

## STAFF PAPER

31 October 2013

## IASB Meeting

Project	<b>Narrow-scope amendment: IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i>—Clarification of acceptable methods of depreciation and amortisation</b>		
Paper topic	Proposed wording for finalising the proposed amendments to IAS 16 and IAS 38.		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Purpose of this paper**

1. The purpose of this paper is to present to the IASB the Interpretations Committee's proposed wording for finalising the proposed amendments to IAS 16 and IAS 38, following our recommendations in Agenda Paper 13A of October 2013. It shows in:
  - (a) Section 1: the proposed amendments to IAS 16 (Section 1a) and IAS 38 (Section 1b), highlighting differences from the currently effective Standard. New text is underlined and deleted text is struck through.
  - (b) Section 2: the revisions to the wording in the previously published Exposure Draft to the proposed amendments to IAS 16 (Section 2a) and IAS 38 (Section 2b). New text is underlined and deleted text is struck through.

## Section 1(a)—Draft wording of the proposed amendment to IAS 16, showing differences from the currently effective Standard

### Amendments to IAS 16 *Property, Plant and Equipment*

Paragraph 56 (c) is amended. Paragraphs 60A and 81G are added. Paragraphs 60–62 are not proposed for amendment but are included here for ease of reference. New text is underlined.

#### Depreciable amount and depreciation period

56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- (a) ...
- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand or as indicated by a future expected reduction in the unit selling price for the product or service output of the asset.

#### Depreciation method

- 60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- 60A** Paragraph 60 establishes consumption of the future economic benefits that are inherent in the asset as the principle for depreciation. The resulting depreciation charge results from an estimation process and represents a measurement of the consumption of the economic benefits inherent in the asset. A method that is based on revenue generated from an activity that includes the use of an asset is, in contrast, a method based on the generation of future economic benefits from use of the asset. Such a method is therefore inconsistent with the principle in paragraph 60.
- 61 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

- 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. The straight-line method 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.

### Effective date and transition

- 81G Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38), issued in [date], amended paragraph 56(c) and added paragraph 60A. An entity shall apply these amendments prospectively for annual periods beginning on or after [date]. Earlier application is permitted.

## Amendments to the Basis for Conclusions on IAS 16 *Property, Plant and Equipment*

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

### Depreciation method

- BC33A The IASB received a request to clarify the meaning of the term 'consumption of the expected future economic benefits embodied in the asset' when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. This issue related to the application of paragraphs 97 and 98 of IAS 38 *Intangible Assets*.
- BC33B The request raised this issue within the context of a SCA for which:
- (a) the rate chargeable to users is contracted in the agreement; and
  - (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor's practice, so as not to burden consumers.
- BC33C The IASB was asked to consider whether:
- (a) a revenue-based amortisation method better reflects the economic reality of the underlying contractual terms; or
  - (b) a time-based amortisation method is most appropriate, because it reflects the duration of the SCA and the fact that the entity received a licence to operate the infrastructure.
- BC33D The IASB observed that a revenue-based depreciation method is one that allocates an asset's depreciable amount based on revenues generated in an accounting period as a

proportion of total revenues expected to be generated over the asset's useful economic life. The depreciation expense is affected by the interaction between units (ie quantity) and price and takes into account the expected future changes in price.

- BC33E The IASB decided to analyse the issue raised within the context of the guidance for depreciation methods in IAS 16 and for amortisation methods in IAS 38 and considered adding some proposed amendments to both Standards to clarify the use of a revenue-based method.
- BC33F The IASB observed that paragraph 60 of IAS 16 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 IASB also observed that the future economic benefits embodied in an asset are consumed by an entity principally through its use as described in paragraph 56 of IAS 16. The use of an asset can be assessed by reference to the asset's expected capacity or physical output as described in paragraph 56(a) of IAS 16. Other factors are mentioned in paragraph 56(b)–(d) of IAS 16 to assist in the determination of a pattern of consumption of an asset. The IASB noted that even though revenue could sometimes be considered as a measurement of the output generated by the asset, revenue does not, as a matter of principle, reflect the way an asset is used or consumed.
- BC33G In addition, the IASB observed that the price component of revenue is sometimes affected by inflation and noted that inflation has no bearing upon the way in which the asset is worn out or used up.
- BC33H On the basis of the guidance in IAS 16 and IAS 38, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)*, that a method that is based on revenue generated from an activity that includes the use of an asset is not appropriate, because it reflects a pattern of economic benefits being generated from operating the business (of which the asset is part) rather than the economic benefits being consumed through the use of the asset.
- BC33I However, as part of the IASB's conclusions in the ED, the IASB indicated that in some limited circumstances, a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the assets when a revenue-based method gave the same result as the use of a units of production method. The IASB used broadcasting rights as an example to acknowledge that straight-line amortisation would not be appropriate and opened the possibility of revenue-based amortisation being used in rare cases in which revenue had a linear relationship to viewer numbers.
- BC33J In response to the ED of this amendment, the IASB received many comment letters claiming the existence of some ambiguity between the proposed guidance in the body of the Standard (both IAS 16 and IAS 38), which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances and the explanations in the BC that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted the explanations in the BC as allowing the use of revenue as an approximation of the pattern of consumption of an asset in circumstances other than those explained in the Basis for Conclusions.
- BC33K In addition, some respondents, mainly from the media and the entertainment industry and from the construction sector, pointed out that the consumption of economic benefits inherent in certain intangible assets (ie acquired rights), may often not be determinable by reference to physical outputs or general wear and tear, and consequently those

commentators thought that in some cases, a revenue-based method was more appropriate for certain intangible assets. This is because in some cases neither a straight-line amortisation method nor a units of production method was considered suitable to reflect the pattern of consumption of the economic benefits of the asset.

