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Two recent amendments to asset-related standards about revenue-based amortisation and measurement of bearer plants

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In order to maintain convergence of HKFRSs with IFRSs, the HKICPA has recently issued amendments to HKASs 16, 38 and 41, to clarify when revenue-based depreciation or amortisation methods are permitted for tangible and intangible assets and to simplify the measurement of bearer plants. The amendments are identical to the amendments made to IFRS issued by the IASB in May and June this year and have the same effective date and transitional provisions as their IFRS equivalents.

Restricting the use of revenue-based amortisation

The amendments to HKAS 16 *Property, plant and equipment* and HKAS 38 *Intangible assets* seek to restrict or prohibit amortisation/depreciation methods based on the amount and timing of revenues expected to be generated from the asset. In the Basis for Conclusions accompanying the amendments, the IASB explains its concern that such methods take into account any expected changes in price, including changes arising from inflation, and that in principle this is not a reflection of the pattern in which the asset's future economic benefits are expected to be consumed.

Under the amendments, revenue-based methods of amortisation or depreciation are

- prohibited for tangible assets i.e. those that fall within the scope of HKAS 16; and
- presumed to be inappropriate for intangible assets (i.e. those that fall within the scope of HKAS 38) unless in limited circumstances, the intangible asset is expressed as a measure of revenue, or when revenue and the consumption of the economic benefits of the intangible asset are "highly correlated".

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted.

Simplified measurement basis permitted for bearer plants

The amendments to HKAS 16 and HKAS 41 *Agriculture* aim to simplify the measurement of bearer plants, e.g. such as grape vines, rubber trees and oil palms. The amendments are expected to be welcomed by many large scale agricultural concerns, by providing them with relief from the requirement to fair value these biological assets.

Under the amendments, bearer plants should be accounted for in the same way as property, plant and equipment as it is recognised that their operation is similar to that of manufacturing. In other words, an entity can elect to measure bearer plants at either depreciated cost or fair value through other comprehensive income under HKAS 16. Fair value through profit or loss will no longer be permitted. However, the produce



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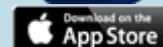
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growing on bearer plants will continue to be measured at fair value less costs to sell under HKAS 41.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted. The amendments also contain a specific transition provision for changing the measurement of bearer plants from fair value model to cost model.

If you would like further assistance on the matters discussed, please talk with your usual KPMG contact.

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