



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 21 March 2007, London

Project: Annual improvement process

Topic: **Inconsistency in the definition of 'recoverable amount' in IAS 16 *Property, Plant and Equipment* (Agenda Paper 6B)**

-
1. The staff have identified that the following issue would be most appropriately resolved via the annual improvements process (as agreed by the Board in July 2006).

Issue: Should the perceived inconsistency in the definition of 'recoverable amount' in IAS 16 be removed?

Staff recommendation

2. The staff recommend that the Board:
 - should add this issue to the annual improvements project; and
 - should amend IAS 16 as proposed in paragraph 9 of this paper.

Background

3. When IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* was issued, the term ‘net selling price’ in IAS 36 *Impairment of Assets* was replaced with ‘fair value less costs to sell’. To explain the amendment, IFRS 5.BC 83 states:

The Board considered using the phrase ‘net selling price’ to be consistent with IAS 36. However, it noted that ‘fair value’ is used in many IFRSs. The Board concluded that it would be preferable to use the same phrase as SFAS 144 so that it is clear that convergence on this point had been achieved and to amend IAS 36 so that the terminology in IAS 36 is consistent with other IFRSs. Therefore, a consequential amendment made by IFRS 5 replaces ‘net selling price’ with ‘fair value less costs to sell’ throughout IAS 36.

4. IAS 16.63 refers to IAS 36 when discussing recoverable amount as follows:

To determine whether an item of property, plant and equipment is impaired, an entity applies IAS 36 *Impairment of Assets*. That Standard explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises, or reverses the recognition of, an impairment loss.
5. The term ‘net selling price’ is still referred to in the definition of recoverable amount in IAS 16. In that Standard, recoverable amount is defined as the ‘higher of an asset’s net selling price and its value in use’. In contrast, IFRS 5 and IAS 36 define recoverable amount as the higher of ‘fair value less costs to sell and its value in use’.
6. The staff note that the definitions of recoverable amount in IAS 16 and IAS 36 are different. This may cause confusion, or lead constituents to search for different outcomes or interpret recoverable amount differently. Based on the conclusions reached in IFRS 5.BC 83, the staff believe that the definition of recoverable amount in IAS 16 should be amended to be consistent with IFRS 5 and IAS 36.

Staff recommendation

7. IAS 16 should be amended as proposed in paragraph 9.
8. **Does the Board agree?**

Drafting

9. The staff recommend that IAS 16 should be amended as follows:

Definitions

- 6 The following terms are used in this Standard with the meanings specified:

...

Recoverable amount is the higher of an asset's ~~net selling price~~ fair value less costs to sell and its value in use.

...

Basis for Conclusions on Proposed Amendments to IAS 16 *Property, Plant & Equipment*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Recoverable amount

- BC1 Recoverable amount is defined in IAS 16 as the higher of an asset's net selling price and its value in use. The Board proposes to replace the term 'net selling price' in this definition with 'fair value less costs to sell' in order to be consistent with the wording used in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 36 *Impairment of Assets*.