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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: March 2009, London

**Project: Property, Plant and Equipment Improving disclosures
about idle assets and assets under construction
IAS 16 (Agenda Paper 5C)**

INTRODUCTION

1. In February 2009 the IFRIC received a request asking for guidance to improve disclosures about Property, Plant & Equipment (PP&E) under construction or that are temporarily idled.
2. In the current economic environment there may be sectors in which the issue is of importance. Due to the slow down of production, entities may postpone forecasted investments in construction in progress until better days. As a consequence, significant amounts of construction in progress may stay in the accounts with unchanged balances in the coming years. Also, PP&E depreciated using the units of production method may not be depreciated for several months or years.

3. The purpose of the request is to draw attention to these facts and to make sure that they are sufficiently clearly explained by preparers in the notes to the financial statements.

BACKGROUND

4. Under IAS 16, whatever the measurement model after recognition (either the cost model or the revaluation model), each part of an item of PP&E is depreciated separately.
5. Paragraph 55 of IAS 16 points out that depreciation does not cease when a PP&E item is temporarily idled or is retired from active use. However, it notes that depreciation might be nil when depreciation is based on the units of production method.
6. For items of PP&E under construction, depreciation begins when the asset is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Thus as long as PP&E is under construction, it is not depreciated.
7. Currently IAS 16 paragraph 74(b) requires an entity to disclose the amount of expenditures recognised in the carrying amount of an item of PP&E in the course of its construction. Also, under paragraph 79(a), preparers are *encouraged to* disclose the carrying amount of temporarily idle PP&E, but such information is not mandatory.

STAFF ANALYSIS

8. To address the issue in the submission and given the existing disclosure requirements in IAS 16, the staff discussed whether the encouraged disclosure of the carrying amount of idle PP&E should be made compulsory. The staff also discussed the need for further disclosures about PP&E under construction.
9. With reference to the general purpose of the presentation of financial statements set out in IAS 1 and more specifically when reading paragraph 112(c), the staff believes that from the date the carrying amount of idle PP&E becomes

significant, the intention of the Board is that information about such items should be provided.

10. The staff also notes that besides information on the carrying amount and depreciation of idle PP&E, management's decision that an item of PP&E is to remain idle for a while might trigger an impairment test. The staff is aware that the impairment test may not result in an impairment loss.
11. As far as disclosures related to PP&E under construction are concerned, the staff reviewed the financial statements of some companies and noted that companies communicate via various means on their assets under construction. Some disclose a column with assets under construction showing reconciliations between opening and closing balances. Others disclose information in the notes to the financial statements that relate to PP&E.
12. The staff noticed that in practice the information about PP&E under construction is actually presented in the notes to the financial statements of many entities when significant. Therefore, the staff believes that amending IAS 16 to require further disclosures about PP&E under construction would not change current practice significantly.

STAFF RECOMMENDATION

13. The staff has assessed the issue raised in the submission against the IFRIC agenda criteria as follows:
 - a) The issue has practical and widespread relevance at least in some industries.
 - b) The staff believes that the current requirements in IAS 16 and IAS 1 are sufficient to ensure suitable disclosures of postponed construction projects and idle PP&E.
14. Therefore the staff recommends the issue not be added to the IFRIC agenda.
15. The staff has included proposed wording for a tentative agenda decision in Appendix A.

QUESTIONS FOR THE IFRIC

16. Does the IFRIC agree with the staff recommendation?
17. Does the IFRIC have any comments on the drafting of the tentative agenda decision?

[Appendix A is omitted from Observer note]