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Content:

The article compares the International, British and Polish regulation relating to tangible non-current assets. The article does not cover all issues. It focuses on definition, initial measurement, subsequent expenditures and depreciation.

Tangible fixed assets- IAS 16, FRS 15, Polish accounting act.

Introduction

Assets are defined as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow. The basic divisions distinguish tangible and intangible assets and current and non-current assets. The article focuses on tangible non-current items. Tangible fixed assets including:

- lands;
- buildings;
- vehicles;
- machines;
- equipments.

Definition

International Accounting Standard 16 *Property, Plant and Equipment (PPE)* defines tangible assets as resources held by an entity for use in production or supply of goods and services or for administrative purposes and expected to be used during more than one period. The definition presented in Financial Reporting Standard 15 *Intangible fixed assets* is a little bit different. UK GAAP emphasises that those items are held on a continuing basis in the reporting entity's activities. The Polish regulations focus on another feature. According to it, completeness should be taken into consideration. In consequence the separate components such as engine or lift cannot be treated as tangible assets. Moreover, all items should be fitted to be used. None of above GAAPs mention the value criteria. If so, the relatively low price of resource does not write it off as a tangible asset. However, it does not mean that cost connected with each item is not important. Quite the reverse, the methodology of value measurement both initial and subsequent is the key of the issue.

Initial measurement

All regulations present the view that fixed assets should initially be measured at its cost. This cost should be understood as a purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to working condition for its intended use; any trade discount and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs which may be capitalised are (D. Alexander, A. Britton, A. Jorissen, *International Financial Reporting and Analysis*, p. 268) :

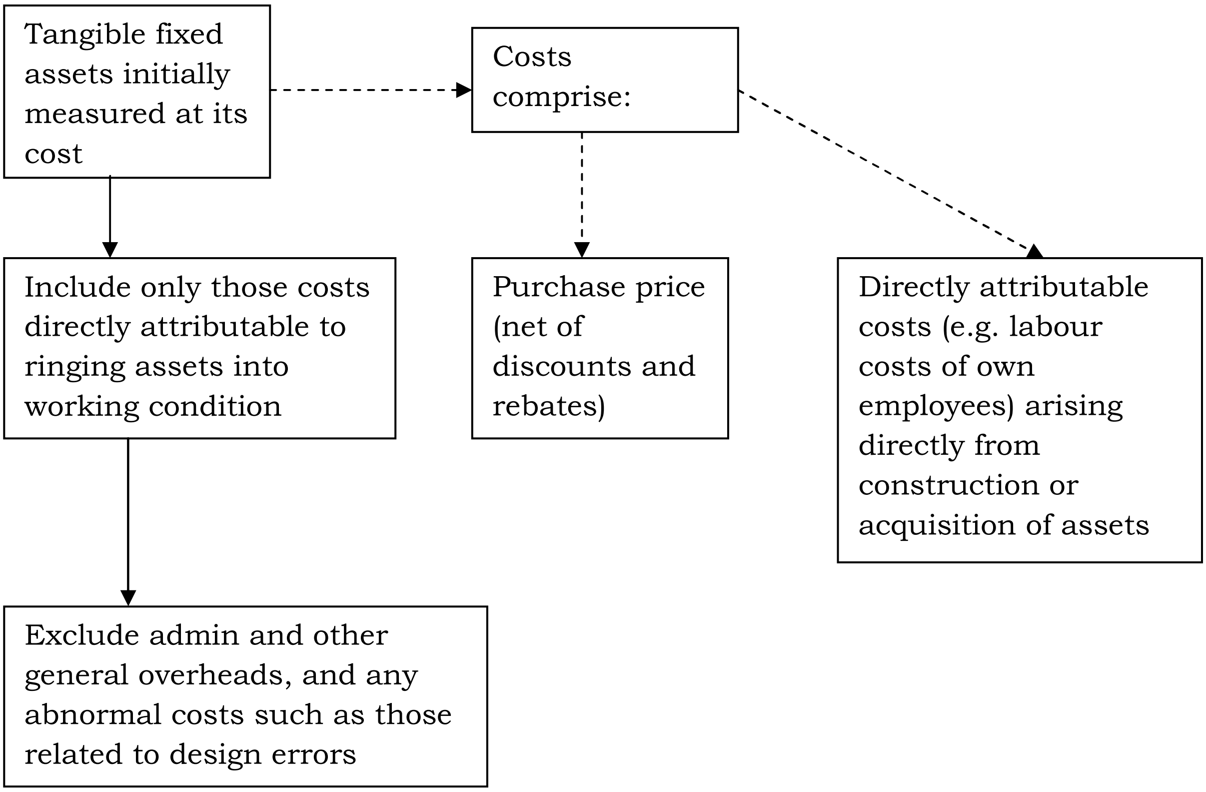
- delivery and handling costs;
- installation costs;
- professional fees;
- costs of direct labour connected with installation.

