

## STAFF PAPER

April 2013

## REG IASB Meeting

<b>Project</b>	<b>Annual Improvements to IFRSs 2010–2012 Cycle</b>
<b>Paper topic</b>	IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> —Revaluation method—proportionate restatement of accumulated depreciation
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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*.

## Introduction

1. The Exposure Draft ('the ED') *Annual Improvements to IFRSs 2010–2012 Cycle* (ED/2012/1) published in May 2012, proposed amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The proposed amendments aimed to clarify the requirements for the calculation of the accumulated depreciation/amortisation at the date of a revaluation when applying the revaluation method.

## Objective

2. The objectives of this paper are to:
  - (a) provide background information on the issue;
  - (b) give an overview of the comments received on this issue;
  - (c) summarise the changes that the IFRS Interpretations Committee ('the Interpretations Committee') recommends for finalisation in response to the comments received; and

- (d) ask you to approve the revised, proposed amendments to IAS 16 and IAS 38 for inclusion in the final Improvements to IFRSs that is expected to be issued in 2013.

### Structure of the paper

- 3. The structure of the paper is as follows:
  - (a) background (paragraphs 5–11);
  - (b) overview of the main comments from the comment letter analysis (paragraphs 12–33); and
  - (c) summary of the Interpretations Committee’s recommendations and questions for the IASB (paragraph 34).
- 4. Wording for the proposed amendments is included as appendices:
  - (a) **Appendix A** shows the proposed amendment, including the Interpretations Committee’s recommendations in this paper, highlighting the differences from the currently effective Standards; and
  - (b) **Appendix B** shows revisions to the wording in the previously published ED, following the Interpretations Committee’s recommendations in this paper.

### Background

- 5. Both IAS 16 (paragraphs 30–31) and IAS 38 (paragraphs 74–75) provide two options for measurement after recognition: the cost model and the revaluation model. The revaluation model requires that an item of property, plant and equipment or an intangible asset shall be carried at a revalued amount, which is its fair value at the date of the revaluation, less any subsequent accumulated depreciation/amortisation and any subsequent accumulated impairment losses.
- 6. Both Standards (IAS 16 (paragraph 35) and IAS 38 (paragraph 80)) provide two different treatments for accumulated depreciation/amortisation at the date of

revaluation. Accumulated depreciation/amortisation is treated in one of the following ways:

- (a) restated proportionately with the change in the gross carrying amount of the asset, so that the carrying amount of the asset after revaluation equals its revalued amount (the gross approach); or
  - (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset (the offset approach).
7. The Interpretations Committee reported to the IASB that practice differed in restating the accumulated depreciation when applying the gross approach (see paragraph 6(a) of this paper). A submission received identified that a restatement of accumulated depreciation proportionate to the gross carrying amount is not possible in cases in which the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.
8. We understood that in the situation described in the submission, the revalued amounts for both the gross carrying amount and the carrying amount reflect observable data.
9. The issue was reported to the IASB who addressed this concern by proposing in the ED that:
- (a) the accumulated depreciation is computed as the difference between the gross carrying amount and the net carrying amount; and
  - (b) the determination of the accumulated depreciation/amortisation does not depend on the selection of the valuation technique.

*Interpretations Committee's meeting*

10. The Interpretations Committee discussed the comment letter analysis, in [Agenda Paper 15D](#) at their January 2013 meeting.
11. At that meeting, the Interpretations Committee recommended that the IASB should finalise this amendment, subject to wording changes, also incorporating the following Interpretations Committee recommendations:
- (a) to make clear in the Basis for Conclusions of IAS 16 and IAS 38 that accumulated depreciation/amortisation would not be able to be restated

proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. This is regardless of whether a re-estimation of the residual value, the useful life or the depreciation method occurs prior to revaluation.

- (b) the transition requirements should be changed so that:
  - (i) the proposed amendments are required to be applied to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period; and
  - (ii) that an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis and explain that basis.

### **Comment letter analysis**

- 12. The comment period for the ED ended on 5 September 2012. The IASB received 84 comment letters of which, for the proposed amendments to IAS 16 and IAS 38, 62 commented on Question 1 and 61 commented on Question 2. The questions were as follows:
  - (a) Question 1: Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?
  - (b) Question 2: Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?
- 13. A summary of the main comments received is described in the paragraphs that follow. For a detailed description of the comments received and of the source of those

comments, the IASB should refer to [Agenda Paper 15D](#) from the January 2013 Interpretations Committee meeting.

