



# Grant Thornton

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Sent by e-mail to: [ifric@ifrs.org](mailto:ifric@ifrs.org)

Dear Mr Upton,

**Tentative agenda decision - IAS 16 Property, Plant and Equipment:  
accounting for proceeds and costs of testing on PPE**

Grant Thornton International Ltd is pleased to comment on the IFRS Interpretation Committee's (IFRIC's) tentative agenda decision on 'IAS 16 Property, Plant and Equipment—accounting for proceeds and costs of testing on PPE', published in the July 2014 IFRIC Update.

We agree that this issue should not be added to the IFRIC's agenda. However we disagree with the rationale expressed in the tentative decision and the interpretive language it contains.

We believe the specific issue raised in the original submission is not widespread and should not be added to the IFRIC's agenda for that reason. In saying this we note that the submission describes a fact pattern in which revenue from production when testing an item of plant exceeds the costs of testing the plant (the "excess"). It is implicit in this fact pattern that there is a defined testing phase, the costs of which are distinguishable. In our experience, this is not a common fact pattern.

We are concerned about the statement in the second paragraph of the tentative decision about accounting for the excess ("consequently, the Interpretations Committee considered that the amount by which net proceeds received exceed the costs of testing would be recognised in profit and loss and not against the cost of the asset"). This is an interpretive statement that, in our view, is not supported by IAS 16. We are concerned that implementing this interpretation could disrupt well-established practices and create practical issues.

Regarding consistency with IAS 16, we note:

- the purpose of paragraph 17 of IAS 16 is to provide guidance on the types of cost that may be directly attributable, not to provide guidance on how to account for an excess of net proceeds over cost. Paragraph 17(e) does not seem to envisage an excess of net proceeds over the cost of testing;
- IAS 16 paragraph 9 explicitly states that this Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of PP&E. However, paragraph

15 is clear that once an entity determines what constitutes an item of PP&E, the unit of account in IAS 16 for determining cost is that item. For example, if an entity determines that the item is an entire machine, cost would be determined for this entire asset, not for smaller physical components or individual activities carried out in bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. By contrast, recognising a credit in profit or loss for the excess in the testing phase amounts to treating that phase as a separate unit of account;

- testing whether the asset is functioning properly is not an incidental operation and recognition in profit or loss is therefore not supported by paragraph 21 of IAS 16.

Regarding the practical implications:

- established practice in some sectors, including but not limited to mining, is to deduct the net proceeds from sales of output produced in the development phase while bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management from total asset cost. This practice could be viewed as inconsistent with the tentative agenda decision (partly depending on whether the IFRIC's comment relates narrowly to proceeds and costs during the testing phase or more broadly to income generated while undertaking activities necessary to bring an asset to the intended location and condition);
- in many cases there is no testing phase as such, or testing activities take place concurrently with other development activities and the related costs are not readily distinguishable from other necessary activities. Implementing the approach suggested would require entities to determine the start and end of the testing phase and to distinguish the costs of testing from other directly attributable costs;
- recognising the excess in profit or loss raises questions of presentation and could distort margins and other metrics.

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Please contact our Global Head of IFRS, Andrew Watchman ([andrew.watchman@gti.gt.com](mailto:andrew.watchman@gti.gt.com) or telephone + 44 207 391 9510), if you would like to discuss these comments.

Yours sincerely,



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