BC33L During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method, by emphasising the main principle for depreciating assets in paragraph 60 of IAS 16. The IASB also decided to eliminate the ambiguity between the guidance in the body of the Standard (both in IAS 16 and IAS 38) and the explanations in the Basis for Conclusions by eliminating the explanations in the BC introducing limited circumstances in which a revenue-based method gives the same result as a units of production method.

BC33M During its redeliberations, the IASB also decided to clarify that reductions in the selling price could signal the existence of obsolescence, which in turn may reflect a reduction in the economic benefits consumed from the asset. Consequently, the IASB decided to amend paragraph 56(c) of IAS 16.

## Section 1(b)—Draft wording of the proposed amendment to IAS 38, showing differences from the currently effective Standard (*continued*)

### Amendments to IAS 38 *Intangible Assets*

In paragraph 98, the phrase ‘unit of production method’ has been amended to ‘units of production method’. Paragraphs 97A, 98A–98B and 130G are added. Paragraphs 92 and 98 are amended. Paragraph 97 is not proposed for amendment but is included here for ease of reference. New text is underlined.

#### Amortisation period and amortisation method

- 92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Future reductions in the selling price of an intangible asset could indicate the existence of commercial obsolescence, which in turn reflects a reduction in the economic benefits consumed from the intangible asset.
- 97 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.
- 97A Paragraph 97 establishes consumption of the future economic benefits that are inherent in the asset as the principle for amortisation. The resulting amortisation charge results from an estimation process and represents a measurement of the consumption of the economic benefits inherent in the asset. A method that is based on revenue generated from an activity that includes the use of an asset is, in contrast, a method based on the generation of future economic benefits from use of the asset, except in the unusual circumstance in which the intangible right is expressed as a measure of revenue as described in paragraph 98B. A revenue-based method is therefore inconsistent with the principle in paragraph 97.
- 98 A variety of amortisation 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. 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.

Narrow-scope amendment: IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* | Clarification of acceptable methods of depreciation and amortisation

98A In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the limiting factor that is inherent in the intangible asset; for example, the contract that sets out the entity's rights over its use of an intangible asset might limit the entity's use of the intangible asset to a predetermined number of years (ie time) or to a number of units produced or to an amount of revenue earned. Identification of such a limiting factor would serve as the starting point for the identification of the amortisation method, but the entity would not be limited to using this as the basis for choosing an amortisation method.

98B In the circumstance in which the limiting factor inherent in an intangible asset is an amount of revenue, the revenue generated is a measure of consumption of the future economic benefits embodied in the asset. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract is not based on time or the amount of gold extracted, but is instead based on the amount of gross revenue obtained from the extraction (eg a contract agreed upon an amount CU 2 billion). In another example, the right to operate a toll road could be based on the amount of revenue obtained based on the cumulative tolls that have been charged (eg a contract agreed upon an amount CU 100 million of cumulative tolls charged).

### Effective date and transition

130G *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38), issued in [date], added paragraphs 97A and 98A–98C and amended paragraph 98. An entity shall apply these amendments prospectively for annual periods beginning on or after [date]. Earlier application is permitted.

## Amendments to the Basis for Conclusions on IAS 38 *Intangible Assets*

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

### Amortisation method

BC75A The IASB received a request to clarify the meaning of the term 'consumption of the expected future economic benefits embodied in the asset' when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. This issue related to the application of paragraphs 97 and 98 of IAS 38, *Intangible Assets*.

BC75B The request raises this issue within the context of a SCA for which:

- (a) the rate chargeable to users is contracted in the agreement; and
- (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor's practice so as not to burden consumers.

Narrow-scope amendment: IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* | Clarification of acceptable methods of depreciation and amortisation

BC75C The IASB was asked to consider whether:

- (a) a revenue-based amortisation method better reflects the economic reality of the underlying contractual terms; or
- (b) a time-based amortisation method is most appropriate, because it reflects the duration of the SCA and the fact that the entity received a licence to operate the infrastructure.

BC75D The IASB observed that a revenue-based amortisation method is one that allocates an intangible asset's amortisable amount based on revenues generated in an accounting period as a proportion of total revenues expected to be generated over the intangible asset's useful economic life. The amortisation expense is affected by the interaction between units (ie quantity) and price and takes into account the expected future changes in price.

BC75E The IASB decided to analyse the issues raised within the context of the guidance for amortisation methods in IAS 38 and for depreciation methods in IAS 16 and considered adding some proposed amendments to both Standards to clarify the use of a revenue-based method.

