Property, Plant and Equipment - Proceeds before Intended Use

(Proposed amendments to IAS 16)

Hello,

I think we should continue with the existing provision i.e. *"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"* as it is in line with the concept of capitalizing expenses. If such income is credited in the Profit & Loss Account, what would be the treatment of the expenses incurred in generating such income? Following matching concept expenses incurred to generate income should be changed to the Profit and Loss Account commensurate income booking.

Production before bringing an asset to the intended location and condition, generally happen to test production quality. Inputs (e.g. raw material, power, manpower, etc.) are considered to imperative part of cost of the asset and no income is expected to be earned therefrom. If any income earns, eventually, should be taken as reduction in the cost incurred and not as an item of revenue of the entity. Such sale may fetch lesser price as compared to that would be once asset is fitted to the intended location and condition. Such price may be equal or lesser than the direct cost incurred to make item sold.

So 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, should not be prohibited.

Thanks

CA Sanjeev Tandon
M.No.: 501837
Ph: 9958595444