

14 December 2017

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

Dear Sir,

COMMENTS ON THE INTERNATIONAL ACCOUNTING STANDARDS BOARD'S EXPOSURE DRAFT ED/2017/4

We would like to take this opportunity to comment on Exposure Draft (ED) ED/2017/4 *Property, Plant and Equipment – Proceeds before Intended Use* issued by the International Accounting Standards Board (IASB).

Contradiction in Principles between Paragraph 21 of IAS 16 and Proposed Paragraph 20A of ED

2. There appears to be a contradiction in principles between paragraph 21 of IAS 16 *Property, Plant and Equipment* and paragraph 20A of the ED, if testing is considered a necessary incidental operation.
3. Paragraph 21 of IAS 16 sets out that the income and related expenses of incidental operations that are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management (i.e. available for use) should be recognised in the profit or loss (P/L). It can be inferred that conversely, *the related expense of incidental operations that are necessary to make an item available for use should be capitalised as the cost of asset, while the income of such incidental operations should be capitalised and offset against the cost of asset.*
4. Paragraph 20A of the ED requires proceeds from selling items produced before an asset is available for use, such as inventories produced when testing an asset, and the costs of producing these items to be recognised in P/L. The intent of the proposed ED amendments is to prohibit deducting from the cost of an item

of property, plant and equipment (PPE) any proceeds from selling items produced before that asset is available for use.

5. **Therefore, if testing is considered an incidental operation before an asset is available for use, then the principles set out in paragraph 21 of IAS 16 and paragraph 20A of the ED appear to be in contradiction.** The former requires the income and related expense to be capitalised, whereas the latter requires them to be recognised in P/L instead.

Clarification on Scope of Sales Proceeds to be Recognised in P/L

6. We would also like to seek clarification from the IASB on the scope of sales proceeds that should be recognised in P/L in the proposed paragraph 20A of the ED, in particular whether it applies only to proceeds received from selling items produced (when testing an asset) or all types of proceeds earned (including those earned from necessary incidental operations) before that asset is available for use.

7. If it is the IASB's intent to recognise all proceeds received before an asset is available for use in P/L, we would like to suggest rewording or removing paragraph 21 of IAS 16 to avoid confusion, due to the contradiction highlighted in paragraph 5.

8. We hope that our comments will contribute to IASB's further deliberation on this ED. Should you require any clarifications, please contact the Secretariat, Advisory Committee on Accounting Standards for Statutory Boards. Thank you.

Yours sincerely



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