### **Overall**

14. The majority of respondents agreed with the proposed amendments, with some stating that this would eliminate divergent views and would reduce diversity in practice.

### **Occurrence of re-estimation**

#### *Views received*

15. Some respondents stated that the issue of whether the accumulated depreciation can be restated proportionately with the change in the gross carrying amount or not is not related to a re-estimation of the residual value, the useful life or the depreciation method before the revaluation. They noted that it instead depends on whether the gross carrying amount and the carrying amount have both been revalued individually and not proportionately to each other. Consequently, some of those respondents recommended amending the introduction and paragraphs BC1 and BC3 to reflect this.

#### *Staff analysis and Interpretations Committee recommendation*

16. The Interpretations Committee agrees with the comments received. It recommended making clear in the Basis of Conclusions of IAS 16 and IAS 38 that accumulated depreciation/amortisation would not be able to be restated proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. This is regardless of whether a re-estimation of the residual value, the useful life or the depreciation method occurs prior to revaluation.

### **Wording**

#### *Views received*

17. One respondent noted that they were unclear on the conclusion reached in paragraph BC5 of the ED, which stated that the definition of ‘carrying amount’

implies that the accumulated depreciation represents the difference between the gross carrying amount and the net carrying amount.

18. Another respondent noted that they did not consider the use of the term ‘net carrying amount’ to be appropriate because this was not a term used in IAS 16. Furthermore, they note that carrying amount is defined both in IAS 16 and IAS 38 and so they recommend that the word ‘net’ should be dropped to be consistent with the definition. Other respondents recommended that both gross carrying amount and net carrying amount should be defined/clarified in IAS 16 and IAS 38.

*Staff analysis*

19. ‘Carrying amount’ is defined as the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses (IAS 16 paragraph 6). However, at the date of a revaluation, the carrying amount is adjusted to equal the revalued amount (IAS 16 paragraph 31). The equivalent IAS 38 paragraphs are paragraph 8 and paragraph 75 respectively. This adjustment of the carrying amount to the revalued amount at the date of revaluation is not affected by whether the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount or whether it is adjusted to equal the revalued amount.
20. When the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount, the accumulated depreciation/amortisation is calculated as the difference between the gross carrying amount and the carrying amount, taking into account accumulated impairment losses.
21. We noted that although the term ‘gross carrying amount’ has been used previously in IAS 16 and IAS 38, the term ‘net carrying amount’ has not been used previously in either of those Standards. We note as well that paragraphs 35(b) of IAS 16 and 80(b) of IAS 38 refer to ‘net amount’ and the term ‘carrying amount’ is also used (IAS 16 paragraph 31, IAS 38 paragraph 75).

*The Interpretations Committee recommendation*

22. The Interpretations Committee agreed with the concerns raised about the wording of the proposed amendments as currently drafted and, specifically, it agreed that the amendment should not introduce new terminology such as the term ‘net carrying amount’. Consequently the proposed amendment uses the following terminology:
- (a) ‘gross carrying amount’; and
  - (b) ‘carrying amount’ will be used instead of ‘net carrying amount’

**Other comments**

23. Other comments received include:
- (a) remove the reference to ‘observable market data’ in option (a);
  - (b) further numerical examples or implementation guidance are needed; and
  - (c) remove one of the options (the gross approach or the offset approach).
24. However the Interpretations Committee decided that no changes were needed in response to these comments.

**Accumulated impairment losses**

25. One of the Interpretations Committee members raised a comment about the requirement that accumulated impairment losses need to be tracked in order that any upward revaluation is allocated appropriately between profit or loss (to reverse past impairment losses) and other comprehensive income. Consequently we have revised the wording of the amendment to reflect this (in paragraph 35 of IAS 16 and 80 of IAS 38):

The accumulated depreciation/amortisation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset **after taking into account accumulated impairment losses.**  
[emphasis added]

## ***Transition and effective date***

### *Views received*

26. The majority of respondents agreed with the transition and effective date proposed in the ED.
27. One respondent noted that they would prefer prospective application to all revaluations that occur after the effective date. They said that it may be complicated in practice to assess the gross carrying amount on a retrospective basis because of the difficulty of obtaining observable market data for prior periods.
28. However, another respondent noted that the disclosure of comparative reporting periods is valuable for investors and other stakeholders and they are in favour of applying all amendments retrospectively for at least one comparative reporting period, where the information can reasonably be expected to be available.

