The Chartered Institute of Public Finance & Accountancy

Exposure Draft ED/2012/5
Clarification of Acceptable Methods of Depreciation and Amortisation, Proposed amendments to IAS 16 and IAS 38

response to exposure draft

3 April 2013

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
Submitted electronically to www.ifrs.org
April 2013

Dear IASB secretariat

Exposure Draft ED/2012/5
Clarification of Acceptable Methods of Depreciation and Amortisation, Proposed amendments to IAS 16 and IAS 38

CIPFA is pleased to present its comments on the matters discussed in this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comments

While CIPFA has an interest in financial reporting generally, we have a specific interest in both public sector and wider not-for-profit reporting. We therefore have a particular interest in questions relating to the use of IASB standards by these entities.

Responses to the Questions for respondents

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?

CIPFA would agree with the suggestion that a depreciation method based on revenue generation from the use of the asset would reflect a pattern of expected economic benefits being generated from the asset. CIPFA would also agree that this will not normally equate to the consumption of the asset, or specifically the consumption of the future economic benefits embodied in the asset.

We can therefore see why the Board might wish to be clear that 'revenue generated' bases for amortisation and depreciation should not be used unless it was clear that revenue generation was strongly linked to consumption of future benefits. The Exposure Draft indicates that there are circumstances in which revenue generation might provide a good proxy measure for consumption, citing some types of intellectual property assets (for example, acquired rights to broadcast a film). The Exposure Draft suggests that in general this will occur when a 'units of production' base would produce the same result.

In principle it would seem more logical to amend the standards to provide clear explanation of the arguments above, in order to discourage inappropriate use of a revenue generation basis, rather than to expressly prohibit the use of this approach. However, we see no specific problems that would arise in connection with reporting by public sector or not-for-profit entities.

Question 2

Do you have any other comments on the proposals?

No.

I hope this helps the Board in its standards development.

Yours faithfully

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