BC75F The IASB observed that paragraph 97 of IAS 38 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. On the basis of this guidance the IASB concluded that a method that is based on revenue generated from an activity that includes the use of an asset is not appropriate for amortising an asset (except in the unusual circumstance in which the intangible right is expressed as a measure of revenue).

BC75G During its discussions the IASB also observed that the price component of revenue is sometimes affected by inflation and noted that inflation has no bearing upon the way in which the asset is worn out or used up.

BC75H On the basis of the guidance in IAS 38 and IAS 16, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)*, that a method that is based on revenue generated from an activity that includes the use of an asset is not appropriate, because it reflects a pattern of economic benefits being generated from operating the business (of which the asset is part) rather than the economic benefits being consumed through the use of the asset.

BC75I However, as part of the IASB's conclusions in the ED, the IASB indicated that in some limited circumstances, a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the assets when a revenue-based method gave the same result as a units of production method. The IASB used broadcasting rights as an example to acknowledge that straight-line amortisation would not be appropriate and opened the possibility of revenue-based amortisation being used in rare cases in which revenue had a linear relationship to viewer numbers.

BC75K In response to the ED of this amendment, the IASB received many comment letters claiming the existence of some ambiguity between the proposed guidance in the body of the Standard (both IAS 16 and IAS 38), which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances, and the explanations in the BC that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted that the explanations in



the BC as allowing the use of revenue as an approximation of the pattern of consumption of an asset in circumstances other than those explained in the Basis for Conclusions.

- BC75L In addition, some respondents, mainly from the media and the entertainment industry and from the construction sector, pointed out that the consumption of economic benefits inherent in certain intangible assets (ie acquired rights), may often not be determinable by reference to physical outputs or general wear and tear, and consequently, those respondents observed that in some cases, a revenue-based method was more appropriate for certain intangible assets. This is because in some cases neither a straight-line amortisation method nor a units of production method was considered suitable to reflect the pattern of consumption.
- BC75M For example, some respondents with service concession arrangements insisted that the nature of the intangible asset that is inherent in a service concession arrangement represents a ‘right to charge users’ or a ‘right to collect tolls from users’. Consequently, the consumption of the economic benefits embodied in this intangible asset should be based on a function of both toll rates and expected traffic volume (ie a revenue-based approach).
- BC75N Some respondents from the media industry reminded the IASB of the strong correlation between advertising revenues and viewer numbers reached for some of their acquired rights (eg as programming rights in the television and media industries, acquired under licence for multiple free TV broadcasts over a specified contract period) and encouraged the IASB to include guidance in the Standard allowing for the use of a revenue-based method when this gives the same result as the use of a units of production method.
- BC75O During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method by emphasising the main principle for amortising intangible assets in paragraph 97 of IAS 38. The IASB also decided to eliminate the ambiguity between the guidance in the body of the Standard (both in IAS 16 and IAS 38) and the explanations in the Basis for Conclusions by eliminating the explanations in the BC introducing limited circumstances in which a revenue-based method gives the same result as a units of production method. With this action the IASB avoided creating rules by referring to any circumstance in which a revenue-based method would give the same result as the use of a units of production method.
- BC75P The IASB also considered the question of whether there could be circumstances in which revenue could be used to reflect the pattern in which the future economic benefits of the asset are expected to be consumed. The IASB noted that the only circumstance in which the amount of expected revenue could be used to determine the amortisation charge is when the right embodied by an intangible asset is contractually expressed as a function of revenue, in such a way that the generation of revenue is the measurement used to determine when the right expires. The IASB noted that in this case the pattern of consumption of future economic benefits inherent in the asset is defined by reference to the revenue earned as a proportion of the contractual maximum and, consequently, the amount of revenue generated contractually reflects the consumption of the benefits inherent in the asset.
- BC75Q The IASB also analysed the comments indicating that a revenue-based method is sometimes used in situations in which an intangible asset is used in multiple activities to provide multiple revenue streams. As expressed by some respondents to the ED, this was the case of acquired rights to broadcast programmes for a number of times in several markets (multi-broadcast programming assets). In this case, the application of a units of

production method did not seem practicable, because the units of production were various and not homogeneous. For example, the producer of a motion picture often intends to use the intellectual property embodied in the film to generate cash flows through exhibiting the film in theatres, licensing the rights to characters to manufacturers of toys and other goods, selling DVDs or digital copies of the film, and licensing broadcast rights to television broadcasters. Consequently, respondents thought that the best way to amortise acquired rights to broadcast programmes was to use a revenue-based method, because revenue reflects the pattern of consumption of all the multiple activities in which the acquired rights could be used.

