

Exposure Draft

**Property, Plant and Equipment: Proceeds before
Intended Use**

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

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.

Questions:

(a) Do you agree with the proposed amendments?

Comments: We support the proposed amendments. The changes/amendments are in par with IAS16. The need for the amendment is that recognizing proceeds before intended use and related cost in profit or loss will result in entities reporting amounts that more faithfully represent their performance and financial position. It will also have confirmatory value about an entity's performance. Though the amendments might result in implementation costs for some entities it will outweigh the usefulness of the information provided. Further since already there is a requirement to measure the cost of items produced by applying IndAS 2, it would not impose costs.

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

Comments: Organizations have to identify costs associated with producing and selling items before the item of PPE is available for use; and costs associated with making the item of PPE available for its intended use. This involves significant estimation and judgment. Organizations in the extractive industry viz., mining, and oil and gas may need to monitor costs at a more granular level. Such sales proceeds and the related margin may have predictive value because the sales proceeds are generally non-recurring and are not necessarily an output of an entity's ordinary activities and the cost of items produced would not include depreciation of the item of property, plant and equipment because depreciation of that asset begins when it is available for use.