In contrast, the following costs are not included in the carrying amount of PPE (J. Blake, H. Lunt, *Accounting Standards*, p. 149-150):

- administration and other general overheads;

- abnormal costs e.g. rectification of design errors and wasted materials;
- operating looses arising during the construction of tangible asset.

The figure 1 presents the construction of initial cost:



Resource: G. Black, *Student's guide to accounting and financial reporting standards*, p.57.

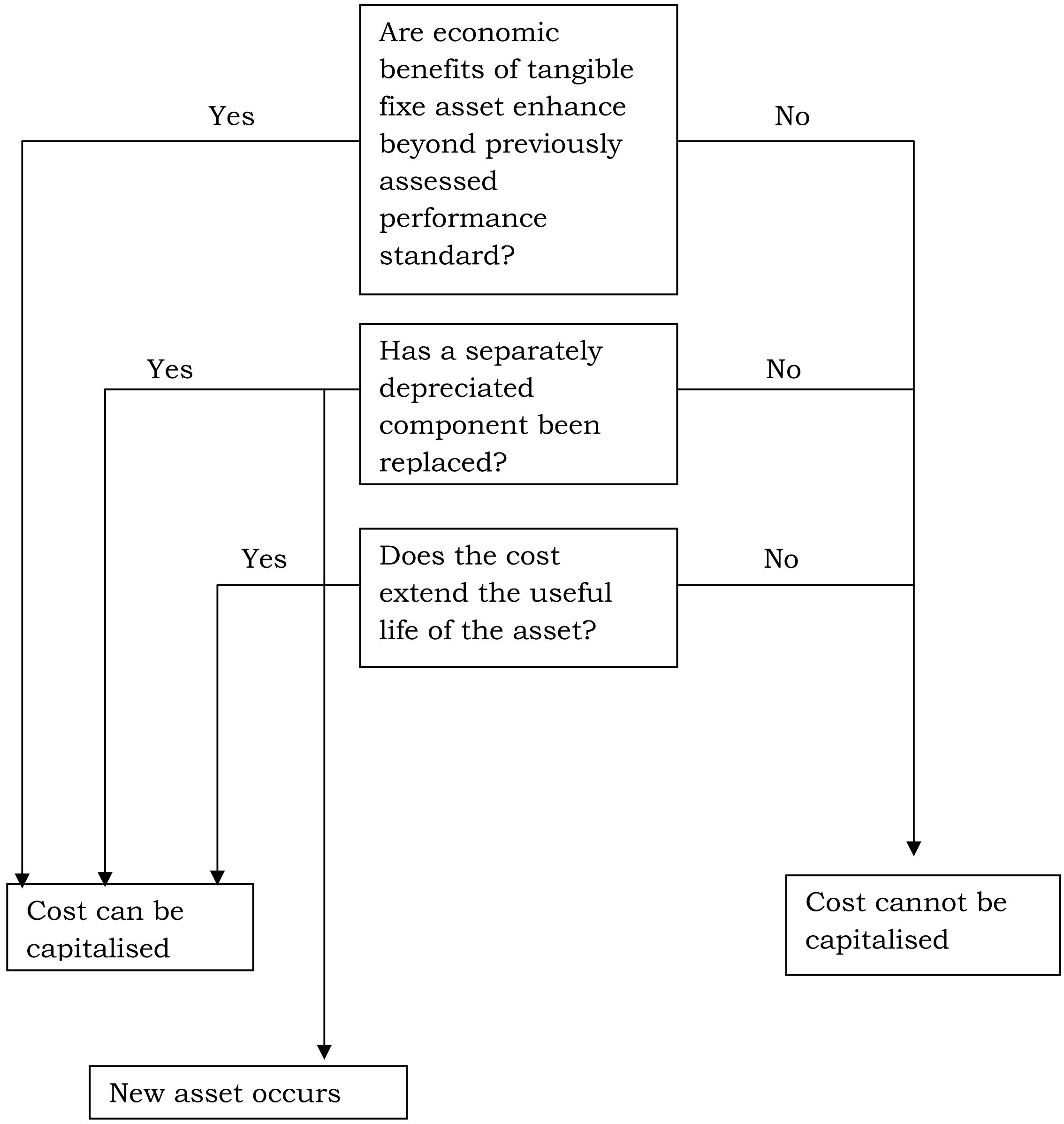
Some discrepancies between GAAPs occur in borrowing costs treatment. According to the Polish regulations interests and exchange difference related to the period of production or acquisition of the assets must be capitalized. The UK presents more liberal position. FRS 15 permit entities to choose between capitalisation and expense of borrowing costs. Till May 2006 International Accounting Standards Board also recommended such practise. However, the latest amendment to IAS 23 *Borrowing Costs* removed the option for expending borrowing costs and requires the capitalisation.