- BC75R The IASB acknowledged that determining an appropriate amortisation method for situations in which an intangible asset is used in multiple activities and generates multiple cash flow streams in various different markets requires significant judgement, particularly because different factors might appear to be appropriate measures of amortisation for each of the different activities in which the intellectual property will be used.
- BC75S Nonetheless, the IASB does not believe that an amortisation method based on revenue is consistent with the principle stated in paragraph 97 of IAS 38 in the case of an intangible asset used in multiple activities, because such a method is based on the benefit generated by using the asset, rather than on the consumption of the economic benefits already inherent in the asset.
- BC75T The IASB also observed that separating an asset into different components is not a new practice in business or in IFRS (because it is routinely done for property, plant and equipment) but refrained from providing guidance in this respect in IAS 38, because doing so would require proper debate and exposure as part of a specific project in IAS 38. Consequently, how an entity separates an asset into different components, or how an entity determines an appropriate method of amortisation for each portion identified, would require the use of judgement.
- BC75U The IASB also decided to provide guidance on how an entity could choose an amortisation method in response to some respondents that observed that further guidance was required in the application of paragraph 98 of IAS 38, which contains a description of the amortisation methods most commonly used. During its deliberations the IASB determined that in choosing an amortisation method an entity could determine what the limiting factor is for the use of the intangible asset; for example, a contract could be limited by a number of years (ie time) or a number of units produced or an amount of revenue earned. The IASB clarified that identifying such a limiting factor is merely a starting point for the identification of the amortisation method. An entity should follow the principle for amortisation in paragraph 90 of IAS 38 to choose an amortisation method.
- BC75V During its deliberations, the IASB also observed that paragraph 90(c) of IAS 38 refers to factors considered in determining the useful life of an intangible asset, and among them takes into consideration: “technical, technological, commercial or other types of obsolescence”. The IASB determined that further guidance could be added to paragraph 92 of IAS 38 to explain that future reductions in the selling price could indicate the existence of commercial obsolescence, which in turn may reflect a reduction in the economic benefits consumed from the intangible asset.

**Consistency in the use of the phrase ‘units of production’**

BC75W The IASB decided to make consistent the phrase ‘units of production method’ and has therefore amended the instances of the phrase ‘unit of production method’.

## Amendments to the Basis for Conclusions on IAS 38 *Intangible Assets* (continued)

In paragraph BC72A the phrase 'unit of production method' has been amended to 'units of production method'. New text is underlined.

### Intangible assets with finite useful lives (paragraph 98)<sup>13</sup>

BC72A The last sentence of paragraph 98 previously stated, “There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.” In practice, this wording was perceived as preventing an entity from using the units of production method to amortise assets if it resulted in a lower amount of accumulated amortisation than the straight-line method. However, using the straight-line method could be inconsistent with the general requirement of paragraph 38 that the amortisation method should reflect the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Consequently, the Board decided to delete the last sentence of paragraph 98.

## Amendments to the Basis for Conclusions on IFRIC 12 *Service Concession Arrangements*

In paragraph BC64, the phrase 'unit of production method' has been amended to 'units of production method'. New text is underlined.

BC64 The IFRIC considered whether it would be appropriate for intangible assets under paragraph 26 to be amortised using an 'interest' method of amortisation, ie one that takes account of the time value of money in addition to the consumption of the intangible asset, treating the asset more like a monetary than a non-monetary asset. However, the IFRIC concluded that there was nothing unique about these intangible assets that would justify use of a method of depreciation different from that used for other intangible assets. The IFRIC noted that paragraph 98 of IAS 38 provides for a number of amortisation methods for intangible assets with finite useful lives. These methods include the straight-line method, the diminishing balance method and the units 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.

## Section 2 (a)—Draft wording showing changes to IAS 16 from the Exposure Draft

This Appendix shows revisions to the wording in the previously published Exposure Draft (December 2012), following our recommendations in this paper. New text is underlined and deleted text is struck through.

### ~~[Draft]~~ Amendments to IAS 16 *Property, Plant and Equipment*

Paragraph 56(c) is amended. Paragraphs 60A, ~~62A–62B~~ and 81G are added. Paragraphs 60 and 62 are not proposed for amendment but are included here for ease of reference. ~~Paragraphs 62A–62B and 81G are added. Paragraph 62 is not proposed for amendment but is included here for ease of reference.~~ New text is underlined.

#### Depreciable amount and depreciation period

56 The future economic benefits embodied in an asset are consumed by an entity principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- (a) ...
- (c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand or as indicated by a future expected reduction in the unit selling price for the product or service output of the asset.

#### Depreciation method

60 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

60A Paragraph 60 establishes consumption of the future economic benefits that are inherent in the asset as the principle for depreciation. The resulting depreciation charge results from an estimation process and represents a measure of the consumption of the economic benefits inherent in the asset.

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. The straight-line method 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.

60A Paragraph 60 establishes consumption of the future economic benefits that are inherent in the asset as the principle for depreciation. The resulting depreciation charge results from an estimation process and represents a measurement of the consumption of the economic benefits inherent in the asset. A method that is based on revenue generated from an activity that includes the use of an asset is, in contrast, a method based on the generation of future economic benefits from use of the asset. Such a method is therefore inconsistent with the principle in paragraph 60.

~~62A A method that uses revenue generated from an activity that includes the use of an asset is not an appropriate depreciation method for that asset, 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. Paragraph 60 establishes consumption of the benefits that were inherent in the asset when it was acquired as the principle for depreciation.~~

~~62B 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 asset as a result of technical or commercial obsolescence.~~

### Effective date and transition

81G Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38), issued in [date], amended paragraph 56(c) and added paragraph 60A added paragraphs 62A and 62B. An entity shall apply those paragraphs these amendments for annual periods beginning on or after [date] retrospectively prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted.

