

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to FRS 116 and FRS 138)

This Addendum sets out the amendments to FRS 116 Property, Plant and Equipment. An entity shall apply the amendments in this Addendum prospectively for annual periods beginning on or after 1 January 2016. Early application is permitted.

Paragraph 56 is amended and paragraphs 62A and 81I are added. Paragraphs 60–62 are not amended but are included here for ease of reference. New text is underlined.

Paragraphs 81F–81H were amended by the following FRSs and are listed here for ease of reference.

Paragraph	Document title
81F	FRS 13 <i>Fair Value Measurement</i>
81G	Improvements to FRSs (2012)
81H	Annual Improvements to FRSs 2010–2012 Cycle

Depreciable amount and depreciation period

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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 for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the

asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

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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.

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 FRS 108.

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 depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.

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Effective date

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- 81I Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to FRS 116 and FRS 138), issued in July 2014, amended paragraph 56 and added paragraph 62A. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.