reliably, it should be measured at the fair value of the goods or services given up, adjusted by the amount of any cash equivalents transferred. If the fair value of neither asset can be established in accordance with the provisions of paragraph 34 then the asset acquired will be measured at the carrying amount of the asset given up. In this situation no income or loss will be recognised as a result of the exchange transaction.

Any difference between the fair value of the item of property, plant and equipment received and the fair value of the goods or services given up are dealt with in accordance with the provisions of NASCO 6 – Income.

26. Where an item of property, plant and equipment is acquired as part of a business combination its cost is measured in accordance with the provisions contained in those National Accounting Standards for Commercial Enterprises dealing with Business Combinations.

Components of Historical Cost

27. The historical cost of an item of property, plant and equipment comprises its:
 - (a) purchase price less any trade discounts, import duties and other non-refundable purchase taxes;
 - (b) any directly attributable costs of bringing the asset to the location and working condition for its intended use; and
 - (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.
28. Examples of directly attributable costs are:
 - (a) the cost of site preparation;
 - (b) initial delivery and handling costs;
 - (c) installation and assembly costs;

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- (d) costs of testing whether the item of property, plant and equipment is functioning properly, after deducting the net proceeds from selling any items produced while bringing the item of property, plant and equipment to that location and condition (such as samples produced when testing equipment);
 - (e) professional fees such as for architects and engineers;
 - (f) rewards paid to the intermediate parties in connection with purchase of assets;
 - (g) borrowing costs that are directly attributable to the acquisition, construction of property, plant and equipment or getting ready for its use, and if the enterprise applies the capitalisation policy for borrowing costs.
29. Borrowing costs indicated at paragraph 28 (g), are included in historical cost of an asset until the commissioning of an asset.
30. Costs not attributed to the acquisition of the asset or bringing the asset to working condition or location are not the components of historical cost of property, plant and equipment. Examples of costs that are not the components of historical cost of an asset:
- (a) administration and other general overhead costs if they are not attributed to the acquisition of the asset or bringing the asset to its working condition;
 - (b) start-up and similar pre-production costs if they are not attributed to the acquisition of the asset or bringing the asset to its working condition such as promotional activities;
 - (c) initial operating losses incurred prior to an asset achieving planned performance;
 - (d) costs of relocating or reorganizing part or all of the entity's operations;
 - (e) expenses on repair of the equipment damaged during installation or assembly;
 - (f) expenses for training of the personnel to job on the acquired equipment;
 - (g) property tax;
 - (h) unused discounts on purchase of the assets;
 - (i) borrowing costs that are directly attributable to the acquisition, construction of property, plant and equipment and if the enterprise does not apply the capitalisation policy for borrowing costs.
31. 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
32. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an enterprise makes similar assets for sale in the normal course of business, the historical cost of the items of property, plant and equipment is usually the same as the cost of producing the assets for sale as set out in NASCO 8 – Inventories.

Exchanges of Assets

33. An enterprise may acquire an item of property, plant and equipment in exchange or part exchange (with additional payment) for a similar or dissimilar item of property, plant and equipment or other assets. An entity determines whether an exchange transaction has commercial substance using the principles set out in paragraph 19 and 20 of NASCO 6 - Income.

These principles are that where goods (in this case property, plant and equipment) are exchanged for items of a similar nature and value, the exchange is not regarded as a transaction that has commercial substance.

Where items are exchanged for dissimilar items the exchange is regarded as a transaction that has commercial substance.

34. An item of property, plant and equipment acquired as part of an exchange transaction that has commercial substance is initially measured at its fair value. The fair value of the item of property plant and equipment may be established by:
 - (a) means of an expert valuation ; or
 - (b) reference to the normal selling price of the item acquired, adjusted by the amount of any cash equivalents transferred ; or
 - (c) reference to the normal selling price of the goods or services given up, adjusted by the amount of any cash equivalents transferred.
35. Where an exchange transaction is deemed to have commercial substance it is treated as the disposal of the item of property, plant and equipment given up and the acquisition of a new item of property plant and equipment. In this case any income or loss on the disposal of the item of property plant and equipment will be recognised in accordance with the provisions of NASCO 6 – Income.
36. Where an exchange transaction is deemed **not** to have commercial substance, since the earnings process is incomplete, NASCO 6 – Income, does not apply. Therefore no income or loss is recognized in the income statement. The acquired item of property plant and equipment is measured as equal to the carrying value of the item of property, plant and equipment given up in the exchange transaction.

