ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

19 October 2017

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON PROPERTY, PLANT AND EQUIPMENT – PROCEEDS BEFORE INTENDED USE (PROPOSED AMENDMENTS TO IAS 16)

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on Property, Plant and Equipment – Proceeds before Intended Use (Proposed amendments to IAS 16) (the ED) issued by the International Accounting Standards Board (the IASB) in June 2017.

We welcome the IASB's efforts to address reported diversity in accounting for proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (hereinafter referred to as 'available for use').

On the whole, we can accept the proposed amendments. In addition, we are supportive of the proposed transition and its underlying rationale.

We consider that the proposed amendments would reduce diversity in accounting for the aforesaid sales proceeds and potentially provide more relevant information. We appreciate that the proposed amendments would result in more faithful representation of total revenue earned (regardless of whether the outputs were produced by an item of property, plant or equipment before or after it is available for use) and the actual cost of property, plant and equipment.

That said, we believe that the IASB should consider addressing the following implications that could arise from the proposed amendments.

Different accounting for non-saleable items produced while making an asset available for use

With the proposed amendments, the cost of an item of property, plant and equipment would exclude costs of producing saleable items, but include costs of producing non-saleable items,

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during activities necessary for making the asset available for use, such as testing and site preparation.

On this note, we do not necessarily agree that costs of making an asset available for use should include costs of producing non-saleable items before the asset is available for use.

For example, in the context of testing and site preparation, the items are produced for the purpose of testing whether the asset is functioning properly, or as a result of preparing the site for the construction, development or installation of the asset. It is not obvious why the costs of making the asset available for use should depend on whether or not those items would be sold by the entity. The different accounting for the costs of producing saleable and non-saleable items would appear arbitrary and would be difficult to understand.

Furthermore, the proposed amendments imply that the costs of producing items differ from other costs of making the asset available for use, and that those differences might warrant different accounting methods.

It follows that there are merits in the IASB considering whether the cost of the asset should exclude production costs of *all* items – whether saleable or otherwise – produced before the asset is available for use. This approach should require no more judgement in distinguishing those costs from other directly attributable costs beyond that applied for saleable items under the proposed amendments.

Judgement involved in allocation of costs

An implication of the proposed amendments is the need to assess whether particular costs incurred are (a) costs of inventories, (b) costs of making an item of property, plant or equipment available for use, or (c) costs required to be recognised in profit or loss.

At present, IAS 16 *Property, Plant and Equipment* does not require costs of producing items to be distinguished and accounted for differently from other directly attributable costs. Notably, the proposed amendments would expand the scope of costs that are required to be distinguished and allocated.

In contrast to the IASB's views, substantial judgement could be involved, for example, in distinguishing costs of producing items from other costs of testing and/or in allocating common costs such as labour and other resources between costs of inventories and costs of testing. Consequently, practice diversity could result from the proposed amendments.

Accordingly, the IASB should consider addressing potential practice diversity by providing additional guidance on this area.

Specific considerations for extractive industry

The IFRS Interpretations Committee observed that the issue being addressed by the ED mainly affects a few industries, such as the extractive industry.

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As a result of the limited guidance in IFRS 6 *Exploration for and Evaluation of Mineral Resources*, an entity may have applied by analogy the requirements in IAS 16 in determining the cost of exploratory and evaluation assets and/or in accounting for the sale proceeds and related costs from production testing. Alternatively, the entity may have developed accounting policies with reference to the requirements in IAS 16, in conjunction with other IFRS Standards such as IAS 2 *Inventories* and IAS 38 *Intangible Assets*.

As a consequence of the proposed amendments, the entity may have to change its accounting policies, without the relief provided by the proposed transition, for the proceeds from selling, and the costs of producing, items produced during the exploration and evaluation phase.

The IASB may have to consider whether potential interaction issues and/or undue practical challenges could arise for the extractive industry from the proposed amendments.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
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Singapore Accounting Standards Council