

STAFF PAPER

July 2017

Accounting Standards Advisory Forum

Project	Property, plant and equipment—Proceeds before intended use		
Paper topic	Proposed amendments to IAS 16		
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Objective

1. The objective of this session is for ASAF members to share their views on the forthcoming Exposure Draft of proposed amendments to IAS 16 *Property, Plant and Equipment* (ED)—expected to be published in June 2017.

Background

2. The proposed amendments respond to a request submitted to the IFRS Interpretations Committee (Committee) on costs capitalised as part of the cost of an item of property, plant and equipment (PPE). More specifically, the request related to costs of testing whether PPE is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (paragraph 17(e) of IAS 16).
3. The Committee's work on the request identified that entities apply diverse reporting methods—some deduct from the cost of PPE only proceeds from selling items produced from testing; others deduct all sales proceeds until the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The proposed amendments

4. The ED contains the Board's proposal to prohibit deducting from the cost of PPE any proceeds from selling items produced while bringing that asset to the location

and condition necessary for it to be capable of operating the manner intended by management. Instead, an entity would recognise those sales proceeds in profit or loss.

5. The ED is expected to propose to amend IAS 16 as follows:

17 Examples of directly attributable costs are:

- (a) ...
- (e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that the asset is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes), ~~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) ...

...

20A Items may be produced while bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management, such as inventories produced when testing an asset. An entity recognises the proceeds from selling any such items, and the cost of producing those items, in profit or loss in accordance with applicable Standards.

...

6. The Board has explained its reasons for proposing these amendments in the Basis for Conclusions on the ED. That basis also explains two other approaches that the Board considered but with which it decided not to proceed.

Question for the ASAF

We are seeking ASAF members' views on the proposed amendments to IAS 16.

ASAF members may wish to refer to the Basis for Conclusions on the ED, including the alternative view, when the ED is published (expected later in June 2017).