### *Staff analysis and Interpretations Committee recommendation*

29. We noted that the proposed amendments do not require entities to revalue items of property, plant and equipment or intangible assets for previous periods or to change their revaluation technique for prior periods. They only require the entity to change the presentation of the revaluation in the notes.
30. However, as noted above, the view was expressed that this amendment could be complicated to apply retrospectively in practice. The original submission of this issue referred to the submitter being aware of auditors insisting that the difference between the amount required for a proportionate restatement and the actual restatement should be treated as an accounting error. Consequently, the costs of full retrospective application might outweigh the benefits. The Interpretations Committee therefore recommended that:
  - (a) the proposed amendments should be applied to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period; and
  - (b) that an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity presents

unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis and explain that basis.

### **IFRS 1 First-time Adoption of International Financial Reporting Standards**

31. In considering whether any amendments were required to IFRS 1 for first-time adoption, we note that the deemed cost exemption in IFRS 1 paragraph D5–D7 can be applied.
32. When applying the fair value as deemed cost exemption, accumulated depreciation and accumulated impairment will be reset to zero, because the cost will be deemed to be equal to the fair value at the date of transition. Because this exemption is applied at the date of transition, it is therefore made in the opening balance sheet. Consequently, the comparatives reflect the use of fair value as deemed cost.
33. We therefore do not think that amendments are required to IFRS 1.

### **Questions for the IASB**

34. The Interpretations Committee recommended that the IASB should proceed with this amendment, subject to wording changes, and including its two recommendations.

#### **Questions for the IASB**

1. Does the IASB agree with the following Interpretations Committee recommendations:
  - (a) to make clear in the Basis for Conclusions of IAS 16 and IAS 38 that accumulated depreciation/amortisation would not be able to be restated proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. This is regardless of whether a re-estimation of the residual value, the useful life or the depreciation method occurs prior to

revaluation.

(b) the transition requirements should be changed so that:

- (i) the proposed amendments should be applied to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period; and
- (ii) that an entity may also present adjusted comparative information for any earlier periods presented, but is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis and explain that basis.

2. Does the IASB approve the revised, proposed amendments to IAS 16 and IAS 38 for inclusion in the final Improvements to IFRSs?

## Appendix A—Changes for finalising the amendment

A1. The proposed amendments to IAS 16 paragraph 35 and IAS 38 paragraph 80 are presented below. New text is underlined and deleted text is struck through.

### ***Proposed amendments to IAS 16***

#### **Measurement after recognition**

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##### **Revaluation model**

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35 When an item of property, plant and equipment is revalued, ~~any~~ the carrying amount of that asset is adjusted to the revalued amount. The gross carrying amount accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- (a) ~~restated proportionately~~ Adjusted in a manner consistent with the revaluation of change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. This method is often used when an asset is revalued by means of applying an index to determine its replacement cost (see IFRS 13).
- (b) Adjusted to equal the eliminated ~~against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.~~

The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses. The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.

#### **Effective date**

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81G *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 35. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

81H An entity shall apply that amendment made by *Annual Improvements to IFRSs 2010–2012 Cycle* to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual

period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis, and explain that basis.

### ***Basis for Conclusions on amendments to IAS 16***

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

#### **Revaluation method—proportionate restatement of accumulated depreciation when an item of property, plant and equipment is revalued**

BC25A The IFRS Interpretations Committee reported to the Board that practice differed in calculating the accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases in which the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.

BC25B Paragraph 35(a) required that, in instances in which the gross carrying amount is revalued, the revalued accumulated depreciation is restated proportionately with the change in the gross carrying amount.

BC25C The submission noted that applying the same proportionate factor to restate accumulated depreciation as for the change in the gross carrying amount has caused problems in practice if the residual value, the useful life or the depreciation method has been re-estimated before the revaluation. The submission used an example in which both the gross carrying amount and the carrying amount were revalued.

BC25D In such cases, divergent views exist as to how to calculate the accumulated depreciation when the item of property, plant and equipment is revalued:

- (a) Some think that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount and that paragraph 35(a) should be amended accordingly.
- (b) Others are of the opinion that the accumulated depreciation and the gross carrying amount should always be restated proportionately when applying paragraph 35(a). The difference between:
  - (i) the amount required for a proportionate restatement of the depreciation; and
  - (ii) the actual restatement of the depreciation required for the gross carrying amount to result in a carrying amount equal to the revalued amount

should be treated as an accounting error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC25E The Board considered the definition of ‘carrying amount’ in paragraph 6:

*Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss.