## **Amendments to the Basis for Conclusions on IAS 16 *Property, Plant and Equipment***

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

### **Depreciation method**

BC33A The IASB received a request to clarify the meaning of the term ‘consumption of the expected future economic benefits embodied in the asset’ when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. This issue related to the application of paragraphs 97 and 98 of IAS 38 *Intangible Assets*.

BC33B The request raised this issue within the context of a SCA for which:

- (a) the rate chargeable to users is contracted in the agreement; and
- (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor’s practice so as not to burden consumers.

BC33C The IASB was asked to consider whether:

- (a) a revenue-based amortisation method better reflects the economic reality of the underlying contractual terms; or
- (b) a time-based amortisation method is most appropriate, because it reflects the duration of the SCA and the fact that the entity received a licence to operate the infrastructure.

BC33D The IASB observed that a revenue-based depreciation method is one that allocates an asset’s depreciable amount based on revenues generated in an accounting period as a proportion of total revenues expected to be generated over the asset’s useful economic life. The depreciation expense is affected by the interaction between units (ie quantity) and price and takes into account the expected future changes in price.

BC33E The IASB decided to analyse the issue raised within the context of the guidance for depreciation methods in IAS 16 and for amortisation methods in IAS 38 and considered adding some proposed amendments to both Standards to clarify the use of a revenue-based method.

BC33F The IASB observed that paragraph 60 of IAS 16 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 IASB also observed that the future economic benefits embodied in an asset are consumed by an entity principally through its use as described in paragraph 56 of IAS 16. The use of an asset can be assessed by reference to the asset’s expected capacity or physical output as described in paragraph 56(a) of IAS 16. Other factors are mentioned in paragraph 56(b)–(d) of IAS 16 to assist in the determination of a pattern of consumption of an asset. The IASB noted that even though revenue could sometimes be considered as a measurement of the output generated by the asset, revenue does not reflect, as a matter of principle, the way an asset is used or consumed.

BC33G In addition, the IASB observed that the price component of revenue is sometimes affected by inflation and noted that inflation has no bearing upon the way in which the asset is worn out or used up.

BC33H On the basis of the guidance in IAS 16 and IAS 38, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)*, that a method that is based on revenue generated from an activity that includes the use of an asset is not appropriate, because it reflects a pattern of economic benefits being generated from operating the business (of which the asset is part) rather than the economic benefits being consumed through the use of the asset.

BC33I However, as part of the IASB's conclusions in the ED, the IASB indicated that in some limited circumstances, a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the assets when a revenue based method gave the same result as the use of a units of production method. The IASB used broadcasting rights as an example to acknowledge that straight-line amortisation would not be appropriate and opened the possibility of revenue-based amortisation being used in rare cases in which revenue had a linear relationship to viewer numbers.

BC33J In response to the ED of this amendment, the IASB received many comment letters claiming the existence of some ambiguity between the proposed guidance in the body of the Standard (both IAS 16 and IAS 38), which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances and the explanations in the BC that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted the explanations in the BC as allowing the use of revenue as an approximation of the pattern of consumption of an asset in in circumstances other than those explained in the Basis for Conclusions.

BC33K In addition, some respondents, mainly from the media and the entertainment industry and from the construction sector pointed out that the consumption of economic benefits inherent in certain intangible assets (ie acquired rights), may often not be determinable by reference to physical outputs or general wear and tear. Consequently, those commentators thought that in some cases, a revenue-based method was more appropriate for certain intangible assets. This is because in some cases neither a straight-line amortisation method nor a units of production method was considered suitable to reflect the pattern of consumption of the economic benefits of the asset.

BC33L During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method, by emphasising the main principle for depreciating assets in paragraph 60 of IAS 16. The IASB also decided to eliminate the ambiguity between the guidance in the body of the Standard (both in IAS 16 and IAS 38) and the explanations in the Basis for Conclusions by eliminating the explanations in the BC introducing limited circumstances in which a revenue-based method gives the same result as a units of production method.

BC33M During its redeliberations, the IASB also decided to clarify that reductions in the selling price could signal the existence of obsolescence, which in turn may reflect a reduction in the economic benefits consumed from the asset. Consequently, the IASB decided to amend paragraph 56(c) of IAS 16.



## Section 2(b)—Draft wording showing changes to IAS 38 from the Exposure Draft (*continued*)

### [Draft] Amendments to IAS 38 *Intangible Assets*

In paragraph 98, the phrase ‘unit of production method’ has been amended to ‘units of production method’. ~~Paragraphs 98A–98B and 130G are added.~~ Paragraphs 97A, 98A–98B and 130G are added. Paragraphs 92 and 98 are amended. Paragraph 97 is not proposed for amendment but is included here for ease of reference. New text is underlined.

