



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
(Set up by an Act of Parliament)

**Western India Regional Council**

**WIRC/ICAI/6424/2021**

**23<sup>rd</sup> March, 2021**

**CA. Parminder Kaur**

Secretary, Accounting Standards Board,  
The Institute of Chartered Accountants of India,  
ICAI Bhawan, Post Box No. 7100,  
Indraprastha Marg, New Delhi 110 002

Dear Sir/ Madam,

**Sub.: Exposure Draft of Property, Plant and Equipment: Proceeds before Intended Use- Amendments to Ind AS 16, Property, Plant and Equipment**

Please find attached comments on Exposure Draft of Property, Plant and Equipment: Proceeds before Intended Use- Amendments to Ind AS 16, Property, Plant and Equipment, for your doing the needful.

Kindly acknowledge the receipt of the same.

Thanking You,

Yours truly,

**CA. Manish Gadia**  
**Chairman - WIRC of ICAI**



## EXPOSURE DRAFT ON IND AS – 16 PROPERTY, PLANT & EQUIPMENTS

### 1. Option for full retrospective transition:

"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 transitional provisions do not allow to apply these amendments to the items of property, plant and equipment which were brought **prior** to the earliest period presented in the financial statements (i.e. before 1<sup>st</sup> April, 2021). Rather the same allow to apply these amendments only to the items of property, plant and equipment which are brought on or after the beginning of the earliest period presented financial statements (i.e. on or after 1<sup>st</sup> April, 2021). This is partial retrospective application which may affect the true and fair view of the financial statement.

**It is recommended that along with partial retrospective application, an option shall be given to the entities for full retrospective application as well.** Under full retrospective approach the entities can apply these amendments to all the property, plant and equipment that are brought in any prior period(s).

#### Reason of recommending full retrospective application:

The capitalization of testing cost that need to be expensed off as per amendment, may already be part of Property, plant and equipments. The capitalization may have been done before a year and of material amount to the financial statements. Giving the option of full retrospective application, will ensure the entities that are having details and wanted to realign the accounting as per the amendment can do so.

Amended Paragraph 80D is stated below:

"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 to its Property, Plant and Equipment either:

(a) retrospectively, to each prior reporting period presented applying Ind-AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. 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 in the financial statements in which the entity first applies the amendments; or

(b) 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 date of initial application in accordance with paragraph 81N."



**2. Cumulative effect of transition Adjustment proposed to be done at the date of initial application of the amendments:**

"80D *Property, Plant and Equipment*—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."

These amendments shall become applicable for the annual reporting periods beginning on or after 1<sup>st</sup> April, 2022 and the transitional provisions allow to apply these amendments only to the items of property, plant and equipment which are brought on or after the beginning of the earliest period presented in the financial statements i.e. annual reporting period beginning on or after 1<sup>st</sup> April, 2021. Hence these amendments are applicable w.e.f. 1<sup>st</sup> April, 2021.

There is no need to make adjustment for cumulative effect of initially applying the amendments, to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the earliest period presented (i.e. 1<sup>st</sup> April, 2021) **as these amendments are becoming applicable on the same date (i.e. 1<sup>st</sup> April, 2021).** Instead, cumulative effect of initially applying these amendments shall be the adjusted to the opening balance of retained earnings at **the date of initial application (i.e. 1<sup>st</sup> April, 2022).**

Reason for recommendation:

- The accounts for the year ended 31<sup>st</sup> March 2021 will be finalized, audited, announced and tax returns are filed based on the financials, by the time this is applicable.
- Retrospective application with effect from earliest period presented, may unnecessary create issues of restatement.
- Instead, effective from transition date with disclosure will ensure smooth transition with adequate information to the stakeholders.

Therefore it is recommended to replace the words "*at the beginning of that earliest period presented.*" with "*at the date of initial application in accordance with paragraph 81N*" in the last line of paragraph.

**3. Disclosure requirement at paragraph 74A (b) should be removed or made recommendatory in nature**

Disclosure requirement at paragraph 74A (b)

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

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.



By amending paragraph 17(e) & inserting paragraph 20A above, we are proposing that the production cost of units produced during trial run as well as proceeds before intended use shall not be adjusted in the cost of Property, Plant & Equipment. Instead we are proposing to recognise the same in the statement of profit or loss. At the same time we are proposing to the entities to disclose the said amounts (i.e. amount of proceeds and cost included in profit or loss in accordance with Paragraph 20A) separately.

These information are generally not readily available with the company and shall involve considerable time and human efforts of the entities to prepare the same. The cost of to develop it would be excessive considering its benefits to the users of the financial statement.

Hence we recommend to either remove the disclosure requirement or kept as recommendatory in nature.