

STAFF PAPER

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IASB Meeting

Previous meetings:
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Project	Annual Improvements 2011-2013 cycle		
Paper topic	Addendum to agenda paper 9 – Revenue-based depreciation method		
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Introduction

1. This paper is an addendum to Agenda paper 9 from the April 2012 Board meeting.
2. After publishing Agenda paper 9, we received informal feedback regarding the wording of the proposed amendments to IAS 16 *Property Plant and Equipment* and IAS 38 *Intangible Assets* in Appendices C and D to Agenda paper 9.
3. Our objective with the proposed amendment is to clarify that a depreciation/amortisation method that reflects a pattern of generation economic benefits from the asset rather than a pattern of consumption of the asset's economic benefits is not an appropriate method of depreciation/amortisation. A consequence of the proposed amendment is to clarify that a method of depreciation/amortisation that is based on the revenue expected to be generated from using the asset in an entity's business is not an appropriate method.
4. The feedback we received, which we agree with, suggested some clearer, more direct wording for the amendment and this is included in Appendices A and B of this addendum. We think that this revised wording is consistent with our rationale in Agenda paper 9 and therefore all of our recommendations in that paper remain unchanged.

Appendix A—Proposed changes (IAS 16)

A1. The (revised) proposed wording of the amendment to IAS 16 is presented below.

Amendment to IAS 16 *Property, Plant and Equipment*

Paragraph 62A is added. Paragraph 62 is not proposed for amendment but is included here for ease of reference.

Depreciation method

- 62 A variety of depreciation 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. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.
- 62A A method that uses revenue generated from an activity that includes the use of an asset cannot be used as a depreciation method because this reflects a pattern of generation of economic benefits from the asset rather than the pattern of consumption of the asset's expected future economic benefits.

Effective date

- 81G *Improvements to IFRSs* issued in [date] added paragraph 62A. An entity shall apply this amendment prospectively for annual periods beginning on or after [date]. Earlier application is permitted.

Basis for Conclusions on proposed amendments to IAS 16 *Property, Plant and Equipment*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Depreciation method

- BC1 The Board considered whether it would be appropriate for fixed assets to be depreciated using a revenue-based depreciation method (ie one that is derived from an interaction between quantity and price and that takes into account the actual revenue to projected revenue ratio as the depreciation basis) to allocate the depreciable amount of an asset. Paragraph 60 states that “the depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity”. The Board proposes that revenue-based methods should not be permitted because they reflect a pattern of generation of economic benefits from operating the business that the asset is part of rather than the consumption of the economic benefits embodied in the asset.

Appendix B—Proposed changes (IAS 38)

B1. The (revised) proposed wording of the amendment to IAS 38 is presented below.

Amendment to IAS 38 *Intangible Assets*

Paragraph 98A is added. Paragraph 98 is not proposed for amendment but is included here for ease of reference.

Amortisation period and amortisation method

- 98 A variety of depreciation 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 unit 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 A method that uses revenue generated from an activity that includes the use of an asset cannot be used as an amortisation method because this reflects a pattern of generation of economic benefits from the asset rather than the pattern of consumption of the asset's expected future economic benefits.

Transitional provisions and effective date

- 133 *Improvements to IFRSs* issued in [date] added paragraph 98A. An entity shall apply this amendment prospectively for annual periods beginning on or after [date]. Earlier application is permitted.

Basis for Conclusions on proposed amendments to IAS 38 *Intangible Assets*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Amortisation period and amortisation method

- BC1 The Board considered whether it would be appropriate for intangible assets to be amortised using a revenue-based depreciation method (ie one that is derived from an interaction between quantity and price and that takes into account the actual revenue to projected revenue ratio as the depreciation basis) to allocate the depreciable amount of an asset. Paragraph 97 states that “the amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity”. The Board proposes that revenue-based methods should not be permitted because they reflect a pattern of generation of economic benefits from operating the business that the asset is part of rather than the consumption of economic benefits embodied in the asset.