

Exposure Draft

Property, Plant and Equipments: Proceeds before Intended Use

**(Amendments to Ind AS 16, *Property, Plant and
Equipment*)**

(Last date for Comments: March 20, 2021)



Issued by
Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Property, Plant and Equipments: Proceeds before Intended Use (Amendments to Ind AS 16, *Property, Plant and Equipment*)

Following is the Exposure Draft of proposed Amendments to Ind AS 16, *Property, Plant and Equipments*, issued by the Accounting Standards Board (the Board) of the Institute of Chartered Accountants of India for comments. Paragraph 17(e) of Ind AS 16 specifies that directly attributable costs include the costs of testing whether an asset is functioning properly, after deducting the net proceeds from selling 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. The Exposure Draft proposes amendments to Ind AS 16 to prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use (proceeds before intended use).

The Board invites comments on the below mentioned specific question as well as any aspect of this Exposure Draft:

Question for respondents

Paragraph 17(e) of Ind AS 16 specifies that directly attributable costs include the costs of testing whether an asset is functioning properly, after deducting the net proceeds from selling 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. The Exposure Draft prohibits the deduction of proceeds from selling items produced before that asset is available for use (proceeds before intended use), from the cost of an item of property, plant and equipment (PPE).

The Exposure Draft proposes addition of paragraph 20A to Ind AS 16 requiring recognition of the proceeds from selling any items produced while bringing an item of PPE to the location and condition necessary for it to be capable of operating in the manner intended by management, and the cost of producing those items, in profit or loss in accordance with applicable Standards. It also requires measurement of the cost of those items applying the measurement requirements of Ind AS 2.

(a) Do you agree with the proposed amendments?

(b) Whether application of the proposed amendments will involve any practical issues. If yes, please explain the practical issues involved.

Comments are most helpful if they contain a clear rationale and, where applicable, provide suggestions for alternative wording.

Comments can be submitted using one of the following methods, so as to be received not later than **March 20, 2021**.

1. Electronically: Click on <http://www.icai.org/comments/asb/> to submit comments online. (Preferred method)
2. Email: Comments can be sent to commentsasb@icai.in
3. Postal: Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Exposure Draft of Property, Plant and Equipment: Proceeds before Intended Use (Amendments to Ind AS 16, *Property, Plant and Equipment*)

Paragraphs 17 and 74 are amended; paragraphs 20A, 74A, 80D and 81N are added. The requirements formerly in paragraph 74(d) have not been amended but have been moved to paragraph 74A(a). Deleted text is struck through and new text is underlined.

Measurement at recognition

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Elements of cost

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17 Examples of directly attributable costs are:

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- (e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that it 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

...

...

20A Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of Ind AS 2.

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Disclosure

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74 The financial statements shall also disclose:

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- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction; and
- (c) the amount of contractual commitments for the acquisition of property, plant and equipment; ~~and~~
- ~~(d) if it is not disclosed separately in the statement of profit and loss, the amount of compensation from third parties for items of property, plant~~

and equipment that were impaired, lost or given up that is included in profit or loss.

74A If not presented separately in the statement of profit and loss, the financial statements shall also disclose:

- (a) the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss; and**
- (b) the amounts of proceeds and cost included in profit or loss in accordance with paragraph 20A that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of profit and loss include(s) such proceeds and cost.**

Transitional provisions

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80D Property, Plant and Equipment—Proceeds before Intended Use, amended paragraphs 17 and 74 and added paragraphs 20A and 74A. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Effective date

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81M [Refer Appendix 1]

81N Property, Plant and Equipment—Proceeds before Intended Use, amended paragraphs 17 and 74, and added paragraphs 20A, 74A and 80D. An entity shall apply those amendments for annual reporting periods beginning on or after 1 April, 2022¹.

Appendix 1

Comparison with IAS 16, *Property, Plant & Equipment*, IFRIC 1 and IFRIC 20

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¹ Subject to notification by the Ministry of Corporate Affairs (MCA) with the same date.

8. Paragraph 81M of IAS 16 relates to effective date on account of IFRS 17, Insurance Contracts, has not been included in Ind AS 16. In India, Ind AS 117, Insurance Contracts, corresponding to IFRS 17 is under formulation.