

Approved by the decree № İ -73/1  
dated 23 July 2007,  
Ministry of Finance of the Republic of Azerbaijan

**NATIONAL ACCOUNTING STANDARD FOR  
COMMERCIAL ORGANIZATIONS №7  
“PROPERTY, PLANT AND EQUIPMENT”**

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**NATIONAL ACCOUNTING STANDARD FOR COMMERCIAL  
ORGANIZATIONS №7  
“PROPERTY, PLANT AND EQUIPMENT”**

**GENERAL PROVISIONS**

**Purpose of the standard**

1. This standard has been prepared in accordance with Accounting Law of Azerbaijan Republic and based on International Accounting Standard 16 Property, Plant and Equipment.

**Objective**

2. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.
3. This accounting treatment include issues such as recognition of items of property, plant and equipment, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

**SCOPE**

4. This standard should be applied to both the financial statements and to the consolidated financial statements prepared by commercial enterprises identified in Article 10 of the Accounting Law of the Azerbaijan Republic taking into account additional provisions contained in the Rules of Bookkeeping.
5. In the case of contradictions between effective normative-legal acts and this National Accounting Standard this standard will prevail.
6. Organisations applying this standard, at their election may prepare financial statements and consolidated financial statements in accordance with International Financial Reporting Standards.
7. This standard should be applied in the accounting for all items of property, plant and equipment except when another National Accounting Standard for Commercial Organisations requires or permits a different accounting treatment.
8. This Standard does not apply to:

- (a) property, plant and equipment classified as held for sale in accordance with NASCO 23 *Non-current Assets Held for Sale and Discontinued Operations*;
- (b) biological assets related to agricultural activity;
- (c) investment property;
- (d) the recognition and measurement of exploration and evaluation assets;
- (e) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b)–(e).

## DEFINITIONS

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

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

**Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

**Cost** is the amount of cash or cash equivalents paid to acquire an asset at the time of its acquisition or construction, delivery or installation or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other standards.

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

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

**Entity-specific value** is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal (writing off, sale) at the end of its useful life or expects to incur when settling a liability.

**An impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

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

- (a) in the production or supply of goods or services;
- (b) rental to others; or
- (c) for administrative purposes

**Recoverable amount** is the higher of an asset's net selling price and its value in use.

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

**Useful life** is:

- (a) the period over which an asset is expected to be available for use by an entity; or
- (b) the number of production units expected to be obtained from the asset by an entity.

**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.

## **RECOGNITION OF PROPERTY, PLANT AND EQUIPMENT**

10. An item of property, plant and equipment should be recognised as an asset in accordance with National Accounting Standards if, and only if:
  - (a) it is probable that future economic benefits associated with the item will flow to the entity; and
  - (b) the cost of the item can be measured reliably.
  
11. Spare parts and servicing equipment are usually carried as inventory (regulated by NASCO 8 on "Inventories") and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity 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, they are accounted for as property, plant and equipment.
  
12. This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Not only incoming but also previously recognised items of property, plant and equipment should satisfy recognition criteria of property, plant and equipment. 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.
  
13. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.
  
14. Items of property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits from its other assets. In this case, such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired.

15. Under the recognition principle in paragraph 10, 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.
16. 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**

17. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

### **Elements of cost**

18. 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;
  - (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.
19. An entity accounts for the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period according to the NASCO 8 "Inventories". The obligations for costs accounted for in accordance with NASCO 8 "Inventories" and NASCO 7 "Property, Plant and Equipment" are recognised and measured in accordance with NASCO 10 "Provisions, Contingent Liabilities and Contingent Assets"
20. Costs for acquisition of asset, bringing to the area where it located and condition necessary for it to be capable of operating will not be considered at the initial cost of the property, plant and equipment.
21. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item

22. Incidental expenses incurred in connection with the construction or development of an item of property, plant and equipment, but which are not necessary to bring the item to condition necessary for it to be capable of operating in the manner intended by management shall not be included to the carrying amount of the asset. These incidental expenses are recognised in profit or loss immediately.
23. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale as set out in NASCO 8 – Inventories.

### **Measurement of cost of property, plant and equipment in an exchange of assets**

24. If payment is deferred beyond normal credit terms, the cost of an item of property, plant and equipment is the cash price equivalent at the acquisition date. The difference between the cash price equivalent and the total payment is recognised as interest over the period of credit in accordance with NASCO 13 “Borrowing costs”.
25. Items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.  
The cost of such an item of property, plant and equipment is measured at fair value unless:
  - (a) the exchange transaction lacks commercial substance; or
  - (b) the fair value of neither the asset received nor the asset given up is reliably measurable.If it is impracticable to determine the fair value of the received asset(s), these assets shall be measured at fair value of the asset(s) given up in the result of exchange. However, if it is also impracticable to determine the fair value of given up asset(s), these assets shall be measured at the carrying amount of the asset(s) received in the result of exchange.
26. If cash or cash equivalents are included as part of the exchange operation, this may indicate that fair values of exchanged assets are not equal.
27. If exchanged assets have the same fair values, cost of the received asset(s) shall be measured at carrying amount of the given up asset(s).
28. The cost of an item of property, plant and equipment held under the lease agreement is determined in accordance with NASCO 14 “Leases”

### **Subsequent expenditure on property, plant and equipment**

29. Subsequent expenditure on property, plant and equipment is added to the carrying amount of the asset only when the expenditure improves the condition of the asset beyond its existing standard of performance. In all other cases, subsequent expenditure on

property, plant and equipment should be recognised as an expense in the period when they were incurred.

