

## STAFF PAPER

January 2013

## IFRS Interpretations Committee 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 IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

## Introduction

1. The Exposure Draft (ED) *Annual Improvements to IFRSs 2010-2012 Cycle* (ED/2012/1) published in May 2012 (ED (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 computation of the accumulated depreciation at the date of a revaluation when applying the revaluation method.

## Objective

2. The objectives of this paper are:
  - (a) to provide an analysis of the comments received on this issue from the comment letters received on the ED; and
  - (b) to obtain a recommendation from the IFRS Interpretations Committee ('the Interpretations Committee') as to whether this issue should be included in the final *Annual Improvements to IFRSs*.

## Structure of the paper

3. The structure of the paper is as follows:
  - (a) Background (paragraphs 5–9)
  - (b) Comment letter analysis (paragraphs 10–41)
  - (c) Staff recommendations (paragraph 42).
4. Our recommended changes are included as appendices:
  - (a) **Appendix A** shows the proposed amendment, including our recommendations in this paper, highlighting differences from the currently effective Standards; and
  - (b) **Appendix B** shows revisions to the wording in the previously published Exposure Draft, following our 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, equipment or an intangible asset shall be carried at a revalued amount, being 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 presented in paragraph 6(a) of this paper. The submitter 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 net 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 and the net carrying amounts; and
  - (b) the determination of the accumulated depreciation/amortisation does not depend on the selection of the valuation technique.

### **Comment letter analysis**

10. The comment period for the ED ended on 5 September 2012. The IASB received 84 comment letters of which, for the proposed IAS 16 and IAS 38 amendments, 62 commented on Question 1 and 61 commented on Question 2.

***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?***

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

*Accumulated depreciation being the difference between the gross and net carrying amounts*

***Views received***

12. One respondent, HoTARAC, noted that they were unclear on the conclusion reached in paragraph BC5 of the ED that the definition of “carrying amount” implies that accumulated depreciation represents the difference between the gross and net carrying amount.

***Staff analysis***

13. We think that the definition of carrying amount, depending on the calculation technique, implies that when no revaluation has occurred, it is generally the net carrying amount that is being calculated and it is calculated as the difference between the gross carrying amount and the accumulated depreciation/amortisation
14. However, upon revaluation, we think that accumulated depreciation/amortisation can be argued to be the difference, because the revalued amount or the revalued amount and gross carrying amount are the known values determined using a valuation technique. Consequently, the accumulated depreciation/amortisation is calculated as the difference between the gross and net carrying amounts.

***Staff recommendation***

15. We therefore recommend that, instead, the Basis for Conclusions for IAS 16 and IAS 38 should be amended to reflect that the definition of carrying amount implies that when revaluing, the accumulated depreciation is calculated as the difference between the gross and the net carrying amount of a non-financial asset.

***Observable market data***

***Feedback received***

16. The AASB, Grant Thornton, and some commentators of SAICA recommended the removal or amendment of the reference to ‘observable market data’, for the following reasons:
  - (a) One respondent thought that the reference to ‘observable market data’ should be removed, because the appropriateness of non-proportionate

restatement is unrelated to whether observable market data exists. They thought that including the example of ‘observable market data’ would inappropriately restrict the application of non-proportionate restatements of the gross amount of assets. Another respondent, however, thought that the reference should be to ‘its fair value’ as the key factor is whether the entity obtains fair value estimates on a gross and net basis;

(b) One respondent thought that the example in 35(a) should be deleted because it is confusing.

17. However, AcSB said that they like the example in option (a) because it demonstrates how the gross carrying amount may be calculated.
18. KPMG IFRG Limited, RSM International Limited and The Hundred Group requested further examples, potentially in the form of implementation guidance or numerical examples.

***Staff analysis***

19. We think that the example in the proposed wording of option (a) is merely an example of when non-proportionate restatement would be appropriate. It does not cover all methods of revaluation and nor does it restrict non-proportionate restatement to only when revaluation has been based on ‘observable market data’. We also think that the example could be helpful because it helps to explain where a non-proportionate restatement of accumulated depreciation/amortisation typically arises.
20. We therefore do not recommend removing the example included in option (a).
21. We also do not recommend including implementation guidance illustrating this issue. We think that the application of the gross approach is clear from the amended Standards.

