

Oct 11, 2017

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

Dear Mr. Hoogervorst,

Exposure Draft ED/2017/4 Property, Plant and Equipment—Proceeds before Intended Use

We appreciate the opportunity to respond to the above exposure draft. We have requested some preparers of financial statements, including manufacturing and extractive companies, to provide feedbacks on the exposure draft. Please find the responses as given in the attachment (Attachment 1).

If you have any question about our responses, please contact me (via my email: ccliu@management.ntu.edu.tw) or Ms. Margaret Tsui (via her email: margaret@ardf.org.tw).

Sincerely Yours,



Chi-Chun Liu, Ph.D.
Chairman,
Taiwan Financial Reporting Standards Committee,
Accounting Research and Development Foundation, Taiwan

Attachment 1

Exposure Draft ED/2017/4 Property, Plant and Equipment—Proceeds before Intended Use

Property, Plant and Equipment—Proceeds before Intended Use

Question

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 to the above Question:

Most preparers of financial statements agree with the proposed amendments for the reasons mentioned below:

- (a) the net proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management are affected by many other factors such as other inputs and processes and selling activities. As described in paragraph BC6 of the exposure draft, recognizing the net proceeds as a deduction of property, plant and equipment (referred to as the ‘PPE’) would make the users of financial statements difficult to have a clear picture of the actual cost of PPE. Therefore, it would be more appropriate to recognize such proceeds in profit or loss. This approach could prevent the cost of the asset from being distorted.
- (b) the proceeds and costs of selling items produced during testing process of PPE would not decrease (or increase) the value of PPE or shorten (or extend) the useful life of PPE. Thus, it should not be regarded as part of the asset.
- (c) selling the items produced during testing process of PPE itself does not appear to be ‘necessary’ to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, so the net proceeds from selling such items should not be deducted from the cost of PPE.

Responses from ARDF Taiwan re Exposure Draft ED/2017/4
Page 2

Attachment 1

Exposure Draft ED/2017/4 Property, Plant and Equipment—Proceeds before Intended Use

- (d) In applying the existing requirements of IAS16, it is difficult for entities to identify which items produced before PPE is available for use are from testing activities, and this give rise to diversity in practice. The proposed amendments are the simple way of removing the diversity and enhancing comparability between entities.
- (e) As described in the paragraph BC24 of the exposure draft, there is no basis to conclude that inventories produced by the assets before it is available for use would not be output from the entity's ordinary activities. Therefore, items produced during the testing process seem to meet the definition of inventories, and the net proceeds should be presented separately from the cost of PPE.

However, the preparer of financial statements in extractive industry disagrees with the proposed amendments. It argues that the testing process is focus on performance of PPE. The purpose of producing item during the testing process of PPE is to calibrate the setting and make the PPE capable of operating in the manner intended by management. Selling the items is accidental, and therefore the net proceeds should be viewed as an adjustment of the cost of PPE. Furthermore, the proposed amendments will have an effect in gross profit and mislead the users of financial statement when assessing the operating performance of an entity. They suggest clarifying the definition of the cost of testing and the extent of sales proceed that should be deducted from the cost of PPE instead of amending the standard.