Australian Government
Australian Accounting Standards Board

DRC (AASB 136) vs CRC (AASB 13)

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Ahmad Hamidi
Senior Project Manager, AASB

DRC (AASB 136/ AASB 116) and CRC (AASB13)

- **Depreciated Replacement Cost (DRC)**

AASB 136 definition (same as AASB 116 definition before AASB 13):

DRC is the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

- **Current Replacement Cost (CRC)** (AASB 13 para B8)

The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as <u>current replacement cost</u>)

DRC – Consideration of Obsolescence

- **Definition of DRC refers to "to reflect the already consumed or expired future economic benefits"**

Optimisation

- AASB 136 Aus 32.2

….**The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.**

- Lowest cost means 'optimisation' is considered in determining DRC.
- Optimisation refers to the process by which a least-cost replacement option is determined for the remaining service potential of an asset. This process recognises that an asset may be technically obsolescent or over-engineered, or the asset may have greater capacity than that required. (NZ IAS16, para NZ33.1)

CRC – Consideration of Obsolescence

- AASB 13, Paragraph B9:

From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, <u>adjusted for obsolescence</u>. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset.

- Obsolescence encompasses:
  - physical deterioration,
  - functional (technological) obsolescence
  - economic (external) obsolescence

Valuers' approach to determining DRC and CRC

- Valuers' approach to determining DRC (TIP 2):
  - Estimate cost to construct or acquire a new modern equivalent asset
  - Subtract depreciation:
    - Physical obsolescence (loss of utility due to physical deterioration arising from age and normal usage)
    - Functional obsolescence (e.g. superseded design/ technology, over-engineered)
    - External and economic obsolescence (e.g. loss of demand, loss of supply of labour and material)
- Outreach indicates valuers would follow the same approach in determining CRC

Valuer's approach to determining DRC and CRC

- **Outreach indicates valuers:**
  - see DRC and CRC as equivalent measures of FV with no deprival value criterion for their use
  - regard CRC better articulated than DRC in accounting standards
  - first determine the highest and best use before determining which approach to use to estimate FV

Staff recommendations

Staff recommend that the forthcoming ED includes proposals to:

- Replace references to DRC with CRC in AASB 136 to remove confusion that they represent different measures
- Retain the proviso that the value in use of a non-cash generating asset is CRC only if the NFP would replace it on deprival to ensure use by the entity is the focus of valuation under AASB136
- Add Aus paragraph to cross reference to AASB 13 for the description of CRC and clarify the change from DRC to CRC.

Questions for the Board

Do members agree that:

1. DRC and CRC are equivalent measures?

2. If so, a change of references from ‘DRC’ to ‘CRC’ should be made in AASB 136?

3. AASB 136 should require NFP entities to determine the value in use of primarily non-cash generating assets as CRC only if the NFP entity would, if deprived of the asset, replace its remaining future economic benefits?

4. Aus paragraphs to clarify the change of references from DRC to CRC should be added and Basis for Conclusions should explain reasons for the change?