

Explanatory Statement

Accounting Standard AASB 2016-4

Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for- Profit Entities

June 2016



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2016-4

This Standard makes amendments to Accounting Standards AASB 136 *Impairment of Assets* (July 2004 and August 2015) and AASB 116 *Property, Plant and Equipment* (July 2004 and August 2015).

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Main Features of AASB 2016-4

Main Requirements

This Standard amends AASB 136 *Impairment of Assets* (July 2004 and August 2015) to:

- (a) remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities; and
- (b) clarify that the recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*, with the consequence that:
 - (i) AASB 136 does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*; and
 - (ii) AASB 136 applies to such assets accounted for under the cost model in AASB 116 and AASB 138.

This Standard also makes consequential amendments to AASB 116 *Property, Plant and Equipment* (July 2004 and August 2015) to update reference in the Australian Implementation Guidance accompanying AASB 116 to the requirements of AASB 136.

Application Date

AASB 2016-4 applies to annual periods beginning on or after 1 January 2017. Earlier application is permitted.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 269 *Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities* in August 2015 for comment by 16 November 2015. The proposals were issued in response to requests from constituents for clarification of the interaction between depreciated replacement cost as a measure of value in use of assets under AASB 136 and current replacement cost as a measure of fair value of assets under AASB 13. Seven submissions were received in respect of the proposals, and discussions were held with a range of constituents both before and after the issuance of the Exposure Draft. There was general support for adopting the proposals. The AASB considered the comments it received in finalising AASB 2016-4.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2016-4 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

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

Accounting Standard AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities

Overview of the Accounting Standard

This Standard amends AASB 136 *Impairment of Assets* (July 2004 and August 2015) to:

- (a) remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities; and
- (b) clarify that the recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*, with the consequence that:
 - (i) AASB 136 does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*; and
 - (ii) AASB 136 applies to such assets accounted for under the cost model in AASB 116 and AASB 138.

This Standard also makes consequential amendments to AASB 116 *Property, Plant and Equipment* (July 2004 and August 2015) to update reference in the Australian Implementation Guidance accompanying AASB 116 to the requirements of AASB 136.

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*.