

IAS 16 Property, plant and equipment (July 2011)

Cost of testing

The Interpretations Committee received a request to clarify the accounting for sales proceeds from testing an asset before it is ready for commercial production. The submitted fact pattern is that of an industrial group with several autonomous plants being available for use at different times. This group is subject to regulation that requires it to identify a 'commercial production date' for the whole industrial complex. The question asked of the Committee is whether the proceeds from those plants already in operation can be offset against the costs of testing those plants that are not yet available for use.

The Committee noted that paragraph 17(e) of IAS 16 applies separately to each item of property, plant and equipment. It also observed that the 'commercial production date' referred to in the submission for the whole complex was a different concept from the 'available for use' assessment in paragraph 16(b) of IAS 16. The Committee thinks that the guidance in IAS 16 is sufficient to identify the date at which an item of property, plant and equipment is 'available for use' and, therefore, is sufficient to distinguish proceeds that reduce costs of testing an asset from revenue from commercial production.

As a result, the Committee does not expect diversity to arise in practice and therefore decided not to add this issue to its agenda.