



Guwahati Branch
Eastern India Regional Council
The Institute of Chartered Accountants of India

(Setup by an Act of Parliament)
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Proposed ED/ amendment in Ind AS 16 – PPE

Review Comments

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.

Comment:

a) We agree with the proposed amendment.

This proposed amendment and addition of para 20 A is very relevant and required for appropriate disclosure of revenue which may be earned from production and sale of samples etc , produced in course of testing whether an asset is functioning properly and such production has happened / taken place in course of bringing the item of Property , plant and equipment to the location & condition necessary for it to be capable of operating in the manner intended by the management .

- b) **Practical Issues:** This may happen in a variety of industries, inter alia, including heavy engineering, pharma, construction, chemicals, steel, Civil aviation etc where some test-production / samples may get produced in course of bringing the item PPE before the stage of Capitalisation. Such production may be saleable in the market.



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- c) The reporting entities have to document details of sale proceeds and cost of such items which gets produced before the item of PPE has been brought to the intended location & condition for operational purpose, i.e before capitalization. Depending on industries and type of item of PPE, there may be a variety of such items which may get produced in course of :
1. Trial run
 2. Test – production
 3. Start-up or commissioning stage

(before calibration and final installation of the item of PPE)

Accordingly, the proceeds from sale of any such items should not be adjusted with the cost of testing (whether the asset is functioning properly) but should be treated a revenue item, i.e the proceeds from sale of such items and its cost, to be recognized in the statement of profit & loss, as per applicable accounting standards.

Additionally, the cost of such items should be measured by the reporting entity, in accordance with Ind AS 2 – on “Inventories”.

However, in certain cases, the market value of such items may be difficult to ascertain or not readily available.

Accordingly, Disclosure in para 74 and para 74 A also stands amended as carried out.

Transitional Provisions, as pronounced in Para 80 D consequently is also required to complete the guidance to entities for reporting of the above.

Dated at Guwahati,
19th day of February, 2021

For, Guwahati Branch of EIRC of ICAI

(Sd/-)
CA. Kamal Mour
(Vice Chairman)