



Australian Government
**Australian Accounting
Standards Board**

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18 September 2014

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Wayne

Re: Tentative Agenda Decisions on IAS 16 *Property, Plant and Equipment*

The AASB is pleased to respond to the IFRS Interpretations Committee's (the Committee) tentative decisions (published in the July 2014 *IFRIC Update*) not to add to its agenda requests to clarify:

- (a) the accounting for 'core inventories'; and
- (b) accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment (PPE) to the location and condition necessary for it to be capable of operating in the manner intended by management.

The AASB appreciates the Committee's deliberations on both issues. However, as outlined below, the AASB has broader concerns in regard to the Committee's process and basis for tentatively removing these issues from its agenda.

Item (a): 'Core inventories'

While the AASB agrees that the accounting for core inventories (or minimum fill) is a broad issue, the AASB is concerned with the Committee's basis for tentatively removing the issue from its agenda. The AASB is particularly concerned with the following wording in the *IFRIC Update*:

"At the July 2014 meeting, the Interpretations Committee discussed the feedback received from the informal consultations with IASB members, the proposed scope of core inventories and the staff analysis of the applicability of the issue to a range of industries. In its redeliberations, the Interpretations Committee observed that the fact patterns in different industries can vary significantly. The Interpretations Committee further noted that, although the diversity in practice was noted between industries, there was no, or only limited, diversity in practice within the industries for which the issue is significant.

In the light of the additional analysis of the different fact patterns that arise in practice, the Interpretations Committee [decided] not to continue with the development of an interpretation, and to remove this item from its agenda."

Although the AASB notes that the main emphasis in the above reasoning is on ‘different fact patterns’, the AASB thinks that a lack of diversity in practice *within industries* is an insufficient basis for not addressing the issue if there is diversity *between industries*. The AASB is of the view that the making, and application, of IFRSs should be, to the extent possible, industry-neutral. Accordingly, diversity in practice *between industries* should be considered to be at least as significant an issue as diversity in practice *within industries*. Moreover, the AASB is concerned that the basis for removing the issue from the Committee’s agenda might create a precedent for not addressing issues in the future.

As noted above, the AASB appreciates the Committee staff’s work on this issue and agrees that the issue is too broad for the Committee to deal with. Accordingly, the AASB recommends the final agenda decision removes the current basis for the Committee’s decision and instead notes the issue is too broad for the Committee to deal with. Suggested wording for the final agenda decision is provided in Appendix A to this letter.

Item (b): ‘Proceeds from testing in excess of the costs of testing an item of PPE’

The AASB disagrees that it is clear, from paragraph 17 of IAS 16, that the excess of net proceeds from sales over the costs of testing an item of PPE should be recognised in profit or loss.

This concern is further supported by:

- (a) the results of the Committee staff’s outreach which indicated that practice is generally to credit any excess over the costs of testing to the asset; and
- (b) the discussion at the July Committee meeting which indicated that the majority of members considered the requirements of IAS 16 could:
 - (i) only be read as requiring a credit to the asset; or
 - (ii) could be read both ways (that is, a credit to the asset or through profit or loss).

In light of the apparent diversity in views on the issue, the AASB is concerned that this issue would not be adequately addressed through a rejection notice, and considers that the issue would be more appropriately addressed as an amendment to IAS 16. In particular, the AASB considers that, because no transition guidance can be provided in a rejection notice, it is potentially unclear whether entities that had previously capitalised an excess over the costs of testing would be required to account for the excess in profit or loss retrospectively in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

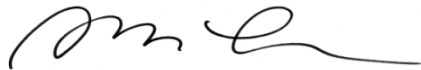
Accordingly, the AASB disagrees with the Committee’s decision to remove the issue from its agenda. The AASB considers the Committee should discuss the issue further by adding the issue to its agenda.

The AASB is also concerned that the wording of the tentative agenda decision goes beyond a rejection notice, and that constituents will view the Committee’s conclusions as a de facto interpretation of the accounting required by paragraph 17 of IAS 16. If the Committee proceeds with the agenda decision, the AASB recommends that, at a minimum, the

Committee does not mention its view on how to account for the excess of net proceeds over the costs of testing an item of PPE. Suggested wording for the final agenda is provided in Appendix B to this letter.

If you require further information on the matters raised above, please do not hesitate to contact me or Mitchell Bryce (mbryce@asb.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to be 'AT', with a long horizontal flourish extending to the right.

Angus Thomson
Acting Chair

Appendix A: AASB preferred wording for final agenda decision in relation to the accounting for ‘core inventories’

The Interpretations Committee received a request to clarify the accounting for ‘core inventories’. The submitter defined core inventories as a minimum amount of material that:

- (a) is necessary to permit a production facility to start operating and to maintain subsequent production;
- (b) cannot be physically separated from other inventories; and
- (c) can be removed only when the production facility is finally decommissioned or at considerable financial charge.

The issue is whether core inventories should be accounted for under IAS 2 or IAS 16.

The Interpretations Committee discussed the issue at the March 2014 meeting and tentatively decided to develop an interpretation. The Interpretations Committee further directed the staff to define the scope of what is considered to be core inventories and to analyse the applicability of the concept to a range of industries.

At the July 2014 meeting, the Interpretations Committee discussed the feedback received from the informal consultations with IASB members, the proposed scope of core inventories and the staff analysis of the applicability of the issue to a range of industries. In its redeliberations, the Interpretations Committee observed that the fact patterns in different industries can vary significantly. ~~The Interpretations Committee further noted that, although the diversity in practice was noted between industries, there was no, or only limited, diversity in practice within the industries for which the issue is significant.~~ However, further analysis and assessment of these fact patterns would require a broader project than the Interpretations Committee could perform on behalf of the IASB.

In the light of the additional analysis of the different fact patterns that arise in practice, the Interpretations Committee [decided] ~~not to continue with the development of an interpretation, the issue is too broad for the Interpretations Committee to address, and to remove this item from its agenda.~~

Appendix B: AASB preferred wording for final agenda decision in relation to the accounting for ‘net proceeds over the costs of testing an item of PPE’ [if the Committee confirms its decision to remove the issue from its agenda]

The Interpretations Committee received a request to clarify accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment (PPE) to the location and condition necessary for it to be capable of operating in the manner intended by management. The submitter has asked whether the amount by which the net proceeds received exceed the costs of testing should be recognised in profit or loss or as a deduction from the cost of the PPE. The submitter also expressed concern about the lack of disclosure requirements about the accounting for the net proceeds from selling items produced and the costs of testing.

The Interpretations Committee noted that paragraph 17 of IAS 16 states that directly attributable costs include the costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (necessary for it to be capable of operating in the manner intended by management). ~~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.~~

The Interpretations Committee considered that an additional disclosure requirement is not necessary for the net proceeds and the costs of testing. If the net proceeds and the costs of testing are material, paragraph 17(c) of IAS 1 *Presentation of Financial Statements* would require additional disclosure if that information is necessary to enable users to understand the impact on the financial statements.

The Interpretations Committee considered that in the light of its analysis of the existing IFRS requirements, IAS 16 and IAS 1 contain sufficient guidance and neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee [decided] not to add the issue to its agenda.