

Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 16 *Property, Plant and Equipment* and IAS 7 *Cash Flow Statements* to address presentation issues arising from assets held for rental to others.

The Board invites comments on the proposed amendments. It would particularly welcome answers to the question set out below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 16 and IAS 7 not addressed in the exposure draft.

Question

Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

Proposed amendment to IAS 16 *Property, Plant and Equipment*

In the Standard, paragraph 68A is added. Paragraph 68 is included here for ease of reference, but is not proposed for amendment.

Derecognition

...

- 68 **The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IAS 17 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**
- 68A However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and are held for sale. The proceeds from the sale of such assets shall be recognised as revenue in accordance with IAS 18 *Revenue*.

Proposed amendment to IAS 7 *Cash Flow Statements*

In the Standard, paragraph 14 is amended as follows (new text is underlined and deleted text is struck through):

- 14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:
- (a) cash receipts from the sale of goods and the rendering of services;
 - (b) ...
 - (c) cash payments to suppliers for goods and services;
 - (g) ...
- Some transactions, such as the sale of an item of plant, may give rise to a gain or loss ~~which that~~ is included in the ~~determination of~~ recognised profit or loss. ~~However, the~~ The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 *Property, Plant and Equipment* are cash flows from operating

activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Basis for Conclusions on Proposed Amendments to IAS 16 *Property, Plant and Equipment* and IAS 7 *Cash Flow Statements*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Assets held for rental to others

- BC1 The International Accounting Standards Board identified that, in some industries, entities are in the business of renting and subsequently selling the same asset.
- BC2 The Board noted that IAS 16 prohibits classification as revenue of gains arising from derecognition of items of property, plant and equipment. The Board also noted that the Basis for Conclusions on IAS 16 (paragraph BC35) states the reason for this as ‘users of financial statements would consider these gains and the proceeds from an entity’s sale of goods in the course of its ordinary activities differently in their evaluation of an entity’s past results and their projections of future cash flows’.
- BC3 Consistently with that reason, the Board concluded that entities whose ordinary activities include renting and subsequently selling the same assets should recognise revenue from both renting and selling the assets. In the Board’s view, the presentation of gross selling revenue, rather than a net gain or loss on the sale of the assets, would better reflect the ordinary activities of such entities.
- BC4 The Board concluded that the disclosure requirements of IAS 16, IAS 2 *Inventories* and IAS 18 *Revenue* would lead an entity to disclose relevant information for users.
- BC5 The Board also concluded that IAS 7 *Cash Flow Statements* should be amended to present within operating activities cash payments to manufacture or acquire such assets and cash receipts from rents and sales of such assets.