Subsequent Expenditure

37. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognised should be added to the carrying amount of the item only when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.
38. Subsequent expenditure on property, plant and equipment is only recognised as an asset when the expenditure improves the condition of the asset beyond its originally assessed standard of performance. Examples of improvements which result in increased future economic benefits include:
 - (a) modification of an item of plant to extend its useful life, including an increase in its capacity;
 - (b) upgrading machine parts to achieve a substantial improvement in the quality of output; and
 - (c) adoption of new production processes enabling a substantial reduction in previously assessed operating costs.
39. Expenditure on repairs or maintenance of property, plant and equipment is usually recognised as an expense on the income statement when incurred. Expenditures on repairs or maintenance can only be capitalised when the expenditure either increases the useful life of the asset or significantly improves its performance in terms of its ability to generate economic benefits.
40. Subsequent expenditures are not included in the cost of an item of property, plant and equipment if they were already included in historical cost at an initial measurement. For example paragraph 27(c) of this standard requires that an 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, be recognised as part of the historical cost of an item. Where this is the case this anticipated expenditure, included as a component of cost, will be represented by a liability in the balance sheet and subsequent expenditure in this area will be set-off against the outstanding liability.

Measurement Subsequent to Initial Recognition

41. A subject of accounting shall choose either the historical cost model in paragraph 42 or the revaluation model in paragraph 45 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

Historical Cost Model

42. Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its historical cost less any accumulated depreciation and any accumulated impairment losses.⁴
43. An enterprise should assess at each balance sheet date whether there is any indication that carrying values of any items of property, plant and equipment are significantly higher than their recoverable amounts.
44. If an asset's carrying value is significantly more than its recoverable amount, the subject of accounting should recognise the sum of the difference as an expense of the period.

Revaluation Model

45. Subsequent to initial recognition as an asset, an item of property, plant and equipment should 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 should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined by using the fair value at the balance sheet date.
46. The fair value of an item of property plant and equipment is usually its market value. In the case of land and buildings this is usually determined by market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually the market value determined by appraisal.
47. 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.
48. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of two ways, depending on the valuation method used. These are:
 - (a) When a market value for a specific asset in a given state and condition can be established then the accumulated depreciation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset;
 - (b) When a market value for a specific asset cannot be established and the depreciated replacement cost approach is adopted the accumulated depreciation shall be 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.
49. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued simultaneously to avoid selective revaluation of items of property, plant and equipment.
50. When an asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to equity under the heading of Revaluation Reserve. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

⁴ Impairment is to be covered by a separate NASCO – the transitional arrangements therefore prevent the application of impairment rules until the impairment NASCO is issued. The resulting treatment is equivalent to the treatment required by US GAAP prior to the adoption by the US of the impairment concept.

51. When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related Revaluation Reserve to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.
52. Upon derecognition of an item of property, plant and equipment, the revaluation surplus associated with that item included in Revaluation Reserve shall be transferred directly to retained earnings. This transfer from revaluation surplus to retained earnings is not reflected in the income statement.
53. This transfer to retained earnings may be effected by either:
 - (a) Transferring the whole surplus at the time when the item of property, plant and equipment is disposed of or retired; or
 - (b) Transferring the surplus as the item of property, plant and equipment is used by the subject of accounting.
54. If the asset is still in use when the surplus is transferred as the item of property, plant and equipment is used, the amount of the surplus transferred is calculated as the difference between depreciation based on the revalued carrying amount of the item and depreciation based on the item's value as initially recognised.

Depreciation

55. The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise.
56. The depreciation charge for each period should be recognised as an expense unless it is included in the carrying amount of another asset.
57. As the economic benefits embodied in an item of property, plant and equipment are consumed by the subject of accounting, the carrying amount of that item is reduced to reflect this consumption, normally by charging an expense for depreciation. A depreciation charge is made to reflect that usage even if the fair value of the item of property, plant and equipment exceeds its carrying amount.