*Terms ‘gross carrying amount’ and ‘net carrying amount’*

***Views received***

22. The AcSB 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.
23. Other respondents (Chris Barnard, HoTARAC) recommended that gross and net carrying amount should be defined/clarified in IAS 16 and IAS 38.

***Staff analysis***

24. We note that although the term ‘gross carrying amount’ has been used previously in IAS 16 and IAS 38 to mean the carrying amount of an asset before impairment, depreciation. The term ‘net carrying amount’, however, has not been used previously in IAS 16 and IAS 38.
25. However, we think that the term ‘net carrying amount’ is generally understood and, as noted, very few people raised this point. We therefore do not recommend either defining ‘net carrying amount’ or ‘gross carrying amount’ or changing our references to ‘net carrying amount’.

***Staff recommendation***

26. We note that paragraphs 35(b) of IAS 16 and 80(b) of IAS 38 do refer to ‘net amount’. We recommend that, in order to use consistent language within these Standards, these references should be changed to ‘net carrying amount’.

*Occurrence of re-estimation*

***Views received***

27. FACPCE, GLASS, KPMG and respondents to CINIF 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, useful life or depreciation method before the revaluation. They noted instead that it depends on whether the gross carrying amount and the net

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**

28. We agree with those respondents and think that it would not be possible for the accumulated depreciation/amortisation to be proportionate to the gross carrying amount after revaluation when the gross carrying amount and the net carrying amount have been revalued disproportionately from each other. This is irrespective of whether there was a re-estimation of the residual value, the useful life or the depreciation method.
29. We have prepared the following examples to illustrate this:
- (a) Example 1: a re-estimation occurs and both the gross and net carrying amounts are revalued disproportionately from each other.
  - (b) Example 2: no re-estimation occurs and both the gross and net carrying amounts are revalued disproportionately from each other.
30. The examples use the following fact pattern:
- (a) An asset was bought on 01/01/20X1 for CU1,000<sup>1</sup>.
  - (b) It has a residual value of CU200.
  - (c) The useful life of the asset is 4 years.
  - (d) On 31/12/20X3 the gross carrying amount is revalued to CU1,200 and the net carrying amount is revalued to CU550.
31. In Example 1 a re-estimation has occurred in a prior year, which was that on 01/01/20X2, the useful life of the asset is re-estimated to 5 years total.

Date	Gross carrying amount	Accumulated depreciation	Net carrying amount
01/01/20X1	CU1,000	0	CU1,000
31/01/20X1	CU1,000	CU200	CU800
01/01/20X2—useful life of asset re-estimated to 5 years total (depreciation therefore CU150 per year)			

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<sup>1</sup> In this staff paper, currency amounts are denominated in “currency units” (CU).

31/12/20X2	CU1,000	CU350	CU650
31/12/20X3	CU1,000	CU500	CU500
Revaluation 31/12/20X3	To CU1,200	N/A	To CU550
31/12/20X3	CU1,200	CU650 (difference)	CU550
Percentage increase	<b>20%</b>	←————→	<b>30%</b>

32. In Example 2, no re-estimation of residual value, useful life or depreciation has occurred.

Date	Gross carrying amount	Accumulated depreciation	Net carrying amount
01/01/20X1	CU1,000	0	CU1,000
31/01/20X1	CU1,000	CU200	CU800
31/12/20X2	CU1,000	CU400	CU600
31/12/20X3	CU1,000	CU600	CU400
Revaluation 31/12/20X3	To CU1,200	N/A	To CU550
31/12/20X3	CU1,200	CU650 (difference)	CU550
Percentage increase	<b>20%</b>	←————→	<b>8.3%</b>

33. These examples therefore illustrate that the accumulated depreciation/amortisation cannot be proportionate to the gross carrying amount when both the gross and the net carrying amounts have been revalued disproportionately from each other, regardless of whether a re-estimation has occurred in a prior period.

### ***Staff recommendation***

34. Consequently, we recommend amending the proposed Bases for Conclusions to reflect 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 net carrying amount are revalued disproportionately from each other. This is regardless of whether a re-estimation of residual value, the useful life or the depreciation method occurs prior to revaluation.

### ***Remove an option***

### ***Views received***

35. ASB, HKICPA, IACVA and a respondent to CINIF recommended instead removing one of the options (the gross approach or the offset approach).



