

## IFRS requirements

## How Canadian GAAP differs

### IAS 16 – Property, plant and equipment

#### Component accounting

IAS 16 specifies that component accounting must be used for property, plant and equipment (PPE), requiring separate depreciation for each part of a PPE item that has a significant cost in relation to the item's total cost.

Canadian GAAP has an equivalent requirement, but the concept of component accounting is only briefly mentioned.

An entity should consider applying component accounting when it replaces a major part of an asset or when, under its current Canadian accounting policy, it:

- capitalizes expenditures related to the replacement of a part of an asset, or
- accrues as a liability future repairs to an asset (note that such accruals would not be allowed under IFRS).

Though the application of component accounting might be time consuming, it might not have a significant impact on the financial statements of Canadian entities as the depreciation rates they use often reflect the average useful life of all individual asset components taken together. In addition, Canadian companies often allocate costs to components of an asset (e.g., a plant is broken down into its machinery and building components) as this is what Canadian tax authorities also require.

#### Depreciation

Depreciation is an allocation of costs to different periods. This requires an assessment of residual values and of the depreciable lives of assets. The estimates of the lives of assets and their residual value must be reviewed at least annually.

Equivalent depreciation methods are available under Canadian GAAP but the estimates of residual values and the depreciable lives of assets may be assessed differently because Canadian GAAP requires companies to assess the estimated residual value and life only when circumstances have changed and the entity believes a change in estimate is necessary.

#### Capitalization of borrowing costs

Interest must be capitalized on self-constructed assets. Guidance is provided for calculating amounts eligible for capitalization.

Canadian GAAP permits capitalization but does not require it. This could therefore entail a change in accounting policy, which could be significant for entities that self-construct their PPE.

#### Revaluation model

IFRS allows companies to revalue assets at fair value if reliable measures are available. Under that model, changes in fair value are generally recognized in equity (to the extent not previously recognized in the income statement and to the extent that a decrease does not exceed the balance of the revaluation surplus for an asset) and subsequent depreciation is charged to the income statement. If an item of PPE is revalued, the entire class of assets to which that asset belongs should also be revalued.

Canadian GAAP does not allow companies to revalue to fair value except in cases where an asset has been impaired and must be written down to a lower value. We observed in FRIC-IFRS that the revaluation model is rarely used in practice by companies that have adopted IFRS.

*In its notes to the financial statements, Suez presents the following information on its PPE:*

- *its accounting policy (notes 1.4.5 and 1.4.7 on pages 207 to 209);*
- *detailed reconciliations of amounts reflected on its consolidated balance sheets and other information (note 11 on pages 245 and 246).*