

**List of Submissions to ED 231** *Clarification of Acceptable Methods of Depreciation and Amortisation*  
(proposed amendments to AASB 116 and AASB 138)

- 1 Hayes Knight
- 2 Shazia Vapiwalla



**Hayes Knight**

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REF: PR/AS

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9 January 2013

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Sir,

**EXPOSURE DRAFT – ED231  
CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION & AMORTISATION**

We appreciate the opportunity to provide comments on the Exposure Draft ED231.

We are responding on behalf of Hayes Knight Australian Network of firms which is a separate and legal entity.

We are a member firm of Morison International, the winners of the 2012 International Accounting Bulletin Awards for "Association of the year" and "Rising Star Association".

Hayes Knight supports the clarification provided in the Exposure Draft.

Our response to the specific questions are included in Appendix 1.

We would be pleased to discuss any comments further.

Please contact me on (02) 9221 6666 if you require any further information.

Yours faithfully,  
**Hayes Knight (NSW) Pty Ltd**

Pran Rathod - Director Audit Services  
Registered Company Auditor

**Associated offices**

**Australia** Melbourne Brisbane Adelaide Darwin Perth **New Zealand** Auckland Albany Parnell

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## Responses to Specific questions

### Question 1

The IASB proposes to amend IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* to prohibit a depreciation or amortisation method that uses revenue generated from an activity that includes the use of an asset. This is because it reflects a pattern of future economic benefits being generated from the asset, rather than reflecting the expected pattern of consumption of the future economic benefits embodied in the asset. Do you agree? Why or why not?

#### Comments:

**We agree with the proposed change as the revenue based depreciation or amortisation is not appropriate because:**

- It reflects a pattern of economic benefits being generated from the operating the business rather than the economic benefits being consumed through the use of the asset.
- The depreciation and or amortisation will vary as and when revenue is impacted via changes in price or quantity or both. This will result in such charges to fluctuate over the periods.

### Question 2

Do you have any other comments on the proposal.

#### Comments:

**We note that the basis of conclusion accompanying the Exposure Draft discusses the circumstances in which the revenue based depreciation and amortisation could be issued.**

**We suggest that paragraphs BC3 to BC5 be included in the standard, or otherwise the standard could be read as a total exclusion of revenue based depreciation/amortisation.**

**From:** [Shazia Vapiwalla](#)  
**To:** [AASB Mailbox](#)  
**Subject:** Acceptable Method of Depreciation & Amortisation  
**Date:** Tuesday, 29 January 2013 2:04:25 PM  
**Attachments:** [Comments IAS 16.docx](#)

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Hi,  
Please enclosed find the comments for IAS 16.  
[Regards](#)

[Shazia](#)

**Question 1**

The IASB proposes to amend IAS 16 Property, plant & equipment and IAS 38 Intangible assets to prohibit a depreciation or amortisation method that uses revenue generated from an activity that includes the use of an asset. This is because it reflects a pattern of future economic benefits being generated from the asset, rather than reflecting the expected pattern of consumption of the future economic benefits embodied in the asset. Do you agree? Why or why not?

**Answer 1**

I don't agree with the proposed amendments, as selection of this method usually arises when straight line or diminishing method cannot be used to determine depreciation.

Based on the Framework of the Standard, matching concept states that expenses are recognised on the basis of direct association between the costs incurred and the earning of specific items of income or allocation of expenses in which economic benefits associated with these items are consumed or expire.

Revenue generated by the asset is actually reflecting the pattern of benefits embodied by that asset. The expected revenue is in such a scenario anticipated due to the expected patterning of consumption of the asset, therefore this method of depreciation or amortisation is reasonable. If a particular asset would not have consumed/expire there exist no possibility of generating that particular revenue.

**Question 2**

Do you have any other comments on the proposals?

None.