Nexia SAB&T
Training and Technical

Tangible assets carried at nil value but still in use

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IFRS (IAS 16) requires the review of the useful life, residual value and depreciation method of asset items at least at each financial year-end.

IFRS for SME (Section 17) requires such a review when factors have been identified that may indicate that the residual value or useful life of an asset has changed.

Useful life

Useful life is defined as either:

- The **period** over which an asset is expected to be available for use by an entity; or
- The **number of production or similar units** expected to be obtained from the asset by an entity.

It is important to note that there is a difference between the useful life and potential or economic life of an asset.
For example, the economic life of a motor vehicle may go beyond 10 years, but if it is a company's policy to renew company cars every 3 years, then its useful life is 3 years.

Nil value assets

Nil value assets are assets that are used beyond their useful life, they are fully depreciated and their carrying amount is zero. This usually occurs when:

- Annual review was not performed of the useful life in terms of IAS 16 or the indicators requiring such a review in terms of IFRS for SMEs were not identified; or
- The assumptions or circumstances made when the useful life was estimated have changed (resulting in useful life being different from what was initially estimated).

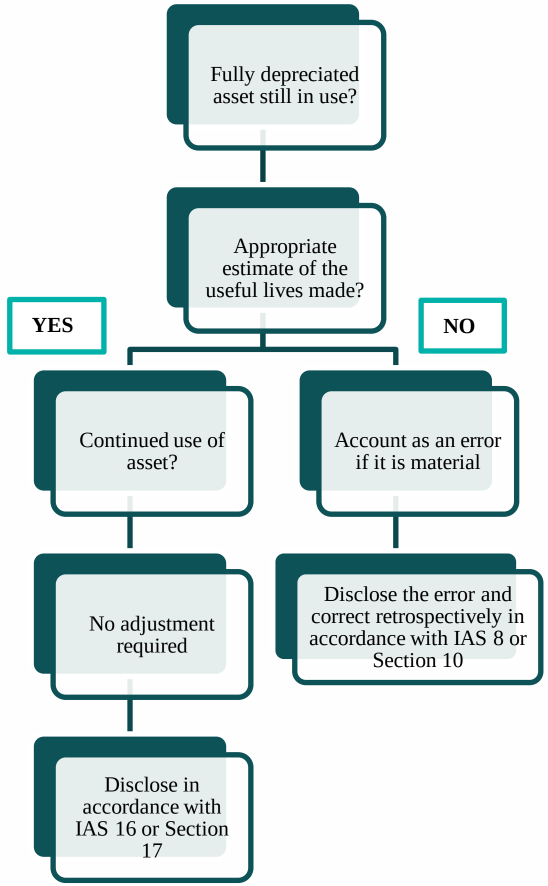
What to do when fully depreciated assets will continue to be used?

The decision on how to treat nil value assets will depend on what caused assets to be fully depreciated and to be used beyond its useful lives.

- If the entity has reviewed the useful lives in the past regularly but during the current reporting period, a decision was taken to use the assets even longer (beyond its useful life), then there is not much further to do. Assets cannot be depreciated beyond zero and should therefore continue to be carried at nil value. However, where this is a regular occurrence it would be an indication that the useful life was not appropriately reviewed and will result in an accounting error. Management therefore needs to make sure to avoid this situation in future by regularly reviewing the useful life.

NOTE: Only where the asset is already fully depreciated, no further action is taken. However, where the asset still has a carrying value, the change in the useful life must be done in accordance with IAS 8 or Section 10 as a "change in accounting estimate".

- Where an entity did not appropriately review the useful life as required and the asset is fully depreciated, but still being used, this constitutes a prior period error. The error should be corrected and disclosed in accordance with the requirements of IAS 8 (IFRS) or section 10 (IFRS for SMEs).



NOTE: IAS 16 encourages but does not require disclosure of the gross carrying amount of fully depreciated assets still in use.