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Did you know that the International Accounting Standards Board (IASB) has published on May 12, 2014 'Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)'?

The amendments provide additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated.

Amendments to IAS 16 *Properties, Plant and Equipment*

These amendments clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate. This is because such methods reflect a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits.

Amendments to IAS 38 *Intangible Assets*

These amendments introduce rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons as in IAS 16. However, the IASB states that there are limited circumstances when the presumption can be overcome:

- the intangible asset is expressed as a measure of revenue (the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold); and
- it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated (the consumption of the intangible asset is directly linked to the revenue generated from using the asset).

Guidance is introduced into both standards to explain that expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset.

The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

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