Subsequent expenditure

The subsequent expenditure relating to tangible assets may be recognised as an expense in the period in which it is incurred or capitalized. The approach depends on the nature of the expense (Compare Elliott B., Elliott J.; *Financial Accounting and Reporting; p. 403).* If it ensures that a tangible asset maintains its previously assessed standard of performance e.g. repairs and maintenance

expenditure, it should be recognized in the statement of comprehensive income. In case when the useful life of the assets will extend or economic benefit will flow as a result of the expenditure then such expense should be capitalized (e.g. modification, upgrading). The above methodology is required by all regulations.

It has been already mentioned that IASB implemented the components accounting . As the result of this approach the replacement of the single component will not be booked neither as expenditure nor as capitalisation but as an acquisition of a new asset. The figure 2 summarizes this section.



Resource: Compare G. Black, *Student's guide to accounting and financial reporting standards*, p.58

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset (determined after deducting asset's residual value) over its useful life. The length of useful life depending on:

- the number of production or similar units expected to be obtained;
- developments in technology;
- legal limitations in usage.

The regulations do not impose any specific deprecation method. However, it is mentioned that the method should reflect the pattern in which the asset's economic benefits are consumed by the entity. In practise three depreciation methods are used: straight line, reducing balances and the units of productions. The Polish accounting act mentions also one-time depreciation, that is very often used by entities. According to International and Polish regulations once chosen method cannot be changed. In contrast , UK GAAP allows the change but only if it gives the fairer presentation of the results.

It is worth mentioning that lands (excluding e.g. mining assets) are not depreciated.

Conclusion

The view presented in IAS 16, FRS 15 and Polish regulations is quit convergent. The main difference refers to definition (e.g. plane engine under International GAAP is an assets, while according to Polish act is not). Some discrepancies occurs on other fields such as subsequent revaluation, however this issue is not covered by this article.

References:

1. Alexander D.; Britton A.; Jorissen A.; *International Financial Reporting and Analysis 3^{rd} edition;* Thomson 2007.

2. Black G.; *Student's guide to accounting and financial reporting standards 9^{th} edition 2003*, Prentice Hall 2001.

3. Blake J., Lunt H.; *Accounting Standards 7^{th} edition,* Prentice Hall 2001.

4. Elliott B., Elliott J.; *Financial Accounting and Reporting 12^{th} edition*; Pearson edition published 2008.

5. Financial Reporting Standard 15 *Intangible fixed assets.*

6. International Accounting Standard 16 Property, Plant and Equipment.

7. Polish accounting act.