#### Amortisation period and amortisation method

- 92 Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Future reductions in the selling price of an intangible asset could indicate the existence of commercial obsolescence, which in turn reflects a reduction in the economic benefits consumed from the intangible asset.
- 97 The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another Standard permits or requires it to be included in the carrying amount of another asset.
- 97A Paragraph 97 establishes consumption of the future economic benefits that are inherent in the asset as the principle for amortisation. The resulting amortisation charge results from an estimation process and represents a measurement of the consumption of the economic benefits inherent in the asset. A method that is based on revenue generated from an activity that includes the use of an asset is, in contrast, a method based on the generation of future economic benefits from use of the asset, except in the unusual circumstance in which the intangible right is expressed as a measure of revenue as described in paragraph 98B. A revenue-based method is therefore inconsistent with the principle in paragraph 97.
- 98 A variety of ~~depreciation~~ amortisation 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. 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 intangible asset is not an appropriate amortisation method for that intangible asset, because it reflects a pattern of economic benefits being generated from the intangible asset, rather than a pattern of consumption of the future economic benefits embodied in the intangible asset. Paragraph 97 establishes consumption of the benefits that were inherent in the asset when it was acquired as the principle for amortisation.~~

98A In choosing an appropriate amortisation method in accordance with paragraph 98, an entity could determine the limiting factor that is inherent in the intangible asset; for example, the contract that sets out the entity's rights over its use of an intangible asset might limit the entity's use of the intangible asset to a predetermined number of years (ie time) or to a number of units produced or to an amount of revenue earned. Identification of such a limiting factor would serve as the starting point for the identification of the amortisation method, but the entity would not be limited to using this as the basis for choosing an amortisation method.

~~98B — When applying the diminishing balance method, information about technical or commercial obsolescence of the product or service output is relevant for estimating the pattern of consumption of future economic benefits of the asset and the useful life of the asset. A future expected 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.~~

98B In the circumstance in which the limiting factor inherent in an intangible asset is an amount of revenue, the revenue generated is a measure of consumption of the future economic benefits embodied in the asset. For example, an entity could acquire a concession to explore and extract gold from a gold mine. The expiry of the contract is not based on time or the amount of gold extracted, but is instead based on the amount of gross revenue obtained from the extraction (eg a contract agreed upon an amount of CU 2 billion). In another example, the right to operate a toll road could be based on the amount of revenue obtained based on the cumulative tolls that have been charged (eg a contract agreed upon an amount CU 100 million of cumulative tolls charged).

## Effective date and transition

130G *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38), issued in [date], ~~amended paragraph 98 and added paragraphs 98A–98B~~ added paragraphs 97A and 98A–98C and amended paragraph 98. An entity shall ~~apply those paragraphs~~ these amendments for annual periods beginning on or after [date] ~~retrospectively prospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*~~. Earlier application is permitted.

## Amendments to the Basis for Conclusions on IAS 38 *Intangible Assets*

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

### Amortisation method

BC75A The IASB received a request to clarify the meaning of the term ‘consumption of the expected future economic benefits embodied in the asset’ when determining the appropriate amortisation method for intangible assets of service concession arrangements (SCA) that are within the scope of IFRIC 12 *Service Concession Arrangements*. This issue related to the application of paragraphs 97 and 98 of IAS 38, *Intangible Assets*.

BC75B The request raises this issue within the context of a SCA for which:

- (a) the rate chargeable to users is contracted in the agreement; and
- (b) a lower tariff is imposed at the beginning of the concession and increases periodically in line with the grantor’s practice so as not to burden consumers.

BC75C The IASB was asked to consider whether:

- (a) a revenue-based amortisation method better reflects the economic reality of the underlying contractual terms; or
- (b) a time-based amortisation method is most appropriate because it reflects the duration of the SCA and the fact that the entity received a licence to operate the infrastructure.

BC75D The IASB observed that a revenue-based amortisation method is one that allocates an intangible asset’s amortisable amount based on revenues generated in an accounting period as a proportion of total revenues expected to be generated over the intangible asset’s useful economic life. The amortisation expense is affected by the interaction between units (ie quantity) and price and takes into account the expected future changes in price.

BC75E The IASB decided to analyse the issues raised within the context of the guidance for amortisation methods in IAS 38 and for depreciation methods in IAS 16 and considered adding some proposed amendments to both Standards to clarify the use of a revenue-based method.

BC75F The IASB observed that paragraph 97 of IAS 38 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. On the basis of this guidance, the IASB concluded that a method that is based on revenue generated from an activity that includes the use of an asset is not appropriate for amortising an asset (except in the unusual circumstance in which the intangible right is expressed as a measure of revenue).

BC75G During its discussions the IASB also observed that the price component of revenue is sometimes affected by inflation and noted that inflation has no bearing upon the way in which the asset is worn out or used up.

BC75H On the basis of the guidance in IAS 38 and IAS 16, the IASB decided to clarify in the Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation (Proposed amendments to IAS 16 and IAS 38)*, that a method that is based on revenue generated from an activity that includes the use of an asset is not appropriate, because it

reflects a pattern of economic benefits being generated from operating the business (of which the asset is part) rather than the economic benefits being consumed through the use of the asset.

BC75I However, as part of the IASB's conclusions in the ED, the IASB indicated that in some limited circumstances, a revenue-based method could provide a reasonable approximation of the consumption of the expected economic benefits embodied in the assets when a revenue-based method gave the same result as a units of production method. The IASB used broadcasting rights as an example to acknowledge that straight-line amortisation would not be appropriate and opened the possibility of revenue-based amortisation being used in rare cases in which revenue had a linear relationship to viewer numbers.