**Staff analysis**

36. Although removing either option (a) or option (b) would reduce accounting options, we do not believe this to be within the scope of this annual improvement project. Removing an option would neither be clarifying nor correcting in nature, but would instead change current principles. Consequently, we do not recommend the removal of either of the options.

**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?****Views received**

37. The majority of respondents agreed with the transition and effective date proposed in the ED.
38. RSM International Limited 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.
39. However, the ICGN noted that the disclosure of comparative reporting periods is valuable for investors and other stakeholders and that 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**

40. We note 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.
41. However, based on the feedback that this could be complicated in practice to apply this amendment retrospectively and the fact that the original submission of this issue referred to them being aware of auditors insisting that the difference between the amount required for a proportional restatement and the actual

restatement required to result in a carrying value equal to the revalued amount be treated as an accounting error, we recommend that:

- (a) the proposed amendments are required to be applied to all revaluations occurring in annual periods beginning on or after the date of initial application of the amendments.
- (b) that the comparative figures for the annual period immediately preceding the date of initial application of these amendments shall be restated for any revaluations occurring in that preceding period.
- (c) 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.

### **Staff recommendations**

42. We recommend to the Interpretations Committee, on the basis of the analysis in this paper, that they should recommend to the IASB that it should proceed with the proposed amendments to IAS 16 and IAS 38, incorporating the staff recommendations in this paper. The staff recommendations are as follows:

- (a) that the Basis for Conclusions for IAS 16 and IAS 38 should be amended to reflect that the definition of carrying amount implies that when revaluing, the accumulated depreciation is calculated as the difference between the gross and the net carrying amount of a non-financial asset.
- (b) changing the use of the term 'net amount' in IAS 16 paragraph 35(b) and IAS 38 paragraph 80(b) to 'net carrying amount'.
- (c) to amend the Basis for Conclusions of IAS 16 and IAS 38 to reflect 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 net carrying amount are revalued

disproportionately from 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.

- (d) that the transition requirements 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 annual period immediately preceding that date.
  - (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.

#### Questions for the IFRS Interpretations Committee

1. Does the Interpretations Committee agree with the staff recommendations as summarised in paragraph 41 above?
2. Does the Interpretations Committee agree with the proposed edits to paragraph 35 of IAS 16, paragraph 80 of IAS 38 and the Basis for Conclusions for both Standards, based on our discussion above and to recommend to the IASB that it should proceed with the amendments to paragraph 35 of IAS 16 and paragraph 80 of IAS 38?

## Appendix A—Changes for finalising the amendment

A1. The proposed amendments to IAS 16 paragraph 35 and IAS 38 paragraph 80 are presented below.

### ***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 and the accumulated depreciation at the date of the revaluation is ~~are~~ treated in one of the following ways:

- (a) ~~the gross carrying amount is restated proportionately 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 net carrying amount. The accumulated depreciation is the difference between the restated 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).~~  
the gross carrying amount is restated 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 net carrying amount. The accumulated depreciation is the difference between the restated 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) ~~the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net carrying amount is restated to the revalued amount of the asset. This method is often used for buildings.~~  
the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net carrying amount is restated to the revalued amount of the asset. This method is often used for buildings.

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 to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the annual period immediately preceding that date. 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 restating 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 results from applying the same proportionate factor as for the change in the gross carrying amount to the accumulated depreciation before revaluation.

BC25C        The original 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 original submission used an example where both the gross and the net carrying amounts were revalued.

BC25D        In such cases, divergent views exist as to how to determine 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 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 net carrying amount of a non-financial asset.

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 net carrying amount are revalued disproportionately from 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 and the net carrying amounts both reflect observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order that the net carrying amount equals 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 in that it states that proportional 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.

BC25I Consequently, the Board decided to:

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

The Board also decided to amend paragraph 35(b) to change the term ‘net amount’ to ‘net carrying amount’ to be consistent with the language used in these amendments.

BC25J 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 amendment could be complicated to apply retrospectively in practice.

## **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 and the accumulated amortisation at the date of the revaluation is either in one of the following ways:
- (a) the gross carrying amount is restated proportionately 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 net carrying amount; or. The accumulated amortisation is the difference between the restated 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) the accumulated amortisation is eliminated against the gross carrying amount of the asset and the net carrying amount restated to the revalued amount of the asset.

