

MALAYSIAN INSTITUTE OF ACCOUNTANTS  
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE  
("FRSIC")

**FRSIC Issue No. 14 [2007]**

***When a Company Changes the Measurement Basis for its Assets which Warrants a Prior Year Adjustment, should the Related Depreciation Charges be Adjusted Retrospectively Based on the Revised Definition of Residual Value in Accordance with FRS 116?***

The issue:

FRS 116<sub>2004</sub> Property, Plant and Equipment, defined residual value ("RV") as "the net amount an enterprise expects to obtain for an asset at the end of its useful life". Paragraph 55 of FRS 116<sub>2004</sub> also exempted companies from providing for depreciation where RV is high due to a policy of regular maintenance and repair to preserve an asset's standard of performance. However, the revised FRS 116 has removed this exemption and revised the definition of RV to "the estimated amount an entity would currently obtain from disposal of the asset...if already of the age and condition at the end of its useful life". With the revised definition, RV of an asset would almost always equal nil and thus depreciation is required on all assets except for freehold land.

Where a company previously availed itself under the exemption from depreciation mentioned above but decides to change the measurement basis for its assets (from cost to valuation or vice versa) under the revised FRS 116; a prior year adjustment ("PYA") is necessary.

The issue is when effecting the PYA, should RV previously estimated be "corrected" in accordance with the revised definition in FRS 116? If yes, then based on the revised definition, RV for the prior periods will be insignificant so the company could no longer avail itself to the exemption above and depreciation will need to be provided for retrospectively.

However, if one is of the view that RV is an accounting estimate that reflects management's judgment at a point in time and should not change at a later date except for an error in estimation, then the PYA to reflect the change in measurement basis should not include any depreciation charges.

Current accounting practice as observed by the Submitter:

Diverse. Some companies have effected the depreciation retrospectively while others have effected it prospectively.

Reasons for the FRSIC to address the issue:

The different treatments have a possible material impact on the financial results of a company for the current and future financial years.

*When a Company Changes the Measurement Basis for its Assets which Warrants a Prior Year Adjustment, should the Related Depreciation Charges be Adjusted Retrospectively Based on the Revised Definition of Residual Value in Accordance with FRS 116?*

Submitter's proposal or recommendation to address the issue:

None.

Submitted on:

3 July 2007

Corresponding FRSIC Consensus:

*FRSIC Consensus 11 - When a Company Changes the Measurement Basis for its Assets which Warrants a Prior Year Adjustment, should the Related Depreciation Charges be Adjusted Retrospectively Based on the Revised Definition of Residual Value in Accordance with FRS 116?* [[To view, click on the Consensus title](#)]