PPE and IFRS
CPA

Question #1 (AICPA.130725FAR)

A company has a parcel of land to be used for a future production facility. The company applies the revaluation model under IFRS to this class of assets. In year 1, the company acquired the land for $100,000. At the end of year 1, the carrying amount was reduced to $90,000, which represented the fair value at that date. At the end of year 2, the land was revalued, and the fair value increased to $105,000. How should the company account for the year 2 change in fair value?

- [ ] A. By recognizing $10,000 in other comprehensive income.
- [ ] B. By recognizing $15,000 in other comprehensive income.
- [ ] C. By recognizing $15,000 in profit or loss.
- [x] D. By recognizing $10,000 in profit or loss and $5,000 in other comprehensive income.

Under IFRS an increase in an assets fair value above original cost are recorded in a revaluation surplus account and any decreases in an assets fair value below the original cost are recorded as losses to the income statement. Therefore, the 10,000 decrease in year 1 would have been recorded as a loss to the income statement and the 15,000 increase in year 2 would be recorded as a 10,000 gain to the income statement and 5,000 gain in revaluation surplus (OCI).

Question #2 (AICPA.101067FAR)

On January 1, year one, an entity acquires a new piece of machinery for $100,000 with an estimated useful life of 10 years. The machine has a drum that must be replaced every five years and costs $20,000 to replace. Also included in the cost of the machine is an inspection fee of $8,000. Continued operations of the machine requires an inspection every four years after purchase. The company uses the straight-line method of depreciation. Under IFRS what is the depreciation expense for year one?

- [ ] A. $10,000
- [ ] B. $10,800
- [ ] C. $12,000
- [x] D. $13,200

Under IFRS the components of the asset must be depreciated over their estimated useful life. Therefore, the $100,000 cost is broken down into the following components:

Depreciable value	Life	Depreciation
$72,000	10 yr.	$7,200
20,000	5 yr.	4,000
8,000	4 yr.	2,000
		$13,200

Question #3 (AICPA.101065FAR)

Under IFRS, when an entity chooses the revaluation model as its accounting policy for measuring property, plant, and equipment, which of the following statements is correct?

- [x] A. When an asset is revalued, the entire class of property, plant, and equipment to which that asset belongs must be revalued.

  When remeasurement to fair value is used, it must be applied to the entire class or components of PPE.

- [ ] B. When an asset is revalued, individual assets within a class of property, plant, and equipment to which that asset belongs can be revalued.
- [ ] C. Revaluations of property, plant and equipment must be made at least every three years.
- [ ] D. Increases in an asset's carry value as a result of the first revaluation must be recognized as a component of profit and loss.