The Board noted that, when revaluing, the definition implies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount, after taking into account accumulated impairment losses.

BC25F The Board agrees with the proponents of the view presented in paragraph BC25D(a) that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. The Board noted that the accumulated depreciation would not be able to be restated proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. This was noted regardless of whether there had been a re-estimation of residual value, the useful life or the depreciation method in a prior period.

BC25G For example, when the revalued amounts for the gross carrying amount and the carrying amount both reflect non-proportionate observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order for the carrying amount to equal the gross carrying amount less any accumulated depreciation and accumulated impairment losses. In that respect, the Board thinks that the requirements in paragraph 35(a) may be perceived as being inconsistent with the definition of ‘carrying amount’.

BC25H In addition, the Board noted that the second sentence in paragraph 35(a) reinforced that inconsistency because it states that proportionate restatement is often used when an asset is revalued by means of applying an index to determine its replacement cost. It reinforced the inconsistency because the determination of the accumulated depreciation does not depend on the selection of the valuation technique used for the revaluation under the revaluation model for property, plant and equipment.

BC25I Consequently, the Board decided to:

- (a) amend paragraph 35 to state that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount;
- (b) amend paragraph 35(a) to state that the gross carrying amount is adjusted in a manner consistent with the carrying amount; and
- (c) delete the references to valuation methods in paragraph 35(a) and (b).

The Board also decided to amend paragraph 35(b) to be consistent with the wording used in these amendments.

BC25J The Board also decided to include wording in paragraph 35 to require an entity to take into account accumulated impairment losses when adjusting the depreciation on revaluation. This was to ensure that when future revaluation increases occur, the correct split is made between profit or loss and other comprehensive income when reversing prior accumulated impairment losses.

BC25K The Board also decided that the proposed amendments should be required to be applied to all revaluations occurring in annual periods beginning on or after the date of initial application of the amendments and in the comparative period. This was different to the transition provisions proposed in the Exposure Draft because the

Board was concerned that the costs of full retrospective application might outweigh the benefits.

## ***Proposed amendments to IAS 38***

### **Measurement after recognition**

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#### **Revaluation model**

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80 If an intangible asset is revalued, ~~any~~ the carrying amount is adjusted to the revalued amount. The gross carrying amount ~~accumulated amortisation~~ at the date of the revaluation is ~~either~~ treated in one of the following ways:

- (b) ~~restated proportionately~~ Adjusted in a manner consistent with the change in revaluation of the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount.
- (b) Adjusted to equal the ~~eliminated against the~~ gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The accumulated amortisation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

### **Transitional provisions and effective date**

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130H Annual Improvements to IFRSs 2010–2012 Cycle issued in [date] amended paragraph 80. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

130I An entity shall apply that amendment made by Annual Improvements to IFRSs 2010-2012 Cycle to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis, and explain that basis.

## **Basis for Conclusions on amendments to IAS 38**

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

### **Revaluation method—proportionate restatement of accumulated depreciation when an intangible asset is revalued**

BC77A The IFRS Interpretations Committee reported to the Board that practice differed in calculating the accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases in which the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.

BC77B Paragraph 35(a) of IAS 16 required that, in instances in which the gross carrying amount is revalued, the revalued accumulated depreciation is restated proportionately with the change in the gross carrying amount.

BC77C The submission noted that applying the same proportionate factor to restate accumulated depreciation as for the change in the gross carrying amount has caused problems in practice if the residual value, the useful life or the depreciation method has been re-estimated before the revaluation. The submission used an example in which both the gross carrying amount and the carrying amount were revalued.

BC77D In such cases, divergent views exist as to how to calculate the accumulated depreciation when the item of property, plant and equipment is revalued:

- (b) Some think that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount and that paragraph 35(a) should be amended accordingly.
- (b) Others are of the opinion that the accumulated depreciation and the gross carrying amount should always be restated proportionately when applying paragraph 35(a). The difference between:
  - (i) the amount required for a proportionate restatement of the depreciation; and
  - (ii) the actual restatement of the depreciation required for the gross carrying amount to result in a carrying amount equal to the revalued amount

should be treated as an accounting error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC77E The Board considered the definition of ‘carrying amount’ in paragraph 6:

*Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss.

