

Emerging Economies Group
December 2019
Agenda paper 6

Property, plant and equipment (PPE)—Proceeds before intended use (IAS 16)

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

Property, plant and equipment (PPE)—Proceeds before intended use (IAS 16)

Cost of an item of PPE

Paragraph 17 of IAS 16 currently states:

‘Examples of directly attributable costs are:

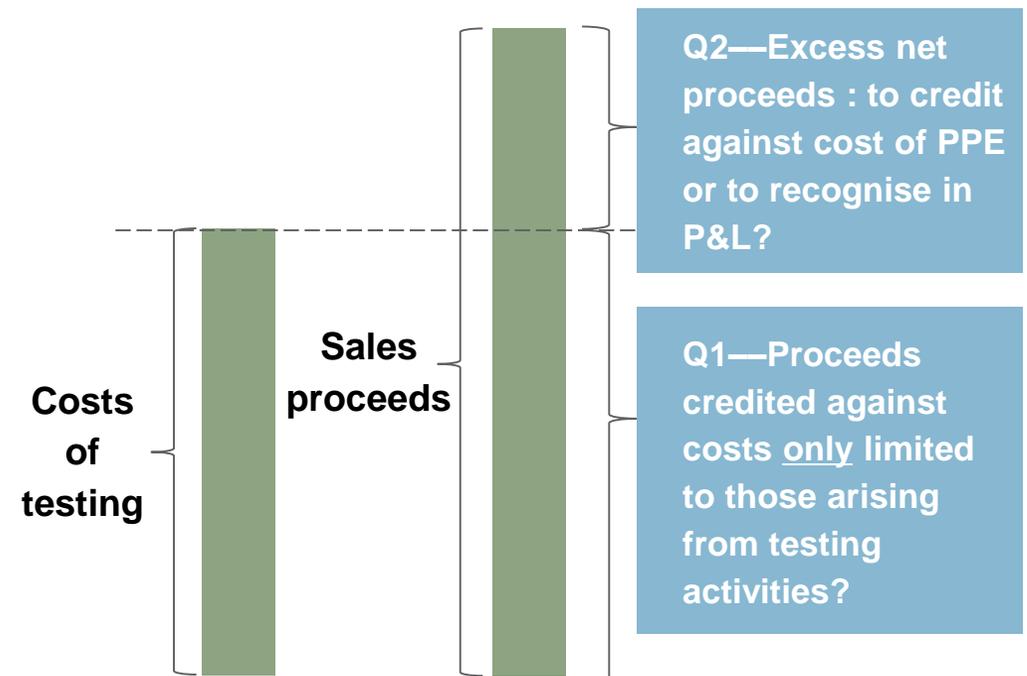
...

(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)

... ’

Implementation issues

Two questions asked to the IFRS Interpretations Committee in 2014



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Identified problem

Diversity in how entities report the proceeds from selling items before an item of PPE is available for use.

Proposed approach in the Exposure Draft

Prohibit deducting sales proceeds from the cost of an item of PPE and require an entity to recognise any such proceeds (and related costs) in profit or loss in accordance with applicable IFRS Standards.

Other proposals



- ✓ Definition of testing activities—assessment of the technical and physical performance of the asset only (not financial performance).
- ✓ No requirement with respect to the identification and measurement of costs.
- ✓ No disclosure requirement—expectation that proceeds would be part of an entity's ordinary activities and thus, disclosures in IFRS 15 *Revenue from Contracts with Customers* and IAS 2 *Inventories* would apply to the proceeds and related costs.

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Feedback on the 2017 ED



Challenges allocating costs between the item of PPE and inventory produced



Recognition in profit or loss of proceeds and costs with limited predictive value



Clarifications on when an asset is available for use

Board's response



Proposals modified—Apply IAS 2 to measure the costs of inventory



Proposals modified—Disclosure requirements for proceeds and costs



Approach unchanged—Beyond scope of project

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Final amendments to IAS 16

The Board confirmed its approach to require an entity to recognise any sales proceeds (and related costs) in profit or loss in accordance with applicable IFRS Standards.

Other requirements



- ✓ Proposed definition of testing activities retained
- ✓ Measurement of the costs of items produced and sold in accordance with IAS 2 *Inventories*.
- ✓ Specific disclosures for proceeds and costs when the sale of items is not part of an entity's ordinary activities.

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Transition and effective date



Amendments applied retrospectively only to items of PPE that start being available for use on or after the beginning of the earliest period presented



Effective for annual periods beginning on or after 1 January 2022 with earlier application permitted

Next steps



Amendments expected to be published in Q1 2020