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Proceeds Before Intended Use – Amendments to IAS 16

Cover Note

Objective

- 1 The objective of the session is to discuss and agree to recommend to the EFRAG Board a draft endorsement advice on *Proceeds Before Intended Use - Amendments to IAS 16* ('the Amendments,').

Background

- 2 On 14 May 2020 the IASB issued *Proceeds Before Intended Use – Amendments to IAS 16*. The Amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment (PPE) 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.
- 3 The Amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. Entities are required to apply the Amendments retrospectively only to items of PPE made available for use on or after the beginning of the earliest period presented when the entity first applies the Amendments.
- 4 In the draft endorsement advice, the EFRAG Secretariat assessed that the Amendments:
 - (a) meet the IAS Regulation technical endorsement criteria; and
 - (b) are conducive to the European public good.
- 5 In response to the Exposure Draft preceding the Amendments, EFRAG considered that the proposal to require the proceeds generated before an item of property, plant and equipment (PPE) is ready for its intended use by management to be recognised in profit or loss, together with the costs of producing those items, raised several substantive questions. EFRAG was not convinced that these questions have been sufficiently examined in the development of the ED ([EFRAG Final Comment Letter](#)). The following table evaluates whether such questions have been subsequently addressed in the development of the Amendments:

Question raised	How addressed?
When an item of PPE is ready for its intended use by management.	Not addressed. The IASB agrees with EFRAG that this would form part of a bigger project.
How the cost allocation for distinguishing cost of goods sold from other costs of the PPE could be allocated to a specific sale before the associated PPE is ready for its intended use.	Addressed in BC16H - BC16K.
Whether the 'cost' of an asset is a gross or a net amount.	Addressed: as the Amendments does not allow the deduction of proceeds against the cost of an asset, it is considered that the cost of an asset is a gross amount. Please refer to paragraphs BC16C - BC16G.

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Whether sales of items produced while making an item of PPE ready for its intended use are in the ordinary course of business.	Addressed in paragraph BC16M.
The relation with other IFRS Standards such as IFRS 15 <i>Revenue from Contracts with Customers</i> , IAS 2 <i>Inventories</i> and IAS 23 <i>Borrowing Costs</i> .	Addressed in paragraphs BC16D, BC16I, BC16J, BC16M, BC16N, BC16O, BC36B, BC36C, BC36D.
The proposed amendments do not distinguish between proceeds generated during the testing phase from all other proceeds generated from the sale of items produced before the asset is ready for its intended use. Hence, the proposals might put more pressure on the identification of when an item of PPE is ready for its intended use. The determination is important because it establishes the time from which PPE is depreciated.	The Amendments do not distinguish between different types of proceeds as it does not allow for the deduction of proceeds against the cost of an asset. Consequently, all sales proceeds before intended use and related cost should be recorded in profit or loss. Please refer to paragraphs BC16C - BC16G and the argumentation that such distinction forms part of a bigger project.

Questions for EFRAG TEG

- 6 Does EFRAG TEG have any comments on the analysis of how the comments in EFRAG's Final Comment Letter has been addressed?
- 7 Do EFRAG TEG members have comments on the DEA?
- 8 Does EFRAG TEG agree to recommend to the EFRAG Board the DEA on the Amendments to IAS 16?

Agenda Papers

- 9 In addition to this cover note, agenda paper 06-02 – Draft Endorsement Advice – has been provided for the session.