In such cases the carrying amount of the item of property, plant and equipment may be increased to its fair value by adopting the revaluation model set out in paragraphs 45 to 54 of this standard.
58. However, where the residual value of an item of property, plant and equipment increases to an amount equal to or greater than its carrying amount, the depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the its carrying amount.
59. The economic benefits embodied in an item of property, plant and equipment are consumed by the enterprise principally through the use of that item. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:
 - (a) the expected usage of the asset by the enterprise. Usage is assessed by reference to the asset's expected capacity or physical output;
 - (b) the 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 of the enterprise, and the care and maintenance of the asset while idle;
 - (c) 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; and
 - (d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

60. Depreciation of an item of property, plant and equipment 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 item of property, plant and equipment ceases when the item is derecognised. Therefore, depreciation does not cease when the item becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.
61. The useful life of an item of property, plant and equipment is defined in terms of its expected utility to the subject of accounting. The asset management policy of a subject of accounting may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits embodied in the asset. Therefore, the useful life of an item of property, plant and equipment may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the subject of accounting with similar items.
62. Land and buildings are separable assets and are dealt with separately for accounting purposes, even when they are acquired together. Land normally has an unlimited life and, therefore, is not depreciated. Buildings have a limited 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 useful life of the building.
63. The following depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life:
 - (a) straight-line method;
 - (b) accelerated methods such as the diminishing balance method;
 - (c) sum-of-the-units method.

Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The sum-of-the-units method results in a charge based on the expected use or output of the asset. The method used for an asset is selected based on the expected pattern of economic benefits and is consistently applied from period to period unless there is a change in the expected pattern of economic benefits from that asset.

Review of Useful Life and Residual Value

64. The useful life of an item of property, plant and equipment shall be reviewed at least at each financial year end and, if expectations of useful life are different from previous estimates, the depreciation rate for the current and future periods shall be adjusted.
65. Expected useful life can differ from the previous estimations in result of:
 - (a) subsequent expenditures;
 - (b) technological changes or changes in the market for the products;
 - (c) repair and maintenance policy of an enterprise;
 - (d) asset management policy of an enterprise.
66. The depreciable amount of an asset is determined after deducting the residual value of the asset. If the residual value of an asset is immaterial, it is not included in calculation of the depreciable amount.

If the residual value of an asset is significant, then:

 - (a) when the historical cost model is used the residual value is estimated at the date of acquisition and is reviewed at each balance sheet date;
 - (b) when the revaluation model is used, a new residual value is assessed at the date of any subsequent revaluation of the asset. In this case the residual value is assessed on the residual value prevailing at the date of the estimate for similar assets which have reached the end of their useful lives and which have operated under conditions similar to those in which the asset will be used.

Review of Depreciation Methods

67. The depreciation method applied to property, plant and equipment should be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of economic benefits from those items, the method should be changed to reflect the changed pattern.
68. The change in depreciation method should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.
69. The effect of the change in accounting estimate relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised in future periods.⁵

Derecognition

70. An item of property, plant and equipment shall be derecognised on:
 - (a) disposal; or
 - (b) when no future economic benefits are expected from its use or disposal.
71. For example, write off of items of property, plant and equipment takes places in case of:
 - (a) sale;
 - (b) exchange;
 - (c) gratuitous transfer;
 - (d) physical wear and technical obsolescence;
 - (e) involuntary disposals as a result of extraordinary events.
72. Income or loss arising from the derecognition of an item of property, plant and equipment is the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the income statement.
73. Recognition criteria for income or loss from exchange (or part exchange) of assets are set out in paragraphs 35 – 36.
74. Items of property, plant and equipment that are retired from active use and held for disposal are carried at their carrying amount even when the asset is retired from active use.

However, since the intention is to sell such retired items of property, plant and equipment, the subject of accounting is required to measure such items in a way consistent with inventories. As a result a subject of accounting should assess at each balance sheet date whether there is any indication that the carrying value of a retired item of property, plant and equipment held for sale is less than its net realisable value.

Where this is the case the retired item of property, plant and equipment held for sale should be valued at the lower of carrying value and net realisable value.

Presentation and Disclosure

Presentation

75. An enterprise should present the carrying amount of its property, plant and equipment on the face of its balance sheet as non-current assets.
76. Retired items of property, plant and equipment held for sale should be reclassified as current assets and included as a part of inventories or presented on the face of the balance sheet if material.

