

# Accounting for proceeds before an asset's intended use

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**“The Board has proposed a simple, pragmatic solution. However, isolating the cost of sales may be challenging in practice.”**

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## Proposed narrow-scope amendments to IAS 16

### Highlights

- Sale proceeds no longer deducted from the cost of an asset before its intended use
- Certain industries affected, such as extractive and petrochemical
- Find out more

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To address diversity in practice and improve financial reporting, the IASB is proposing targeted amendments to IAS 16 *Property, Plant and Equipment* to clarify the accounting for sale proceeds before an asset becomes available for use.

### Sale proceeds no longer deducted from the cost of an asset

In the process of making an item of property, plant and equipment (PPE) available for use, companies in certain industries produce items that can be sold – e.g. inventories generated when testing an asset.

Under the proposals, an entity would recognise in profit or loss the proceeds from the sale of these items, as well as the costs of producing them. Deducting sale proceeds from the cost of PPE would be prohibited.

When applying the proposed amendments, a company would need to isolate only those costs that relate to items produced and sold before an asset's intended use. To help when assessing costs, the proposals clarify that testing whether an asset is functioning properly would mean assessing the *technical* and *physical* performance of the asset rather than the financial performance of the asset.

### Certain industries affected

The proposed amendments would mainly affect the extractive and petrochemical industries.

The IASB also proposes a consequential amendment to IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.

The Board has yet to decide on the effective date.

### **Find out more**

The IASB's comment deadline closed on 19 October 2017. Read our [comment letter](#) to learn more about KPMG's position.

For more information on the proposals, speak to your KPMG contact.