

GPF meeting, 4 October 2017  
Agenda Paper 2

# *Property, Plant and Equipment – Proceeds before intended use*

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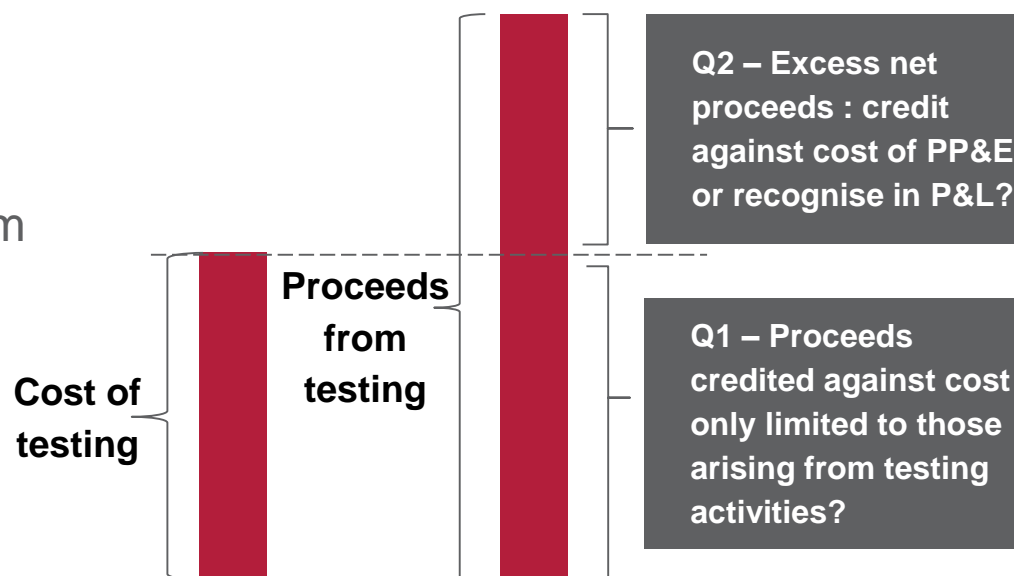
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# Background information

- The IFRS Interpretation Committee received a request in 2013 asking

- whether the proceeds referred to in paragraph 17(e) of IAS 16 relate only to items produced from testing an item of property plant and equipment (PP&E) (Q1)
- how to account for the proceeds when they exceed the cost of testing (Q2)



- Work on this request indicated that entities apply diverse reporting methods
- The Board published an Exposure Draft in June 2017. It is open for comments until 10 October, 2017 and can be accessed [here](#)

# The proposed amendments

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- The Exposure Draft proposes to
  - prohibit entities from deducting sales proceeds from the cost of an item of PP&E
  - require entities to recognise in profit or loss
    - all proceeds from selling items while the asset is not capable of operating in the manner intended by management; and
    - the cost of producing these items
  - Define ‘*testing whether the asset is functioning properly*’ in paragraph 17(e) of IAS 16

# The proposed amendments

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- The Basis for Conclusion explains the other approaches considered and the rationale for not pursuing these approaches (BC12-BC22)
- These approaches included considering whether to clarify:
  - which proceeds an entity deducts from the cost of PP&E or
  - when an item of PP&E is available for use

# Question 1: Sales proceeds

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## Proposal

Remove the requirement in paragraph 17(e) of IAS 16 to deduct proceeds from testing activities from the cost of PP&E

## Expected benefits

- ✓ Simple and effective way of removing diversity (BC5)
- ✓ Clear view of an entity's revenue and costs (BC6)

## Question ①

- ? Based on your experience:
- are proceeds from testing activities material?
  - which industries will mainly be affected by the proposed amendments?

# Question 2: Recognise all proceeds and related costs in P&L

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## Proposal

- Require entities to recognise in profit or loss:
- all proceeds arising from the sales of items produced before the asset is capable of operating as intended by management, and
  - the cost of producing these items

## Practical consideration

The allocation of costs between the cost of inventory for the items sold and the cost of the asset would require little more judgement beyond that already required to apply IFRS Standards (BC8)

## Question ②

- ? Based on your experience:
- Does the allocation of costs require significant judgement?
  - Will the proposed amendments affect the way entities allocate costs?

## Question 3: Definition of testing activities

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### Proposal

Testing whether the asset is functioning properly would be defined as *'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'*

### Expected benefits

- ✓ Help assess when an asset is capable of operating as intended by management
- ✓ Clarify that this assessment is not an assessment of the financial performance of the asset

### Question ③

- ✓ Based on your experience
  - Do entities face challenges in assessing when an asset is capable of operating as intended by management?
  - Will the proposed definition of testing activities help?

## Question 4: Overall consideration

- a. Do you agree with the proposed amendments to IAS 16?
  - Why or why not?
  - If not, what alternative would you recommend and why?
  
- b. Do you think the benefit of amending IAS 16 in this respect outweighs the cost of the change?



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