30. Subsequent expenditures are not included in the carrying amount of an item of property, plant and equipment if they were already included in the cost at an initial measurement.

In the case noted in the paragraph 18(c), 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**

31. An entity shall choose either the cost model or the revaluation model as its accounting policy for measurement of items of property, plant and equipment. That policy shall be applied to an entire class of property, plant and equipment.

### **Cost model**

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

### **Revaluation Model**

33. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall 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. Within the context of this standard, fair value should be determined with reference to the active market information for revaluation purposes. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

34. The fair value of items of property, plant and equipment is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers.

35. 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, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

36. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and therefore the net amount is restated to the revalued amount of the asset.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 37 and 38

37. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus. However, the

increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. Any revaluation surplus remaining after offset against previous decreases shall be credited directly to equity under the heading of revaluation surplus.

38. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be debited directly to equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
39. The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. The whole of the revaluation surplus can be transferred to the retained earnings when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.
40. The effects of taxes on income resulting from the revaluation of property, plant and equipment are recognised and disclosed in accordance with NASCO 3 Current Taxation.

## **DEPRECIATION**

41. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
42. 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 in determining the depreciation charge.
43. The depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset.

### **Depreciable amount and depreciation period**

44. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
45. The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with NASCO 11 Accounting Policies, Changes in Accounting Estimates and Errors.

46. 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.
47. Depreciation of an asset 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. If asset is not used regularly, this fact shall not be considered as a reason to cease depreciation of the asset. Depreciation shall be ceased immediately at the earliest date of one of the followings:
- (a) asset is held for sale, but is not wholly depreciated at that date;
  - (b) asset is derecognised; and
  - (c) asset is wholly depreciated, but is not derecognised.
48. Land and buildings are accounted for separately, even when they are acquired together as they represent separable assets. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful 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 depreciable amount of the building.
49. If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some exceptional cases indicated in the paragraph 48 of this standard, land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

### **Depreciation method**

50. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
51. The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, 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 NASCO 11 "Accounting policies, estimates and errors".
52. A variety of depreciation methods can be used to allocate the depreciable amount of an asset 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. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output.

### **Impairment of items of property, plant and equipment**

53. To determine whether an item of property, plant and equipment is impaired, an entity applies NASCO 24 Impairment of Assets.
54. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in profit or loss when the compensation becomes receivable.

### **Derecognition of items of Property, Plant and Equipment**

55. The carrying amount of an item of property, plant and equipment shall be derecognised:
  - (a) on disposal; or
  - (b) when no future economic benefits are expected from its use or disposal.
56. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless NASCO 14 "Leases" requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.
57. If, under the recognition principle in paragraph 10, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.
58. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with NASCO 6 "Income" reflecting the effective yield on the receivable.

### **DISCLOSURE**

59. The financial statements shall disclose, for each class of property, plant and equipment:
  - (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; and
  - (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 classified as held for sale in accordance with NASCO 23 and other disposals;
- (iii) acquisitions through business combinations;
- (iv) increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in equity;
- (v) impairment losses recognised in profit or loss;
- (vi) impairment losses reversed in profit or loss;
- (vii) depreciation recognised in the period and/or comprising the component of the cost of other assets;
- (viii) the net exchange differences arising on presentation of the foreign operation in the national currency in the financial statements of the reporting entity;
- (ix) other changes.

60. The financial statements shall also disclose:

- (a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;
- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- (c) the amount of contractual commitments for the acquisition of property, plant and equipment;

61. If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;
- (c) the methods and significant assumptions applied in estimating the items' fair values;
- (d) revaluation bases used for assets;
- (e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model;
- (f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

62. Users of financial statements may also find the following information relevant to their needs;

- (a) the carrying amount of temporarily idle property, plant and equipment;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with NASCO 23; and
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

## **FIRST TIME APPLICATION**

63. 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.

## **EFFECTIVE DATE**

64. This National Accounting Standard becomes operative after the date determined by the Ministry of Finance.

## **Appendix 1 - Comparison with IAS 16 Property Plant and Equipment**

This National Accounting Standard for Commercial Organisations (NASCO) 7 - Property Plant and Equipment is drawn primarily from International Accounting Standard (IAS) 16 (2006) – Property Plant and Equipment. The main differences between NASCO 7 and IAS 16 are as follows:

- Paragraph 1 is added to NASCO 7 and relates the standard to the Accounting Law. IAS 16 does not contain such a section.
- Paragraphs 4 and 5 of NASCO 7 define the scope of the organisations required to apply the standard as set out in the Accounting Law. IAS 16 does not contain such a section.
- IAS 16 contains a number of illustrative examples and introductions. In line with established policy, all examples have been removed from NASCO 7 and will be covered in the Explanations document
- A number of new definitions have been added to NASCO 7 that are not present in IAS 16. The additional definitions are included as they cover concepts that are particular to the NASCO and which clarification is required in the context of Azerbaijan
- An additional paragraph (paragraph 29) has been added in NASCO 7 and which is not present in IAS 16 for clarity
- Paragraphs in IAS 16 that refer to other IASs for which there is no comparable NASCO have been omitted.
- Paragraphs in IAS 16 that simply repeat information given in previous paragraphs have been omitted in NASCO 7
- In accounting for revaluations, IAS 16 permits two methods – either proportionate increase of both the book value of the asset and its associated accumulated depreciation or the elimination of accumulated depreciation and the revaluation of the net book value of the asset. NASCO 7 does not permit such a choice but requires entities to adopt the elimination approach
- Apart from the above points, there are no significant differences between NASCO 7 and IAS 16