



Comment letter on IASB ED/2017/4 Proceeds before Intended Use (Proposed Amendments to IAS 16).
European Financial Reporting Advisory Group
35 Square de Meeüs
Brussels B-1 000
Belgium

Dear Jean-Paul,

In the present letter ICAC gives its view on IASB's Exposure Draft ED/2017/4 Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16), issued by the IASB on 20 June 2017 (the 'ED')

First of all, ICAC welcomes the IASB's initiative aimed to clarify the IAS 16 Proceeds before Intended Use to unify its interpretation and to reduce diversity in practice. We appreciate the opportunity to comment on this ED.

In the ED, the IASB proposes to amend IAS 16 Property, Plant and Equipment. The amendments would prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management, one example is the costs of testing. Instead, an entity would recognize those sales proceeds in profit or loss.

Paragraph 17 (e) of IAS 16 states that the cost of an item of property, plant and equipment includes the costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to that location and condition (such as samples produced when testing equipment).



We agree that it is necessary to clarify the current accounting treatment in order to reduce the diversity in the application of the standard. We are aware that this is a complex issue because the accounting solution involves identifying two proceeds: the income obtained from testing period and the income obtained before the asset is available for use but different from testing whether the asset is functioning properly. It is crucial to determine the point at which an entity stops accumulating costs in the carrying amount of the asset because at that moment it starts depreciating the asset. The milestone of being available for use is essential because only at that moment the sales proceeds begin to incorporate the cost per amortization of the asset, according to the proposal.

According ICAC's view, when assessing whether the asset is in operative conditions, judgment is required, as for any other estimate made by the person in charge for preparing the financial statements. This analysis must be carried out with objectivity, without being able to justify different dates in which assets with homogeneous economic characteristics are in operative conditions, nor delay the accounting consequences that would result from the pending tests, if are irrelevant to the function or purpose that the asset will meet; that is, in relation to fixed assets, to identify when the asset is ready for operation.

We are of the opinion that the amendments should provide guidance regarding the point in time at which an asset is available for use. For example, assessing the effective (full or regular) available for use of an asset may not be fully evident in certain cases, from a rational economic perspective such a circumstance could be presumed, unless there is evidence to the contrary, when the income generated in the test period exceeds the amount of the accrued expenses, including the actual "theoretical" amortization of the asset that would have been incurred since the date on which the generation of income began.

Then, we believe that it would be more objective to capitalized as an elements of cost of an item of property, plant and equipment the costs of testing, after deducting the net proceeds, even if the proceeds exceeds the costs, this will be conceptually consistent with the



requirements in IAS 23 Borrowing Cost. We believe it is essential to add the caution of considering the time the asset is in the location and condition necessary for being capable of operating in the manner intended by management.

In conclusion, we understand it is more appropriate retaining the deduction of sales proceeds from costs of testing to avoid incongruence with other standards, and try to find other solutions to give answer to the questions to solve the diversity in practice about this issue.

In any case, the costs incurred on the occasion of the necessary tests or tests that are carried out to ensure that the asset is in working condition and can participate fully in the production process shall form part of the cost of production of the assets. These expenses will be reduced in the income generated by the asset during that period. When the income exceeds the expenses, the excess will reduce the cost of production of the asset.

On the other hand, expenses and income related to incidental operations activities that could be realized with the fixed assets, before or during the period of manufacture or construction, will be recognized in the income statement according to their nature provided they are not essential to put the asset into working condition.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Enrique Rubio Herrera
Chairman of ICAC