The Board noted that, when revaluing, the definition implies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount, after taking into account accumulated impairment losses.

BC77F The Board agrees with the proponents of the view presented in paragraph BC77D(a) that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. The Board noted that the accumulated

depreciation would not be able to be restated proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. This was noted regardless of whether there had been a re-estimation of residual value, the useful life or the depreciation method in a prior period.

BC77G For example, when the revalued amounts for the gross carrying amount and the carrying amount both reflect non-proportionate observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order for the carrying amount to equal the gross carrying amount less any accumulated depreciation and accumulated impairment losses. In that respect, the Board thinks that the requirements in paragraph 35(a) may be perceived as being inconsistent with the definition of ‘carrying amount’.

BC77H The Board noted that the issue above (in paragraphs BC77A–BC77G) regarding accumulated depreciation upon revaluation could also occur when revaluing an intangible asset under IAS 38, because both Standards have the same requirements for accumulated depreciation/amortisation when revaluing.

BC77I Consequently, the Board decided to:

- (a) amend paragraph 80 of IAS 38 to state that the accumulated amortisation is calculated as the difference between the gross carrying amount and the carrying amount; and
- (b) amend paragraph 80(a) to state that the gross carrying amount is adjusted in a manner consistent with the carrying amount.

The Board also decided to amend paragraph 80(b) to be consistent with the wording used in these amendments.

BC77J The Board also decided to include wording in paragraph 80 to require an entity to take into account accumulated impairment losses when adjusting the amortisation on revaluation. This was to ensure that when future revaluation increases occur, the correct split is made between profit or loss and other comprehensive income when reversing prior accumulated impairment losses.

BC77K The Board also decided that the proposed amendments should be required to be applied to all revaluations occurring in annual periods beginning on or after the date of initial application of the amendments and in the comparative period. This was different to the transition provisions proposed in the Exposure Draft because the Board was concerned that the costs of full retrospective application might outweigh the benefits.

## Appendix B—Changes from the ED following the Interpretations Committees recommendations

- B1. The proposed amendments to IAS 16 paragraph 35 and IAS 38 paragraph 80 are presented below. Proposed amendments to the proposals in the ED are shown, with new text double underlined and deleted text double struck through.

### *Proposed amendments to IAS 16*

#### Measurement after recognition

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#### **Revaluation model**

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- 35 When an item of property, plant and equipment is revalued, any the gross carrying amount of that asset is adjusted to the revalued amount. ~~and the gross carrying amount accumulated depreciation~~ at the date of the revaluation ~~is~~ are ~~is~~ treated in one of the following ways:

- (a) ~~the gross carrying amount is restated proportionately~~ Adjusted in a manner consistent with the revaluation of change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued carrying amount of the asset. ~~The accumulated depreciation is the difference between the gross and the net carrying amounts.~~ For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the net carrying amount. This method is often used when an asset is revalued by means of applying an index to determine its replacement depreciated cost (see IFRS 13).
- (b) Adjusted to equal the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. ~~This method is often used for buildings.~~

The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses. ~~The amount of the adjustment arising on the restatement or elimination~~ of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 39 and 40.

#### Effective date

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- 81G Annual Improvements to IFRSs 2010–2012 Cycle issued in [date] amended paragraph 35. An entity shall apply that amendment for annual periods beginning on or after 1

January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

81H An entity shall apply that amendment made by *Annual Improvements to IFRSs 2010–2012 Cycle* to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis, and explain that basis.

### ***Basis for Conclusions on amendments to IAS 16***

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

#### **Revaluation method—proportionate restatement of accumulated depreciation when an item of property, plant and equipment is revalued**

BC425A The IFRS Interpretations Committee reported to the Board that practice differed in calculating the ~~computing~~ of accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases in which ~~where~~ the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.

BC25B Paragraph 35(a) ~~currently~~ requires that, in instances in which ~~where~~ the gross carrying amount is revalued, the revalued accumulated depreciation is restated proportionately with results from applying the same proportionate factor as for the change in the gross carrying amount to the accumulated depreciation before revaluation.