⁵ This item will be expanded upon when the is a NASCO equivalent to IAS 8 (Revised 2003)

Disclosure

77. Financial statements should disclose property, plant and equipment under classes.
78. The accounting policies adopted with regards to property, plant and equipment should be disclosed in the financial statements as part of the Accounting Policies disclosure required by NASCO 1 – Presentation of Financial Statements.
79. Disclosure of accounting policies with regard to property, plant and equipment should, as a minimum, include:
 - (a) the measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each class should be disclosed;
 - (b) the depreciation methods used;
 - (c) the useful lives or the depreciation rates used;
 - (d) the accounting policy for the estimated cost of dismantling and removing or restoring items of property, plant and equipment.
80. As part of notes to the Financial Statements the enterprise should disclose the following information about property, plant and equipment in comparison with the previous accounting period:
 - (a) the gross carrying amount, the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
 - (b) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions, disclosing separately those additions resulting from acquisitions, self-construction and those resulting from capitalised subsequent expenditure;
 - (ii) acquisitions through business combinations;
 - (iii) disposals;
 - (iv) transfers to and from other categories of assets;
 - (v) increases or decreases during the period recognised or reversed directly in equity resulting from the adoption of revaluation model;
 - (vi) Impairment losses recognised or reversed directly in equity;
 - (vii) depreciation;
 - (viii) impairment losses recognised in profit or loss;
 - (ix) impairment losses reversed in profit or loss;
 - (x) the net exchange differences arising on the translation of the financial statements of a foreign entity;
 - (c) nature and effect of a change in an accounting estimate with respect to depreciation methods, useful lives, residual values, estimated cost of dismantling and removing or restoring items of property, plant and equipment;
 - (d) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
 - (e) the amount of expenditures on property, plant and equipment in the course of construction;
 - (f) the amount of contractual commitments for the acquisition of property, plant and equipment;

- (g) the carrying amount of temporarily idle property, plant and equipment;
 - (h) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
 - (i) the carrying amount of property, plant and equipment retired from active use and held for disposal
 - (j) the nature and value of items of property, plant and equipment acquired or disposed of by way of exchange transactions.
81. When items of property, plant and equipment are stated at revalued amounts the following information about property, plant and equipment should be disclosed as part of the notes to the financial statements in comparison with the previous accounting period:
- (a) the basis used to revalue the assets;
 - (b) the effective date of the revaluation;
 - (c) the fact that an independent valuer was involved;
 - (d) the methods and significant assumptions applied in determining the revalued value;
 - (e) the carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried under the historical cost model.

First Time Application

82. On the first time application of this standard a subject of accounting may elect to measure an item of property, plant and equipment at the date of transition to National Accounting Standards using the previous revaluation of an item of property, plant and equipment at, or before, the date of transition to National Accounting Standards as deemed cost at the date of the revaluation, provided that the previous revaluation was carried out in accordance with the accounting regulations of the Republic of Azerbaijan current at the time of the revaluation.

Transitional Provisions

83. Paragraph 41 requires a subject of accounting to choose either the historical cost model in paragraph 42 or the revaluation model in paragraph 45 as its accounting policy and apply that policy to an entire class of property, plant and equipment.

Until such time as the National Accounting Standard on fair value has been introduced a subject of accounting must adopt the historical cost model as its accounting policy as regards property plant and equipment.

84. Paragraph 42 requires that, subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its historical cost less any accumulated depreciation and any accumulated impairment losses.

Until such time as the national accounting standard on impairment has been introduced a subject of accounting shall not adjust the carrying value of an item of property, plant and equipment to reflect any impairment. Therefore the provisions contained in paragraphs 43 and 44 shall not apply until such time as the national accounting standard on impairment has been introduced.

Until such time as the national accounting standard on impairment has been introduced a subject of accounting shall disclose, as part of its disclosure of accounting policies regarding property, plant and equipment, that impairment reviews are not undertaken.

Effective Date

85. This National Accounting Standard becomes operative for annual financial statements covering periods beginning on or after 1 January 2005.

Appendix 1 – Comparison with IAS 16 Property, Plant and Equipment.

