

Explanatory Statement

Accounting Standard AASB 2014-4 ***Amendments to Australian Accounting Standards –*** ***Clarification of Acceptable Methods of Depreciation and*** ***Amortisation***

August 2014



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 2014-4

AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* makes amendments to AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*.

These amendments arise from the issuance of *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38) by the International Accounting Standards Board in May 2014.

Main Features of AASB 2014-4

Main Requirements

The amendments in AASB 2014-4:

- (a) establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset;
- (b) clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset; and
- (c) clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Application Date

AASB 2014-4 applies to annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2016.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 231 *Clarification of Acceptable Methods of Depreciation and Amortisation* in December 2012 for comment by 1 March 2013.

Six submissions were received by the AASB in respect of the proposals in ED 231. The AASB considered the comments it received in making its submission to the IASB and in finalising AASB 2014-4.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2014-4 as the amendments made are minor in nature.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*

Overview of the Accounting Standard

The amendments in AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*:

- (a) establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset;
- (b) clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset; and
- (c) clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.