BC75K In response to the ED of this amendment, the IASB received many comment letters claiming the existence of some ambiguity between the proposed guidance in the body of the Standard (both IAS 16 and IAS 38), which prohibited the use of a revenue-based depreciation or amortisation method in all circumstances, and the explanations in the BC that introduced limited circumstances in which a revenue-based method gives the same result as a units of production method. Some had misinterpreted that the explanations in the BC as allowing the use of revenue as an approximation of the pattern of consumption of an asset in circumstances other than those explained in the Basis for Conclusions.

BC75L In addition, some respondents, mainly from the media and the entertainment industry and from the construction sector, pointed out that the consumption of economic benefits inherent in certain intangible assets (ie acquired rights), may often not be determinable by reference to physical outputs or general wear and tear, and consequently, those respondents observed that in some cases, a revenue-based method was more appropriate for certain intangible assets. This is because in some cases neither a straight-line amortisation method nor a units of production method was considered suitable to reflect the pattern of consumption.

BC75M For example, some respondents with service concession arrangements insisted that the nature of the intangible asset that is inherent in a service concession arrangement represents a 'right to charge users' or a 'right to collect tolls from users'. Consequently, the consumption of the economic benefits embodied in this intangible asset should be based on a function of both toll rates and expected traffic volume (ie a revenue-based approach).

BC75N Some respondents from the media industry reminded the IASB of the strong correlation between advertising revenues and viewer numbers reached for some of their acquired rights (eg as programming rights in the television and media industries, acquired under licence for multiple free TV broadcasts over a specified contract period) and encouraged the IASB to include guidance in the Standard allowing for the use of a revenue-based method when this gives the same result as the use of a units of production method.

BC75O During its redeliberations of the ED the IASB decided to reaffirm its conclusion to prohibit the use of a revenue-based method by emphasising the main principle for amortising intangible assets in paragraph 97 of IAS 38. The IASB also decided to eliminate the ambiguity between the guidance in the body of the Standard (both in IAS 16 and IAS 38) and the explanations in the Basis for Conclusions by eliminating the explanations in the BC introducing limited circumstances in which a revenue-based method gives the same result as a units of production method. With this action the IASB avoided creating rules by referring to any circumstance in which a revenue-based method would give the same result as the use of a units of production method.

BC75P The IASB also considered the question of whether there could be circumstances in which revenue could be used to reflect the pattern in which the future economic benefits of the asset are expected to be consumed. The IASB noted that the only circumstance in which the amount of expected revenue could be used to determine the amortisation charge is when the right embodied by an intangible asset is contractually expressed as a function of revenue, in such a way that the generation of revenue is the measurement used to determine when the right expires. The IASB noted that in this case the pattern of consumption of future economic benefits inherent in the asset is defined by reference to the revenue earned as a proportion of the contractual maximum and, consequently, the amount of revenue generated contractually reflects the consumption of the benefits inherent in the asset.

BC75Q The IASB also analysed the comments indicating that a revenue-based method is sometimes used in situations in which an intangible asset is used in multiple activities to provide multiple revenue streams. As expressed by some respondents to the ED, this was the case of acquired rights to broadcast programmes for a number of times in several markets (multi-broadcast programming assets). In this case, the application of a units of production method did not seem practicable, because the units of production were various and not homogeneous. For example, the producer of a motion picture often intends to use the intellectual property embodied in the film to generate cash flows through exhibiting the film in theatres, licensing the rights to characters to manufacturers of toys and other goods, selling DVDs or digital copies of the film, and licensing broadcast rights to television broadcasters. Consequently, respondents thought that the best way to amortise acquired rights to broadcast programmes was to use a revenue-based method, because revenue reflects the pattern of consumption of all the multiple activities in which the acquired rights could be used.

BC75R The IASB acknowledged that determining an appropriate amortisation method for situations in which an intangible asset is used in multiple activities and generates multiple cash flow streams in various different markets requires significant judgement, particularly because different factors might appear to be appropriate measures of amortisation for each of the different activities in which the intellectual property will be used.

BC75S Nonetheless, the IASB does not believe that an amortisation method based on revenue is consistent with the principle stated in paragraph 97 of IAS 38 in the case of an intangible asset used in multiple activities, because such a method is based on the benefit generated by using the asset, rather than on the consumption of the economic benefits already inherent in the asset.

BC75T The IASB also observed that separating an asset into different components is not a new practice in business or in IFRS (because it is routinely done for property, plant and equipment) but refrained from providing guidance in this respect in IAS 38, because doing so would require proper debate and exposure as part of a specific project in IAS 38. Consequently, how an entity separates an asset into different components, or how an entity determines an appropriate method of amortisation for each portion identified, would require the use of judgement.

BC75U The IASB also decided to provide guidance on how an entity could choose an amortisation method in response to some respondents that observed that further guidance was required in the application of paragraph 98 of IAS 38, which contains a description of the amortisation methods most commonly used. During its deliberations the IASB determined that in choosing an amortisation method an entity could determine what the limiting factor is for the use of the intangible asset; for example, a contract could be

limited by a number of years (ie time) or a number of units produced or an amount of revenue earned. The IASB clarified that identifying such a limiting factor is merely a starting point for the identification of the amortisation method. An entity should follow the principle for amortisation in paragraph 90 of IAS 38 to choose an amortisation method.

