

Accounting for fully depreciated assets still in use

Do entities need to adjust for fully depreciated assets still in use?

If the effect of not adjusting for fully depreciated assets has a material impact on an entity's financial statements, an entity should adjust for fully depreciated assets. The ASB's Guideline on *The Application of Materiality in Financial Statements* is helpful in making decisions about materiality.

The Secretariat of the ASB continues to receive a number of queries related to the accounting treatment of fully depreciated assets that are still being used by an entity. Frequently Asked Question (FAQ) 2.2 has been issued by the Secretariat that explains how an entity should revise the useful lives of the assets in line with the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17). The explanation below is based on the principles in GRAP 17 and the FAQ.

Adjusting for fully depreciated assets?

When an entity initially recognises an asset (or class of assets), it indicates over what period the asset will be used, i.e. the asset's useful life. As an asset is used by an entity, the expected useful life is likely to change based on, for example:

- Changes in how the asset is used.
- Whether regular and routine maintenance and refurbishments are undertaken.
- Technological and similar changes.
- Changes in internal policy regarding the replacement of assets and/or the availability of resources to replace assets.

Based on the expected change in useful lives, an entity should assess at each reporting date whether there is any indication that the initial, or last reported, useful lives of assets have changed. Where there has been a change, the useful lives of the affected assets should be adjusted. This is in line with good asset management and business practice.

An entity considers whether the adjustments to remedy the existence of fully depreciated assets still in use results from a change in an accounting estimate or an error in the application of the Standards. In assessing whether the adjustment is a change in an accounting estimate or an error, the following is considered:

- Change in accounting estimate: If the requirements of GRAP 17 were correctly applied in prior periods, and all available information and relevant facts and circumstances considered, but expectations of how the asset is or will be used is subsequently changed, then the adjustment is a change in accounting estimate. For example, when preparing the financial statements at the last reporting date, an entity intended to replace assets that had become fully depreciated in the new financial year. During the new reporting period, budget reductions were announced and there was no funding available to replace the assets. The information used to prepare the financial statements for the prior year was correctly used, but circumstances subsequently changed resulting in the entity not replacing the assets as planned.
- Error: If all the available information and relevant facts and circumstances were not considered by the entity, then any adjustment is treated as an error. For example, the

entity failed to review the useful lives of assets at reporting date in accordance with GRAP 17.

It is important to note that the useful lives of assets are estimates used to subsequently measure assets, and therefore changes in useful lives are not changes in accounting policy. The same rationale applies to changes in residual values and depreciation methods.

It is inappropriate for an entity to disclose material, fully depreciated assets that are still being used by an entity in the notes to the financial statements as this contravenes the measurement requirements of the Standards.

In order to avoid having fully depreciated assets still in use, it is important to note that a key indicator that the useful life of an asset may need to be changed, is if the asset is approaching the end of its previously expected useful life.

How to find information?

Access the Board's pronouncements, FAQs and register for the monthly Newsletter on the ASB's website: www.asb.co.za.

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