

Accounting for proceeds before an asset's intended use



14 May 2020



Eiichi Fujita
Head of DPP Accounting
KPMG AZSA LLC

Amendments to IAS 16 will mainly affect extractive and petrochemical industries

Highlights

- Sale proceeds no longer deducted from the cost of property, plant and equipment (PPE) before its intended use
- Testing the functioning of PPE means assessing its technical and physical performance
- Additional disclosure requirements for sales proceeds and related production costs
- Next steps – Transition and effective date

In the process of making an item of PPE available for its intended use, a company may produce and sell items – e.g. minerals extracted in the process of constructing an underground mine or oil and gas from testing wells before starting production.

To address diversity in practice, the International Accounting Standards Board (the Board) has amended IAS 16 *Property, Plant and Equipment* to provide guidance on the accounting for such sale proceeds and the related production costs.

Sale proceeds no longer deducted from the cost of PPE before its intended use

Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items. IAS 2 *Inventories* should be applied in identifying and measuring these production costs.

Companies will therefore need to distinguish between:

- costs associated with producing and selling items before the item of PPE is available for use; and
- costs associated with making the item of PPE available for its intended use.

Making this allocation of costs may require significant estimation and judgement. Companies in the extractive industry may need to monitor costs at a more granular level.

Isolating the costs of production may be challenging in practice. It may require monitoring of costs not previously required by IAS 16 and more extensive estimation and judgement.

The meaning of testing the functioning of PPE

The amendments also clarify that testing whether an item of PPE is functioning properly means assessing its *technical* and *physical* performance rather than assessing its financial performance – e.g. assessing whether the PPE has achieved a certain level of operating margin.

Additional disclosure requirements

No disclosure requirements have been added to IAS 16 for sales of items that are an output of a company's ordinary activities: the disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* and IAS 2 will apply in such cases.

However, for the sale of items that are not part of a company's ordinary activities, the amendments require the company to:

- disclose separately the sales proceeds and related production cost recognised in profit or loss; and
- specify the line items in which such proceeds and costs are included in the statement of comprehensive income.

This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

Next steps – Transition and effective date

The amendments apply for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted.

The amendments apply retrospectively, but only to items of PPE made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

Although the amendments are not effective until 2022, companies will need to consider including IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*¹ disclosures in their next annual financial statements.

1. Paragraphs 30-31 of IAS 8

Publication name: *Accounting for proceeds before an asset's intended use*

Publication date: May 2020

© 2020 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG International Cooperative ('KPMG International') is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind any member firm, in any manner whatsoever.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

This publication contains copyright © material and trademarks of the IFRS® Foundation. All rights reserved. Reproduced by KPMG IFRG Limited with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit www.ifrs.org

Disclaimer: To the extent permitted by applicable law the Board and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

'IFRS®', 'IAS®', 'IFRIC®', 'IASB®' and 'IFRS for SMEs® Standard' are registered Trade Marks of the IFRS Foundation and is used by KPMG IFRG Limited under licence subject to the terms and conditions contained therein. Please contact the IFRS Foundation for details of countries where its Trade Marks are in use and/or have been registered.