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Proceeds before Intended Use - Proposed amendments to IAS 16

Objective

- 1 The objective of this session is to gather EFRAG TEG-CFSS members' views on the forthcoming Exposure Draft *Proceeds before Intended Use* (Proposed amendments to IAS 16 *Property, Plant and Equipment*) (the ED) expected to be published in June 2017.

Background

- 2 IAS 16 states that the cost of an item of property, plant and equipment (PPE) includes 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. Paragraph 17 of IAS 16 currently provides examples of directly attributable costs which includes: '*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)*'.
- 3 The IFRS Interpretations Committee was asked to provide guidance as to the correct treatment when the net proceeds from selling any items developed during testing exceed the cost of testing as there was diversity in practice: some entities limit the deduction of net proceeds to the costs of testing, whilst others extend the deduction to other costs of developing PPE.
- 4 At its meeting in October 2016, the IASB decided to propose amendments to IAS 16 that would result in the proceeds from selling any items, while bringing the asset to that location and condition necessary for it to be capable of operating in the manner intended by management, being recognised as revenue rather than deducted from the cost of the asset.

The forthcoming ED

- 5 The forthcoming ED is expected to propose amendments to IAS 16 that:
 - (a) clarify that the proceeds and related costs of items 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, are recognised in profit or loss in accordance with applicable IFRS Standards; and
 - (b) include additional application guidance on 'testing' in paragraph 17(e).
- 6 The specific amendments are:

An amendment to paragraph 17(e) '*Examples of directly attributable costs are: ...costs of testing whether the asset is functioning properly (ie assessing*

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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;

Adding paragraph 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.'

- 7 The paper for the ASAF meeting indicates that there will be an Alternative View in the ED. An update on this will be provided at the meeting.

Summary of EFRAG TEG discussion

- 8 At its meeting in May 2017, EFRAG TEG discussed the proposed amendments to IAS 16. A majority of EFRAG TEG members supported the proposed direction being taken by the IASB. However, EFRAG TEG considered that:
- (a) the Basis for Conclusions in the ED should clearly explain the rationale for the proposals;
 - (b) clarity on the definition of costs of testing might be needed, to ensure that the scope of the ED was clear; and
 - (c) some guidance might be needed on how to distinguish costs of testing from other costs of getting the item of property, plant and equipment ready for its intended use.
- 9 These potential concerns will be considered once the ED is issued.

Questions for EFRAG CFSS and EFRAG TEG

- 10 Do you support the proposed amendments to IAS 16?

Agenda Papers

- 11 In addition to this paper, the agenda paper for this session is 08-02 *ASAF Paper 04 Proposed amendments to IAS 16 - CFSS 17-06-28* – for background only.