### **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 to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the annual period immediately preceding that date. 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 for IAS 16 practice differed in restating 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) required that, in instances in which the gross carrying amount is revalued, the revalued accumulated depreciation results from applying the same proportionate factor as for the change in the gross carrying amount to the accumulated depreciation before revaluation.

BC77C The original 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 original submission used an example where both the gross and the net carrying amounts were revalued.

BC77D In such cases, divergent views exist as to how to determine 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 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 revalued amount of a non-financial asset.

BC77F 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 net carrying amount are revalued disproportionately from 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 and the net carrying amounts both reflect observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order that the net carrying amount equals 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 amend paragraph 80(a) of IAS 38 to state that the accumulated amortisation is calculated as the difference between the gross carrying amount and the net carrying amount after restating the gross carrying amount in a manner consistent with the net carrying amount. The Board also decided to amend paragraph 80(b) to change the term ‘net amount’ to ‘net carrying amount’ to be consistent with the language used in these amendments.

BC77J 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 amendment could be complicated to apply retrospectively in practice.

## Appendix B—Changes from the ED following the staff recommendations in this paper

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 and the accumulated depreciation at the date of the revaluation is are treated in one of the following ways:

- (a) the gross carrying amount is restated proportionately 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 net carrying amount. The accumulated depreciation is the difference between the restated 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) the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net carrying amount is restated to the revalued amount of the asset. This method is often used for buildings.

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 to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the annual period immediately preceding that date. 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**

~~BC125A~~    The IFRS Interpretations Committee reported to the Board that practice differed in ~~the computing of~~ restating the 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 results from applying the same proportionate factor as for the change in the gross carrying amount to the accumulated depreciation before revaluation.

~~BC325C~~        The original 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 original submission used an example where both the gross and the net carrying amounts 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 determine ~~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 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*.

~~BC5~~25E      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 of a non-financial asset.

~~BC6~~25F      The Board agrees with the proponents of the view presented in paragraph ~~BC4~~25D(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 net carrying amount are revalued disproportionately from 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.

~~BC2~~5G ~~In particular~~ For example, when the revalued amounts for the gross and the net carrying amounts both reflect observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order that the net carrying amount equals 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’.

~~BC7~~25H      In addition, the Board noted that the second sentence in paragraph 35(a) ~~reinforced~~ that inconsistency in that it states that proportional 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.

~~BC8~~25I      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 and the net carrying amount after restating the gross carrying amount in a manner consistent with the net carrying amount; and
- (b) delete the references to valuation methods in paragraph 35(a) and (b).

The Board also decided to amend paragraph 35(b) to change the term ‘net amount’ to ‘net carrying amount’ to be consistent with the language used in these amendments.

BC25J 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 amendment could be complicated to apply retrospectively in practice.

## **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 and the accumulated amortisation at the date of the revaluation is either in one of the following ways:
- (a) the gross carrying amount is restated proportionately 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 carrying amount; or. The accumulated amortisation is the difference between the restated 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) the accumulated amortisation is eliminated against the gross carrying amount of the asset and the net carrying amount restated to the revalued amount of the asset.

### **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 to all revaluations recognised in annual periods beginning on or after the date of initial application of that amendment and in the annual period immediately preceding that date. 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 for IAS 16 practice differed in restating 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) required that, in instances in which the gross carrying amount is revalued, the revalued accumulated depreciation results from applying the same proportionate factor as for the change in the gross carrying amount to the accumulated depreciation before revaluation.

BC77C The original 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 original submission used an example where both the gross and the net carrying amounts were revalued.

BC77D In such cases, divergent views exist as to how to determine 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 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 revalued amount of a non-financial asset.

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 net carrying amount are revalued disproportionately from 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 and the net carrying amounts both reflect observable data, it is demonstrated that accumulated depreciation cannot be proportionately restated to the gross carrying amount in order that the net carrying amount equals 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 amend paragraph 80(a) of IAS 38 to state that the accumulated amortisation is calculated as the difference between the gross carrying amount and the net carrying amount after restating the gross carrying amount in a manner consistent with the net carrying amount. The Board also decided to amend paragraph 80(b) to change the term ‘net amount’ to ‘net carrying amount’ to be consistent with the language used in these amendments.

BC77J 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 amendment could be complicated to apply retrospectively in practice.