



Submission to International Accounting Standards Board (IASB)

Exposure Draft 2017/4

Property, plant and equipment – proceeds before intended use

13 October 2017

Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir

Re: Exposure Draft 2017/4 *Property, Plant and Equipment – Proceeds before intended use*

On behalf of the Institute of Public Accountants (IPA), I am writing to comment on Exposure Draft ED 2017/4 *Property Plant and Equipment – Proceeds before intended use* (proposed amendments to IAS 16).

The IPA supports the IASB proposal to amend IAS 16 to prohibit 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 to be operating in the manner intended by management.

The IPA believes the proposed amendments would address the diversity in practice identified by the IASB and deal with circumstances where the proceeds exceed the cost of testing.

While the IPA supports the addition of a definition of testing, we have concerns that the proposed definition is too subjective. Notwithstanding the “definition” in paragraph 17(c), paragraphs 20A and BC10 provide no clarity on:

- Determining when an asset is operating as intended by management (paragraph 17(c)); or
- The assessment of the technical and physical performance of the asset.

The IPA is aware of instances when technical acceptance of a new asset in terms of functional specifications can result in circumstances where costs continued to be capitalised and depreciation delayed when:

- A replacement asset has yet to meet its technical specification, however the output from the new asset is greater than the asset replaced, but as the level of output has yet to meet the technical specification costs are still deferred and depreciation not commenced;

- Similarly, an asset is installed but has not reached its technical specifications in terms of “time in service” or output despite produces “commercial” quantities (i.e. financially viable quantities), but as the level of output has yet to meet the technical specification costs are still deferred and depreciation not commenced; and
- Software is under development and is being delivered in modules, the individual modules are usable, however the technical specifications require all modules to be accepted and interfaced before technical acceptance can occur. No depreciation is charged on individual modules as they are completed and ready for use because all modules have not been completed and interfaced in accordance with the technical specification.

The IPA believes such outcomes are undesirable and still possible under the proposed revisions to IAS 16. The IPA proposes the following be included in IAS 16:

- When determining whether an item is stilled in the testing phase commercial and operational considerations should be assessed together with whether the asset has met technical performance specifications; and
- It should be clear in IAS 16, an assessment of whether an asset under development is in the testing phase is a management judgement as is required to be disclosed under IAS 1 *Presentation of Financial Statements* paragraph 122.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely

Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

CC Ms Kris Peach Australian Accounting Standards Board

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.