

HKFRS / IFRS UPDATE 2013/03

CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTISATION



Background

In late 2012 the International Accounting Standards Board (IASB) published Exposure Draft *ED/2012/5 Clarification of Acceptable Methods of Depreciation and Amortisation* which sets out proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible assets*.

The proposed amendments aim to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets.

The effective date for the amendments, if finalised, is to be confirmed. The amendments would be required to be applied retrospectively with earlier application permitted.

The IASB has requested comments on the Exposure Draft by 2 April 2013.

The HKICPA also issued invitation to comment on the proposed amendments with the comment period ending on 1 March 2013. Finalised amendments to IAS 16 and IAS 38, if any, are anticipated to be made to HKAS 16 and HKAS 38.

Proposed amendments

The proposed amendments to IAS 16 and IAS 38 are almost identical.

The 'consumption of economic benefits' (see IAS 16.60 and IAS 38.97) is the underlying principle for recognising depreciation or amortisation reflecting the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Both standards permit a variety of methods to be used in applying that principle to calculate the depreciation or amortisation charge.

The amendments clarify that a revenue-based method (i.e where charges are based on future revenue generated by the asset) cannot be used to calculate the charge for depreciation or amortisation. This is because that method reflects a pattern of economic benefits being generated from the asset, rather than the pattern of consumption of the future economic benefits embodied in the asset.

STATUS

Exposure Draft

EFFECTIVE DATE

To be confirmed

ACCOUNTING IMPACT

May be significant

The amendments in addition provide guidance about the diminishing balance method. They clarify:

- That information about technical or commercial obsolescence of the product or service output is relevant for estimating both the pattern of consumption of future economic benefits and the useful life of the asset.
- An expected future reduction in the selling price of the product or service output of the asset could be an indicator that it is appropriate to use the diminishing balance method. This is because it indicates diminution in the future economic benefits of the asset as a result of technical or commercial obsolescence.

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