BC325C ~~The submission noted that Applying the same proportionate factor to restate accumulated depreciation as for the change in the gross carrying amount has caused problems in practice if the residual value, the useful life or the depreciation method has been re-estimated before the revaluation. The submission used an example in which both the gross carrying amount and the carrying amount were revalued. For instance, the residual value of an item of property, plant and equipment is revised three years after its acquisition, but no revaluation occurs in that same period for the net carrying amount of the item. Instead, a revaluation of the net carrying amount of the item occurs five years after the acquisition.~~

BC425D In such cases, divergent views exist as to how to calculate ~~compute~~ the accumulated depreciation when the item of property, plant and equipment is revalued:

- (a) Some think that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount and that paragraph 35(a) should be amended accordingly.

(b) Others are of the opinion that the accumulated depreciation and the gross carrying amount should always be restated proportionately when applying paragraph 35(a). The difference between:

- (i) the amount required for a proportionate restatement of the depreciation; and
  - (ii) the actual restatement of the depreciation required for the gross carrying amount to result in a carrying ~~value~~ amount equal to the revalued amount
- should be treated as an accounting error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

~~BC525E~~ The Board considered the definition of ‘carrying amount’ in paragraph 6:

*Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss.

The Board noted that, when revaluing, the definition implies that the accumulated depreciation is ~~first and foremost calculated~~ computed as the difference between the gross carrying amount and the ~~net~~ carrying amount, after taking into account accumulated impairment losses, of a non-financial asset.

~~BC625F~~ The Board agrees with the proponents of the view presented in paragraph BC425D(a) that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. The Board noted that the accumulated depreciation would not be able to be restated proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. This was noted regardless of whether there had been a re-estimation of residual value, the useful life or the depreciation method in a prior period.

~~BC25G~~ ~~In particular~~ For example, when the revalued amounts for the gross carrying amount and the ~~net~~ carrying amounts both reflect non-proportionate observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order for the carrying amount to equal the gross carrying amount less any accumulated depreciation and accumulated impairment losses after revision of the residual value, the useful life or the depreciation method before the revaluation. In that respect, the Board thinks that the requirements in paragraph 35(a) may be perceived as being inconsistent with the definition of ‘carrying amount’.

~~BC725H~~ In addition, the Board noted that the second sentence in paragraph 35(a) ~~reinforced~~ that inconsistency ~~in that~~ because it states that proportionate restatement is often used when an asset is revalued by means of applying an index to determine its replacement cost. It ~~reinforced~~ the inconsistency, because the determination of the accumulated depreciation does not depend on the selection of the valuation technique used for the revaluation under the revaluation model for ~~non-financial long-term assets in IFRSs~~ property, plant and equipment.

~~BC825I~~ Consequently, the Board ~~decided to propose to:~~

- (a) amend paragraph 35(a) to state that the accumulated ~~amortisation~~ depreciation is calculated as the difference between the gross carrying amount and the ~~net~~ carrying amount;

(b) amend paragraph 35(a) to state that the gross carrying amount after is restating the gross carrying amount adjusted in a manner consistent with the net carrying amount; and

(c) delete the references to valuation methods in paragraph 35(a) and (b).

The Board also decided to amend paragraph 35(b) to be consistent with the wording used in these amendments.

BC25J The Board also decided to include wording in paragraph 35 to require an entity to take into account accumulated impairment losses when adjusting the depreciation on revaluation. This was to ensure that when future revaluation increases occur, the correct split is made between profit or loss and other comprehensive income when reversing prior accumulated impairment losses.

BC25K The Board also decided that the proposed amendments should be required to be applied to all revaluations occurring in annual periods beginning on or after the date of initial application of the amendments and in the comparative period. This was different to the transition provisions proposed in the Exposure Draft because the Board was concerned that the costs of full retrospective application might outweigh the benefits.

## ***Proposed amendments to IAS 38***

### **Measurement after recognition**

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#### **Revaluation model**

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80 If an intangible asset is revalued, ~~any an entity shall treat the gross carrying amount is adjusted to the revalued amount. and (The gross carrying amount accumulated amortisation at the date of the revaluation is either is treated in one of the following ways:~~

(b) ~~the gross carrying amount is restated proportionately~~ Adjusted in a manner consistent with the change in revaluation of the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued the carrying amount of the asset.; or. The accumulated amortisation is the difference between the gross and the net carrying amounts. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the net carrying amount.

