# Depreciated Replacement Cost as a Measure of Value in Use

## Project summary

This is a domestic AASB project. The objective of the project is to amend AASB 136 *Impairment of Assets* to:

(a) remove references to depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities; and

(b) clarify that the recoverable amount of primarily non-cash generating assets, which are typically specialised assets, that are generally held for continuing use of their service potential by not-for-profit (NFP) entities, should be measured at fair value determined under AASB 13 *Fair Value Measurement*.

The AASB has decided to undertake this project in response to constituents' concerns about the interaction between: (a) depreciated replacement cost (DRC) as a measure of value in use of assets held by not-for-profit entities under AASB 136, and (b) current replacement cost (CRC) as a measure of fair value of assets under AASB 13.

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## Project contact

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## Project priority: High

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## Issued documents

- **ED 269 Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities** (August 2015)

## Project status

- Open for comment to AASB until 16 November 2015
- Link to AASB 136 *Impairment of Assets*
- Link to AASB 13 *Fair Value Measurement*

## AASB outreach

- ED open for comment

## Board deliberations

- AASB Action Alert Update and AASB Board papers

## AASB communications

- No other AASB communications on this project

## Project news

<table>
<thead>
<tr>
<th>Date</th>
<th>News</th>
</tr>
</thead>
<tbody>
<tr>
<td>29 May 2015</td>
<td>May 2015 Action Alert</td>
</tr>
<tr>
<td>5 September 2014</td>
<td>September 2014 Action Alert</td>
</tr>
</tbody>
</table>

The staff of the AASB have prepared this summary for information purposes only. The Board decisions described are tentative and do not change current accounting pronouncements unless otherwise indicated. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is regularly updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

Last updated: **20 August 2015**
The Board agreed to issue an ED proposing to remove the requirement to use depreciated replacement cost (DRC) as a measure of value in use where a NFP entity is not dependent on the asset’s ability to generate net cash inflows. The Board noted that the definition of depreciated replacement cost in AASB 136 Impairment of Assets and the guidance on current replacement cost in AASB 13 Fair Value Measurement (paragraphs B8 and B9) are expected to result in values materially the same, and in practice valuers treat them interchangeably for the specialised assets being considered.

These observations led the Board to the tentative view that the references in AASB 136 to DRC as a measure of value in use are not needed and may cause confusion, particularly for entities already fair valuing non-financial assets. A Basis for Conclusions will explain the rationale for the ED.

6.1 Memorandum from Ahmad Hamidi dated 12 May 2015 re Depreciated Replacement Cost as a Measure of Value in Use
6.2 Staff Issues Paper – Clarifying the Use of Depreciated Replacement Cost as a Measure of Value in Use
6.3 Depreciated Replacement Cost (AASB 136) vs Current Replacement Cost (AASB 13)

The Board discussed the approaches to replacement cost and observed that the role of depreciated replacement cost (DRC) as a measure of value in use by NFP entities of particular assets under AASB 136 Impairment of Assets does not preclude for-profit entities from using current replacement cost (CRC) as a measure of fair value under AASB 13.

The Board also discussed the relationship between CRC as a measure of fair value, for any entity, under AASB 13 and DRC as a measure of value in use, for NFP entities, under AASB 136. The Board observed that DRC as used in AASB 136 does not have the same meaning as CRC as used in AASB 13. The Board considered that it might be necessary to add to the Aus paragraphs in AASB 136 to clarify this, and directed staff to draft a due process document reflecting the clarification.

16.1 Memorandum from Evelyn Ling and Jim Paul dated 19 August 2014 re: Fair Value Measurement - Implementation Issues of Not-for-Profit Entities
16.3 Issues paper: The Relationship Between Current Replacement Cost as a Measure of Fair Value and Depreciated Replacement Cost as a Measure of Value in Use
16.4 Issues paper: Potential Inconsistencies between AASB 13 and other Australian Accounting Standards
16.5 Correspondence from Sydney Water dated 8 July 2014