The Exposure Draft of National Accounting Standard for Commercial Organisations (NASCO) 7 – Property, Plant and Equipment is drawn primarily from International Accounting Standard (IAS) 16 (revised 2003) – Property, Plant and Equipment. The main differences between NASCO 7 and IAS 16 are as follows:

- NASCO 7 defines entity-specific value as a synonym of value in use.
- NASCO 7 contains the definition of gross carrying amount.
- NASCO 7 contains the explanation of asset recognition criteria (paragraphs 14 and 15).
- NASCO 7 contains the definition of similar items of property, plant and equipment.
- In respect of exchange transactions IAS 16 (revised 2003) uses the commercial substance concept based on changes in future cash flows whereas NASCO 7 retains the definition of commercial substance contained in IAS 16 (revised 1998) and reaffirmed in NASCO 6 Income. This definition is based on assets being of dissimilar nature.
- NASCO 7 prescribes the ways of fair value determination (paragraph 34).
- NASCO 7 contains specific provisions on income or loss recognition related to exchange transactions (paragraphs 35 and 36).
- IAS 16 (revised 2003) contains specific provisions in respect of replaced parts of items of property, plant and equipment (paragraphs 13 and 70) whereas NASCO 7 does not.
- IAS 16 (revised 2003) paragraph 43 is required to depreciate each significant part of an item of property, plant and equipment separately. NASCO 7 does not contain such a provision but it assumes that depreciation is made separately for each property, plant and equipment recognised as an item.
- NASCO 7 identifies the diminishing balance method of depreciation as an example of an accelerated method of depreciation.
- IAS 16 (revised 2003) contains a provision relating to depreciation of land that includes the cost of dismantlement, removal and restoration and for the land that has limited useful life.
- NASCO 7 contains more detailed regulations on review of useful life and residual value than IAS 16.
- IAS 16 (revised 2003) contains provisions on compensation for impairment (paragraph 65-66) that are absent in NASCO 7.
- IAS 16 (revised 2003) paragraph 72 applies the measurement rules on disposal of an item of property, plant and equipment for cases in which cash settlement is deferred that are applicable to IAS 18. NASCO 7 is silent about this matter.
- IAS 16 (revised 2003) in paragraph 69 determines the date of disposal of an item of property, plant and equipment referring to IAS 18 Revenue. NASCO 7 contains no such clarification.
- NASCO 7 contains measurement and presentation requirements in respect of retired items of property, plant and equipment held for sale (paragraphs 74 and 76). The revised IAS 16 does not apply a different measurement model to assets held for sale.
- NASCO 7 in paragraph 79(d) contains disclosure requirement for accounting policy for estimated cost of dismantling, removing or restoring items. There is no such requirement in IAS 16.
- NASCO 7 requires separate disclosures for the additions resulting from acquisitions, self-construction and those resulting from capitalised subsequent expenditure, transferred to and from other categories of assets and in the part of disclosures for revalued items - the nature and value of items of property, plant and equipment acquired or disposed of by way of exchange transactions. IAS 16 does not prescribe such disclosure.
- IAS 16 (revised 2003) paragraph 74(d) requires the disclosure of 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. NASCO 7 does not.
- IAS 16 (revised 2003) paragraph 77(f) contains a requirement for separate disclosure of the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders. NASCO 7 excludes this requirement from the list of mandatory disclosures in respect of the revaluation of assets.

Exposure Draft of NASCO 7 – Property, Plant and Equipment

- IAS 16 (revised 2003) paragraph 79(d) recommends disclosure of the fair value of property, plant and equipment when this is materially different from the carrying amount if the cost model is used. NASCO 7 does not mention this requirement.
- NASCO 7 does not contain the appropriate references to future NASCOs that will be based on IAS 8, IAS 12, IAS 17, IAS 20, IAS 23 and IAS 37.
- NASCO 7 contains the section of First Time Application that provide regulations on the deemed cost. Under this paragraph deemed cost is the cost recognised in accordance with accounting regulations of the Republic of Azerbaijan.
- NASCO 7 contains an extra section on transitional provisions (paragraph 83-84), which postpones the introduction of the some provisions of the standard until the introduction of the relevant National Accounting Standards planned to be introduced later.