BC75V During its deliberations, the IASB also observed that paragraph 90(c) of IAS 38 refers to factors considered in determining the useful life of an intangible asset, and among them takes into consideration: “technical, technological, commercial or other types of obsolescence”. The IASB determined that further guidance could be added to paragraph 92 of IAS 38 to explain that future reductions in the selling price could indicate the existence of commercial obsolescence, which in turn may reflect a reduction in the economic benefits consumed from the intangible asset.

**Consistency in the use of the phrase ‘units of production’**

BC75W The IASB decided to make consistent the phrase ‘units of production method’ and has therefore amended the instances of the phrase ‘unit of production method’.

## **[Draft] Amendments to the Basis for Conclusions on IAS 38 *Intangible Assets* (continued)**

In paragraph BC72A, the phrase 'unit of production method' has been amended to 'units of production method'. New text is underlined.

### **Intangible assets with finite useful lives (paragraph 98)<sup>13</sup>**

BC72A The last sentence of paragraph 98 previously stated, 'There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method.' In practice, this wording was perceived as preventing an entity from using the units of production method to amortise assets if it resulted in a lower amount of accumulated amortisation than the straight-line method. However, using the straight-line method could be inconsistent with the general requirement of paragraph 38 that the amortisation method should reflect the expected pattern of consumption of the expected future economic benefits embodied in an intangible asset. Consequently, the Board decided to delete the last sentence of paragraph 98.

## **[Draft] Amendments to the Basis for Conclusions on IFRIC 12 *Service Concession Arrangements***

In paragraph BC64, the phrase 'unit of production method' has been amended to 'units of production method'. New text is underlined.

BC64 The IFRIC considered whether it would be appropriate for intangible assets under paragraph 26 to be amortised using an 'interest' method of amortisation, ie one that takes account of the time value of money in addition to the consumption of the intangible asset, treating the asset more like a monetary than a non-monetary asset. However, the IFRIC concluded that there was nothing unique about these intangible assets that would justify use of a method of depreciation different from that used for other intangible assets. The IFRIC noted that paragraph 98 of IAS 38 provides for a number of amortisation methods for intangible assets with finite useful lives. These methods include the straight-line method, the diminishing balance method and the units 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.

## Basis for Conclusions

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

### Depreciation and amortisation method

- ~~BC1—The IASB discussed whether it would be appropriate for plant and equipment to be depreciated and for intangible assets to be amortised using a revenue-based depreciation or amortisation method. A revenue-based depreciation or amortisation method is one that is derived from an interaction between units (ie quantity) and price, and that takes into account the expected future changes in price as the depreciation basis to allocate the amount of an asset that is to be depreciated or amortised. Paragraph 60 of IAS 16 and paragraph 97 of IAS 38 states that the depreciation or amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.~~
- ~~BC2—The IASB proposes that a revenue-based depreciation or amortisation method should not be applied because it reflects a pattern of economic benefits being generated from operating the business (of which the asset is part) rather than the economic benefits being consumed through the use of the asset. The future economic benefits embodied in an asset are consumed by an entity principally through its use as described in paragraph 56 of IAS 16. The use of an asset can be assessed by reference to the asset's expected capacity or physical output as described in paragraph 56(a) of IAS 16. Other factors are mentioned in paragraph 56(b)–(d) of IAS 16 to assist in the determination of a pattern of consumption of an asset.~~
- ~~BC3—During its deliberations, the IASB considered the question of whether there could be limited circumstances in which revenue could be used to reflect the pattern in which the future economic benefits of the asset are expected to be consumed. The IASB noted that the limited circumstance when revenue could be used is when the use of a revenue-based method gives the same result as the use of a units of production method.~~
- ~~BC4—For example, some types of intellectual property assets (for example, acquired rights to broadcast a film) will initially incur a significant decline in value followed by a diminishing rate of decline (for example, when a film is initially shown and with each subsequent showing the value of the rights typically decrease quickly at first and then at a slower rate). The IASB noted that the use of a time-based straight-line amortisation method may not be appropriate in those cases because these rights have an inherent and fast initial pattern of decline in value.~~
- ~~BC5—The IASB observed that in those cases a measure such as the number of viewers attracted could be used as a reasonable basis for the pattern in which the benefits for those rights are expected to be consumed. In rare cases such as this, advertising revenue could serve as an equivalent for viewer numbers to the extent that advertising revenue has a linear relationship with viewer numbers.~~
- ~~BC6—The IASB also proposes to clarify that expected future reductions in the unit selling price of the product or service output of the asset could be an indicator of the diminution of the future economic benefits of the asset as a result of technical or commercial obsolescence (which is described as a factor for determining the useful life of an asset in paragraph 56(e) of IAS 16 and in paragraph 90(e) of IAS 38), and thereby relevant when applying the diminishing-balance method.~~



~~BC7—The IASB decided to make consistent the phrase ‘units of production method’ and has therefore amended those instances of phrases ‘unit of production method’.~~