

Extract from the IFRS Foundation's Open Safari case study

(see <http://www.ifrs.org/Use-around-the-world/Education/Documents/Framework-based%20teaching%20materials/2014%20Stage%203%20Open%20Safari%20case%20study%20final.pdf>)

On 31 December 20Y0 Open Safari acquires a spacecraft to provide recreational space travel. The spacecraft cost €100 million (excluding inspection costs).

The government body that regulates international space travel requires, as a condition of operating the spacecraft, that the spacecraft must pass an inspection (performed by regulatory agents) before starting commercial space travel. Further inspections must be passed at two-year intervals thereafter, irrespective of the number of flights made by the spacecraft. On 31 December 20Y0 the first inspection was performed at a cost to the entity of €20 million.

Although Open Safari is not obliged to do so, it intends to replace the soft furnishings in the spacecraft after 50 flights have been made by the spacecraft. The cost attributable to the soft furnishings is about €100,000. Open Safari does not expect to replace any other components of the spacecraft.

Open Safari intends to use the spacecraft for its entire economic life. The spacecraft is designed with the capacity to make 150 flights into outer space. However, aviation regulations require that the spacecraft must be decommissioned at the earlier of completing 100 flights into outer space or 5 years from the date of its construction.

Although Open Safari expects that it could sell the spacecraft for about €10 million at the end of its economic life, to prevent its competitors from gaining access to the unique technology embodied in the spacecraft, it intends instead to destroy the spacecraft. Management estimate the costs of destroying the spacecraft at about €1 million.

Management expects that income per voyage will decline significantly each year as the novelty of recreational space travel declines. The premium paid by earlier travellers is so significant that total revenue is forecast to halve each year.

Management forecasts that the spacecraft will make 5 voyages in 20Y1, 15 in 20Y2, 20 in 20Y3 and 60 in 20Y4 and will be decommissioned on 31 December 20Y4.

Some IFRS issues for class discussion

- Is the residual value of the spacecraft nil?
- Must any components of the spacecraft be depreciated separately?
- Which depreciation method(s) must Open Safari use to depreciate the spacecraft?
- What is the useful life of the spacecraft?