



NZ ACCOUNTING
STANDARDS
BOARD

Property, Plant and Equipment—Proceeds before Intended Use

Issued June 2020

This Standard was issued on 25 June 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(2) of the Financial Reporting Act 2013 takes effect on 23 July 2020.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date set out in Part D.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard is based on *Property, Plant and Equipment—Proceeds before Intended Use*, issued by the International Accounting Standards Board. This Standard amends NZ IAS 16 to prohibit a reporting entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related costs in profit or loss.

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PROPERTY, PLANT AND EQUIPMENT—PROCEEDS BEFORE INTENDED USE

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PROPERTY, PLANT AND EQUIPMENT—PROCEEDS BEFORE INTENDED USE

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The following is available within New Zealand on the XRB website as additional material

APPROVAL BY THE IASB OF *PROPERTY, PLANT AND EQUIPMENT—PROCEEDS BEFORE INTENDED USE* ISSUED IN MAY 2020

AMENDMENT TO THE IASB BASIS FOR CONCLUSIONS ON IAS 16 *PROPERTY, PLANT AND EQUIPMENT*

Part A – Introduction

This standard sets out an amendment to NZ IAS 16 that prohibits reporting entities from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related costs in profit or loss.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to NZ IAS 16 *Property, Plant and Equipment*

Paragraphs 17 and 74 are amended; paragraphs 20A, 74A, 80D and 81N are added. The requirements formerly in paragraph 74(d) have not been amended but have been moved to paragraph 74A(a). Deleted text is struck through and new text is underlined.

Measurement at recognition

...

Elements of cost

...

17 Examples of directly attributable costs are:

...

- (e) costs of testing whether the asset is functioning properly (ie assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes), ~~after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)~~; and

...

...

20A Items may be 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 (such as samples produced when testing whether the asset is functioning properly). An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of NZ IAS 2.

...

Disclosure

- ...
- 74 The financial statements shall also disclose:
- ...
- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction; and
 - (c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
 - (d) ~~if it is not disclosed separately in the statement of comprehensive income, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss.~~
- 74A** **If not presented separately in the statement of comprehensive income, the financial statements shall also disclose:**
- *(a)** **the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in profit or loss; and**
 - (b)** **the amounts of proceeds and cost included in profit or loss in accordance with paragraph 20A that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.**

Transitional provisions

- ...
- 80D** **Property, Plant and Equipment—Proceeds before Intended Use**, issued in June 2020, amended paragraphs 17 and 74 and added paragraphs 20A and 74A. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Effective date

- ...
- 81N** **Property, Plant and Equipment—Proceeds before Intended Use**, issued in June 2020, amended paragraphs 17 and 74, and added paragraphs 20A, 74A and 80D. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Part D – Effective Date

This Standard shall be applied for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.