

**Issue for discussion at the upcoming 6th EEG meeting in
Kuala Lumpur**

**The issue: Treatment of net proceeds during the equipment's
testing activities (IAS 16, paragraph 17(e))**

**Raised by: The Saudi Organization for Certified Public
Accountants (SOCPA)**

1. Excerpts from IAS16:

Elements of cost

16 The cost of an item of property, plant and equipment comprises:

- (a) ...
- (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- (c) ...

17 Examples of directly attributable costs are:

- (a) ...;
- (b) ...;
- (c) ...;
- (d) ...;

- (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
(f) ...

2. The Issue:

Paragraph 17 (E) causes variations in application in industries (such as petrochemicals) where “the net proceeds from selling any items produced while bringing the asset to that location and condition..” materially exceeds the cost of testing. Some companies credit the constructed asset with net proceeds in excess of cost of testing.

Example: one Saudi petrochemical reported the following:

Revenue from production when testing the plant during the period:	SAR 1177 million
direct production cost when testing the plant during the period:	SAR 1038 million
Net income from testing activities:	SAR 139 million

The difference (139 million) was credited to “assets under construction”. In other words, the company offsets other costs of construction that are not attributable to testing. That is because IAS 16 para. 17(e) puts no ceiling on the use of the proceeds from selling items produced during the testing activities.

3. SOCPA suggestion:

Limiting the use of the proceeds from selling items produced when testing equipment to offsetting of the cost of testing only. Any excess over the cost of testing should be recognized in profit or loss for the period.