(b) Adjusted to equal the accumulated amortisation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The accumulated amortisation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

### **Transitional provisions and effective date**

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130H Annual Improvements to IFRSs 2010–2012 Cycle issued in [date] amended paragraph 80. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

130I An entity shall apply that amendment made by Annual Improvements to IFRSs 2010-2012 Cycle to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period. An entity may also present adjusted comparative information for any earlier periods presented, but it is not required to do so. If an entity presents unadjusted comparative information for any earlier periods, it shall clearly identify the information that has not been adjusted, state that it has been presented on a different basis, and explain that basis.

### **Basis for Conclusions on amendments to IAS 38**

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

### **Revaluation method—proportionate restatement of accumulated depreciation when an intangible asset is revalued**

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~~BC1 Paragraph 80 contains the same requirements as paragraph 35 of IAS 16 for the restatement of the accumulated depreciation when an intangible item is revalued.~~

~~BC2 Consequently, the Board proposes that the same amendment as for paragraph 35 of IAS 16 should be made to paragraph 80.~~

BC77A The IFRS Interpretations Committee reported to the Board that practice differed in calculating the accumulated depreciation for an item of property, plant and equipment that is measured using the revaluation method in cases in which the residual value, the useful life or the depreciation method has been re-estimated before a revaluation.

BC77B Paragraph 35(a) of IAS 16 required that, in instances in which the gross carrying amount is revalued, the revalued accumulated depreciation is restated proportionately with the change in the gross carrying amount.

BC77C The submission noted that applying the same proportionate factor to restate accumulated depreciation as for the change in the gross carrying amount has caused problems in practice if the residual value, the useful life or the depreciation method has been re-estimated before the revaluation. The submission used an example in which both the gross carrying amount and the carrying amount were revalued.

BC77D In such cases, divergent views exist as to how to calculate the accumulated depreciation when the item of property, plant and equipment is revalued:

- (b) Some think that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount and that paragraph 35(a) should be amended accordingly.
- (b) Others are of the opinion that the accumulated depreciation and the gross carrying amount should always be restated proportionately when applying paragraph 35(a). The difference between:
  - (i) the amount required for a proportionate restatement of the depreciation; and
  - (ii) the actual restatement of the depreciation required for the gross carrying amount to result in a carrying amount equal to the revalued amount  
should be treated as an accounting error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC77EThe Board considered the definition of ‘carrying amount’ in paragraph 6:

*Carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment loss.

The Board noted that, when revaluing, the definition implies that the accumulated depreciation is calculated as the difference between the gross carrying amount and the carrying amount, after taking into account accumulated impairment losses.

BC77FThe Board agrees with the proponents of the view presented in paragraph BC77D(a) that the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount. The Board noted that the accumulated depreciation would not be able to be restated proportionately to the gross carrying amount in situations in which both the gross carrying amount and the carrying amount are revalued non-proportionately to each other. This was noted regardless of whether there had been a re-estimation of residual value, the useful life or the depreciation method in a prior period.

BC77G For example, when the revalued amounts for the gross carrying amount and the carrying amount both reflect non-proportionate observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order for the carrying amount to equal the gross carrying amount less any accumulated depreciation and accumulated impairment losses. In that respect, the Board thinks that the requirements in paragraph 35(a) may be perceived as being inconsistent with the definition of ‘carrying amount’.

BC77H The Board noted that the issue above (in paragraphs BC77A–BC77G) regarding accumulated depreciation upon revaluation could also occur when revaluing an intangible asset under IAS 38, because both Standards have the same requirements for accumulated depreciation/amortisation when revaluing.

BC77I Consequently, the Board decided to:

- (a) amend paragraph 80 of IAS 38 to state that the accumulated amortisation is calculated as the difference between the gross carrying amount and the carrying amount; and

(b) amend paragraph 80(a) to state that the gross carrying amount is adjusted in a manner consistent with the carrying amount.

The Board also decided to amend paragraph 80(b) to be consistent with the wording used in these amendments.

BC77J The Board also decided to include wording in paragraph 80 to require an entity to take into account accumulated impairment losses when adjusting the amortisation on revaluation. This was to ensure that when future revaluation increases occur, the correct split is made between profit or loss and other comprehensive income when reversing prior accumulated impairment losses.

BC77K The Board also decided that the proposed amendments should be required to be applied to all revaluations occurring in annual periods beginning on or after the date of initial application of the amendments and in the comparative period. This was different to the transition provisions proposed in the Exposure Draft because the Board was concerned that the costs of full retrospective application might outweigh the benefits.