

Measurement Basis of Fixed Assets and Financial Instruments for non- PIEs, Including the Linkage with Tax

Accounting experience of Croatia

Ivan Čevizović

Standards

- CFRS 6 – Non-current Tangible Assets
- CFRS 7 – Investment Property
- CFRS 8 – Non-current Assets Held for Sale and Discontinued Operations
- CFRS 9 – Financial Assets
- CFRS 11 – Receivables
- CFRS 12 – Equity
- CFRS 13 – Liabilities

CFRS 6 – Non-current tangible assets

- Items of non-current tangible assets should be recognised as assets when
 - is probable that the future economic benefits associated with the asset will flow to the entity,
 - and the cost of the asset can be measured reliably
- Initial measurement
 - Cost → includes all costs necessary to bring the asset to working condition for its intended use

Subsequent measurement

- Cost model
 - The asset is carried at cost less accumulated depreciation and impairment
- Revaluation model
 - The asset is carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be measured reliably

Depreciation

- The depreciable amount (cost less residual value) should be allocated on a systematic basis over the asset's useful life
- Methods of depreciation
 - straight-line method
 - diminishing balance method
 - units of production method
- Depreciation rates for tax purpose → higher

Depreciation for tax purposes

- The annual depreciation rates shall be determined according to the depreciation periods for taxation purposes for each group of fixed assets as follows:
 1. for buildings and ships of over 1,000 GRT (20 years) - 5%,
 2. for basic herd and personal cars (5 years) - 20%,
 3. for intangible assets, equipment, vehicles (except personal cars) and machinery (4 years) - 25%,
 4. for computers, computer hardware and software, mobile telephones and computer network accessories (2 years) - 50%,
 5. for other non-mentioned assets (10 years) - 10%.

Depreciation for tax purposes

Item	Useful life	Depreciation rate	Max tax deductible depreciation
buildings and ships of over 1,000 GRT	20 years	5%	10%
basic herd and personal cars	5 years	20%	40%
intangible assets, equipment, vehicles (except personal cars) and machinery	4 years	25%	50%
computers, computer hardware and software, mobile telephones and computer network accessories	2 years	50%	100%
other non-mentioned assets	10 years	10%	20%

CFRS 7 – Investment property

- Land or a building - or part of a building - or both
- Owner or lessee under a finance lease
 - held to earn rentals
 - held for capital appreciation
 - or both
- Subsequent measurement
 - fair value model – recognized in profit or loss
 - cost model – *CFRS 6*

CFRS 8 – Non-current assets held for sale and discontinued operations

- Carrying amount will be recovered principally through a sale transaction
- Current asset
- Measurement
 - at the lower of its carrying amount and fair value less costs to sell

CFRS 9 – Financial assets

- Categories:
 - financial assets at fair value through profit or loss
 - held-to-maturity investments
 - loans and receivables
 - available-for-sale financial assets

CFRS 9

- An entity shall not reclassify financial assets after initial recognition, except if the fair value of an equity instrument whose change in fair value is recognized in profit or loss is no longer available
- No provisions about hedge accounting
- Initial measurement
 - Fair value + transaction costs (except if classified at fair value through P&L)

Subsequent measurement

- Amortized cost
 - held-to-maturity investments
 - loans and receivables
- Fair value
 - financial assets at fair value through profit or loss
 - available-for-sale financial assets

Liabilities

- Initial measurement
 - Fair value + transaction cost (except if subsequent is at fair value through P&L)
- Subsequent
 - Generally, at amortized cost
 - Fair value through P&L

Tax treatment

- Expenditures for reduction in financial assets shall be recognised in the period in which the assets were sold or used otherwise.
- Revenues from value adjustment of shares (unrealised gains) tax deductible
 - if these were included in the tax base

Thank you for your attention!