

Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

[AASB 116 & AASB 138]



Australian Government

**Australian Accounting
Standards Board**

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IASB BASIS FOR CONCLUSIONS – AMENDMENTS

(available on the AASB website)

Australian Accounting Standard AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* is set out in paragraphs 1 – 8. All the paragraphs have equal authority.

PREFACE

Introduction

This Standard makes amendments to AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*.

These amendments arise from the issuance of International Financial Reporting Standard *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 this Standard

This Standard amends AASB 116 and AASB 138 to:

- (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

This Standard 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.

ACCOUNTING STANDARD AASB 2014-4

The Australian Accounting Standards Board makes Accounting Standard AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* under section 334 of the *Corporations Act 2001*.

Dated 11 August 2014

Angus Thomson
Acting Chair – AASB

ACCOUNTING STANDARD AASB 2014-4

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTISATION

Objective

1 The objective of this Standard is to make amendments to:

- (a) AASB 116 *Property, Plant and Equipment*; and
- (b) AASB 138 *Intangible Assets*;

as a consequence of the issuance of International Financial Reporting Standard *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38) by the International Accounting Standards Board in May 2014.

Application

2 **This Standard applies to:**

- (a) **each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;**
- (b) **general purpose financial statements of each other reporting entity; and**
- (c) **financial statements that are, or are held out to be, general purpose financial statements.**

3 **This Standard applies to annual reporting periods beginning on or after 1 January 2016.**

4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2016. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**

5 **This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.**

Commencement

6 **This Standard commences on the day this Standard is made by the Australian Accounting Standards Board.**

Amendments to AASB 116

7 Paragraph 56 is amended (new text is underlined) and paragraphs 62A and 81I are added as follows:

56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- (a) ...
- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future

reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

(d) ...

- 62A A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.
- 811 AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*, issued in August 2014, amended paragraph 56 and added paragraph 62A. An entity shall apply those amendments prospectively for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

Amendments to AASB 138

- 8 Paragraphs 92 and 98 are amended (new text is underlined and deleted text is struck through) and paragraphs 98A-98C and 130J are added as follows:
- 92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, ~~it is likely~~ will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using an intangible asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.
- 98 A variety of amortisation 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. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits.
- 98A There is a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. The revenue generated by an activity that includes the use of an intangible asset typically reflects factors that are not directly linked to the consumption of the economic benefits embodied in the intangible asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed. This presumption can be overcome only in the limited circumstances:
- (a) in which the intangible asset is expressed as a measure of revenue, as described in paragraph 98C; or
- (b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.
- 98B In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the predominant limiting factor that is inherent in the intangible asset. For example, the contract that sets out the entity's rights over its use of an intangible asset might specify the entity's use of the intangible asset as a predetermined number of years (ie time), as a number of units produced or as a fixed total amount of revenue to be generated. Identification of such a predominant limiting factor could serve as the starting point for the identification of the appropriate basis of amortisation, but another basis may be applied if it more closely reflects the expected pattern of consumption of economic benefits.
- 98C In the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold, the revenue to be generated can be an appropriate basis for amortisation. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract might be based on a fixed amount of total revenue to be generated from the extraction (for example, a contract may allow the extraction of gold from the mine until total cumulative revenue from the sale of gold reaches CU2 billion) and not be based on time or on the amount of gold extracted. In another example, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged (for example, a contract could allow operation of the toll road until the cumulative amount of tolls generated from operating the road reaches CU100 million). In the case in which revenue has been established as the predominant limiting factor in the contract for the use of the intangible asset, the revenue that is to be generated might be an appropriate basis for amortising the intangible asset, provided that the contract specifies a fixed total amount of revenue to be generated on which amortisation is to be determined.

130J AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*, issued in August 2014, amended paragraphs 92 and 98 and added paragraphs 98A–98C. An entity shall apply those amendments prospectively for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.