



Solution 101.7

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Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005.

Issue

Depreciation of an asset begins when it is available for use. That is when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of when the asset is classified as held for sale or is when the asset is derecognised [IAS16.55(R.05)].

When should management start to charge depreciation on an asset?

Background

An entity has constructed equipment for its own use. The construction was completed on 1 November 20X3 but the equipment was not used until 1 March 20X4.

Management uses the straight-line depreciation method for such equipment.

Solution

Management should start to charge depreciation when the equipment is available for use, that is, 1 November 20X3.

Periods when the asset is available for use but before actual usage commences should not affect the annual depreciation charge if the straight-line method of depreciation is used. Management should take into account the asset's expected usage when determining its useful life. Depreciation should be provided on a systematic basis over the asset's useful life.