

IFRS Foundation  
30 Cannon Street  
London, EC4M 6XH

11 October 2017

Dear Sirs

**Property, Plant and Equipment—Proceeds before Intended Use (ED/2017/4)**

This letter sets out the views of the FRC on the above Exposure Draft.

We do not agree that the proposed amendments should be finalised. We are very concerned about the proposed broad scope of the amendments, which, in our opinion, will result in many entities recognising significant amounts of income during the development of an asset. This will not provide a representationally faithful depiction of their financial performance, especially as there may be no costs that can fairly be allocated to offset that income. There may also be further unintended consequences.

The Exposure Draft notes that the amendment results from requests to clarify the requirements of IAS 16 'Property, Plant and Equipment', which require net proceeds to be deducted in quantifying the capitalised costs of testing an asset. The Basis for Conclusions states (paragraphs BC3 and BC27) that the IASB expects that the amendments will affect only a few industries, such as the extractive and petrochemical industries. However, the proposed amendments encompass any items produced while bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Basis for Conclusions provides no rationale for the extension in scope.

As noted in paragraph AV7 of the Exposure Draft, proceeds from the sale of surplus material arising from the construction of an item of property, plant and equipment, are to be recognised in profit and loss even where the sale of such scrap is not within the entity's ordinary activities. For example, a retailer that purchases a site to develop a new store would have to recognise income from sales of surplus material, and apportion the cost of the purchase between that which relates to the surplus material and that which does not. Any apportionment will be arbitrary, so the reported gain or loss arising from the difference between the proceeds received and the arbitrary cost will not provide useful information. It is arguable that a more representationally faithful and understandable presentation would result from simply deducting the proceeds of sale from the cost of the new store.

We question the assertion in paragraph BC6 that the cost of assets can be distorted by deducting sale proceeds before the assets are available for use. If cost includes cash outflows necessary to construct the asset, why do cash inflows arising from the construction not reduce the cost?

It is also questionable whether a scrap dealer is the retailer's 'customer' as defined in IFRS 15 'Revenue from contracts with customers', and if so, whether it is helpful to aggregate within revenue income from the sale of scrap and that represented by cash in the retailer's tills, (despite the requirement in IFRS 15 to disaggregate revenue into categories).

If the proposed wide scope is retained, the amendments, including the Basis for Conclusions, should be revised to address the case where proceeds are received for items that are not inventories, because they are not held for sale in the ordinary course of the business (IAS 2, 'Inventories' paragraph 6), and where the income does not represent revenue within the scope of IFRS 15 because it does not represent income from ordinary activities. This would require reconsideration of paragraphs BC7–BC11, and BC24–BC26, and the addition of discussion of the treatment of proceeds for items that do not form part of an entity's ordinary activities. (We note that the term 'ordinary activities' is not well defined in IFRS: the IASB's reasons for not clarifying the term is set out in paragraph BC 53 of IFRS 15.)

The proposals made in the Exposure Draft would have a very significant impact on entities in the extractive industries. We do not consider that this would be desirable, as diversity in reporting on issues such as which costs are capitalised and when capitalisation ceases would remain. This highlights the need for a comprehensive project on extractive industries. A narrow amendment targeted only at proceeds received during testing would pre-judge the outcome of that project.

The proposed amendments also highlight that, although historical cost is well established and familiar in practice, there is limited explicit agreement on its underlying conceptual rationale. Given that historical cost is likely to remain widely used in practice, we strongly encourage the IASB to consider further work in this area.

Yours sincerely



**Paul George**  
Executive Director of Corporate Governance & Reporting  
DDI: 020 7492 2340  
Email: [p.george@frc.org.uk](mailto:p.george@frc.org.uk)