



ED/2012/5

Clarification of Acceptable Methods of Depreciation and Amortisation

(Proposed amendments to IAS 16 and IAS 38)

Public Discussion

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I. Background

- The original request received by the IFRS Interpretations Committee was to clarify the meaning of the term
‘consumption of the expected future economic benefits embodied in the assets’
in paragraphs 97 and 98 of IAS 38 when determining the appropriate amortisation method for intangible assets of service concessions arrangements that are within the scope of IFRIC 12 *Service Concession Arrangements*.
- The IFRS Interpretations Committee recommended to address the issue within the Annual Improvements project 2011-2013 cycle.
- At the October 2012 meeting the IASB decided that the proposed amendments to IAS 16 and IAS 38 should be removed from the Annual Improvements project and be published in a separate Exposure Draft with a comment period of 120 days.



II. Project milestones

- Publication of the Exposure Draft (ED): 4 December 2012
- Comment period IASB: 2 April 2013
- Publication of the EFRAG's Draft Comment Letter (DCL) on the ED: 14 December 2012
- Comment period EFRAG: 11 March 2013
- Target IFRS: Q3, 2013



III. Proposals in the ED (1/4)

- IAS 16.62A, IAS 38.98A (new):

A revenue-based depreciation or amortisation method is not an appropriate method because it reflects a pattern of the future economic benefits being **generated** from the asset, rather than a pattern of **consumption** of the future economic benefits embodied in the asset.



III. Proposals in the ED (2/4)

- IAS 16.62B, IAS 38.98B (new):

‘When applying the diminishing balance method, 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 unit selling price of the product or service output of the asset could be an indication of the diminution of the future economic benefits of the [intangible] asset as a result of technical or commercial obsolescence‘.



III. Proposals in the ED (3/4)

- BC3, BC4, BC5 (new):

In limited circumstances (e.g. acquired rights to broadcast a film) revenues could be used to reflect the pattern in which the future economic benefits of the asset are expected to be consumed ‘when the use of a revenue-based method gives the same result as the use of a units of production method’ (BC3).

‘In rare cases [...], advertising revenue could serve as an equivalent for viewer numbers to the extent that advertising revenue has a linear relationship with viewer numbers’ (BC5).



III. Proposals in the ED (4/4)

- IFRS 38.BC72A, IFRIC 12.BC64 (amended):

Phrase 'unit of production method' amended to 'unitsu of production method'.

- Transition (IAS 16.81G, IAS 38.130G (new)):

Retrospective application; earlier application permitted.



IV. IASB's questions

Question 1

The IASB proposes to amend IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to prohibit a depreciation or amortisation method that uses revenue generated from an activity that includes the use of an asset. This is because it reflects a pattern of future economic benefits being generated from the asset, rather than reflecting the expected pattern of consumption of the future economic benefits embodied in the asset.

Do you agree? Why or why not?

Question 2

Do you have any other comments on the proposals?



V. Tentative opinion of the IFRS Committee (1/2)

In general, supporting the IASB's effort to clarify the provisions regarding the use of the revenue-based depreciation and amortisation methods; however, with the following comments:

- The proposed amendments in the core text of IAS 16 and IAS 38 (new paragraphs IAS 16.62A und IAS 38.98A) and in the Basis for Conclusions (new paragraphs BC3 to BC5) are contradictory.
- The cash flows generated from the use of the intangible assets represent at the same time a consumption of the future economic benefits embodied in these assets.



V. Tentative opinion of the IFRS Committee (2/2)

- A pattern of consumption of the future economic benefits embodied in an intangible asset cannot always be determined by reference to the asset's observable volume. In some cases, a reference to the cash flows generated from the use of the asset is necessary.
- Therefore, the IASB should create a specific provision in IAS 38 that permits the use of a revenue-based amortisation method, as long as this method is reliably measurable.
- In opposition to the intangible assets, a pattern of consumption of the future economic benefits embodied in a tangible asset can in principle be determined by reference to the asset's observable volume (i.e. physical output). Therefore, it is questionable whether a provision clarifying the use of a revenue-based depreciation method is necessary within IAS 16.



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