

October 13, 2017

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
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United Kingdom

Sent by email to: commentletters@ifrs.org

Ms. Rebecca Villmann
Director, Accounting Standards
Accounting Standards Board
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Sent by email to: ed.accounting@cpacanada.ca

Dear Mr. Hoogervorst and Ms. Villmann,

Re: Exposure Draft ED/2017/4 – Property, plant and equipment – Proceeds before intended use

I appreciate the opportunity to provide my comments on the Proposed Draft Amendment in IASB's Exposure Draft ED/2017/4 – Property, plant and equipment – Proceeds before intended use. My comments are as follows:

General Comments:

The Board's proposal to review the accounting treatment of costs of testing as a directly attributable cost will improve the quality of financial statement presentations and provide greater consistency in recognizing period costs and revenues in the statement of profit or loss as opposed to offsetting certain pre-commissioning revenues against the cost of the asset.

Specific Comments:

Question 1
The Board is proposing 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 of operating in the manner intended by management. Instead, an entity would recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Do you agree with the Board's proposal? Why or why not? If not, what alternative would you propose, and why?

Response 1) I agree with the Board's proposal. An asset's cost represents the future economic benefit available to the entity. Accordingly, deducting sales proceeds, of product produced during the testing phase, from the asset cost would amount to a reduction of realizable economic benefits from the asset even before the asset has been initially recognized as a fully operational asset in the books and would be contrary to the objectives of IAS 16. Such sales proceeds are appropriately classified as period income under the proposal.

Paragraph 16 of the standard which itemizes the elements comprising the cost of an item of property, plant and equipment appropriately accounts for the cost of the asset on initial recognition. The proposed paragraph 17.e is reworded to state that "*costs of testing whether the technical and physical performance of the asset is capable of being used in the production or supply of goods or services*". The Discussion Paper - BC10 also notes that "*an assessment of functioning properly is not an assessment of the financial performance of the asset.*" Although, technical or quality inadequacies encountered could result in saleable but sub-standard product and are directly related to getting the asset to the condition intended by management.

Accordingly, the ED does not clarify the accounting treatment for certain costs, that could be incurred:

- a) Costs of testing assets associated with bringing sub-standard output to the quality level intended by management, when that output has a supply market at a lower selling price during the testing phase; and
- b) Costs associated with testing the overall functional capability of the equipment when the asset is operationally active but does not perform at the intended capacity level.

The standard assumes that if the product can be used in production or supply, then it meets the desired quality standard and the equipment is capable of functioning at the desired capacity. Sub-standard product manufactured in the trial run phase, or the inability of the equipment to produce at the desired volume could be the result of operational or engineering issues and additional costs for these modifications may be incurred. The standard should clarify the accounting treatment for these adjustments that may or may not necessarily increase the economic benefit to be derived from the asset.

The standard should include some discussion to help ascertain the operational conditions that an entity experiences when the equipment is fully functional and capable of producing saleable items regardless of market price, in order to signal the completion of capitalization and the commencement of operating activity.

Further discussion should be included on bridging asset costs that are capitalized with quantifiable increases to benefits realized or increases in revenues. This would improve the consistency in application of the matching concept.

If you have any questions, please do not hesitate to contact me by email at lynessadidas@gmail.com.

Yours sincerely,

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