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By post and email: commentletters@hkicpa.org.hk

Mr Simon Riley
Director, Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai, Hong Kong

Dear Simon

Clarification of Acceptable Methods of Depreciation and Amortisation

We refer to your letter dated 11 December 2012 inviting out our comments on the IASB's Exposure Draft *Clarification of Acceptable Methods of Depreciation and Amortisation, Proposed amendments to IAS 16 and IAS 38* (the "ED").

We are supportive of the objective of the ED to clarify that a revenue-based depreciation or amortization method is not an appropriate method to depreciate or amortize an asset. Depreciation and amortization should reflect a pattern of consumption of the future economic benefits embodied in an asset rather than the future economic benefits generated from an asset.

We believe that the ED could be clarified in two respects. First, the basis for conclusions defines a revenue-based depreciation or amortization method as one that is derived from an interaction between units (i.e. quantity) and price, and that takes into account the expected future changes in price as the depreciation basis to allocate the amount of an asset that is to be depreciated or amortized. It would be helpful if the definition were included in the body of the standard and the standard consistently referred to a "revenue-based depreciation or amortization method" rather than "a method that uses revenue generated from an activity." As price, as opposed to quantity, is the primary reason that a revenue based depreciation or amortization method is inappropriate, including the definition in the body of the standard would provide greater clarification of the issue.

Second, the basis for conclusions notes the limited circumstance when revenue could be used to reflect the pattern in which the future economic benefits of the asset are expected to be consumed is when the use of a revenue-based method gives the same result as the use of a unit of production method. It would be helpful

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Vice Chairmen Bank of China (Hong Kong) Ltd
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Secretary Boey Wong

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to include this in the body of the standard, as it would further highlight that reflecting price, as opposed to quantity (assuming no significant delay between production and sale), in a depreciation or amortization method is inappropriate.

We hope you would find our above comments useful. Should you have any questions, please contact our Senior Business Manager, Ms Caris Wan, at 2521 1855.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Boey Wong', is written over a horizontal line.

Boey Wong
Secretary