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Technical Accounting Alert

Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

Introduction

The International Accounting Standards Board (IASB) has published *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38) in order to address depreciation and amortisation methods which are based on revenue.

The Australian Accounting Standards Board (AASB) is yet to issue these amendments in Australia.

Background

IAS 16.62 and IAS 38.98 state that a depreciation or amortisation method should reflect the expected pattern of consumption of the future economic benefits of the asset.

Amendments to IAS 16

The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because:

- a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's useful life; and
- revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset.

Additionally, the amendments to IAS 16 provide guidance in the application of the diminishing balance method for property, plant and equipment.

Amendments to IAS 38

The amendments to IAS 38 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons set out above. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or

- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Additionally, the amendments to IAS 38 provide guidance in the application of the diminishing balance method for intangible assets.

Effective date and transition

The amendments should be applied prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Action required

Entities should consider whether these amendments will have any impact on their financial statements for annual periods beginning on or after 1 January 2016.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au.