

Level 3 – Financial Reporting (FAR)

The following amendments will be tested for the AAT examinations held on or after July 2022.

Chapter 2 Part II

2.9.4.1 LKAS 16 - The Property, Plant and Equipment have been revised with effect from 01 January 2022 and the following changes are applicable accordingly.

The amendment prohibits an entity from deducting the net amount (Sales-cost) received from selling items produced while such entity is preparing the assets for its intended use from the cost of property, plant and equipment. Instead, a company will recognize such sales proceeds and related costs in profits or loss statement. Entities will therefore need to distinguish between costs associated with producing and selling items before the item of PPE is available for use and costs associated with making the item of PPE available for its intended use.

Entities must disclose followings with regard to the sale of items that are not part of the entity's ordinary activities,

- (i) Disclose separately the sales proceeds and related production cost recognized in profit or loss;
- (ii) Specify the line items in which such proceeds and costs are included in the statement of comprehensive income.

Example

- XYZ Limited has purchased machinery in 01.04.2019. The information relating to that item is as follows.
- Purchase Price is Rs. 1,000,000 and the discount received on the purchase is 10%.
- Import duties of Rs. 100,000 and non- refundable taxes of Rs. 60,000 have been paid at the time of importing the machine.
- Rs. 50,000 has been incurred as transport cost to bring the asset to the site. Rs.35,000 and Rs. 50,000 respectively have been incurred for the site preparation and fixing the machine.
- Engineering service has been obtained to fix the machine and testing the machine. It was amounted to Rs. 30,000.
- **Just after the fixing a test run was carried out and raw material cost of Rs.35,000/- was incurred for testing. It is received a net sales value of Rs. 90,000/- by selling of the samples produced during the test run.**
- Rs. 15,000 was incurred to remove the old machine to fix the new machine.
- An insurance policy was obtained, in order to cover the future losses resulting on the machine. Rs. 58,000 was paid as insurance installment.

You are required to: Calculate the cost of the machine.

Answer

	Before revising the LKAS 16	After revise the LKAS 16
Purchase price of the machine	1,100,000	1,100,000
Import Duties	100,000	100,000
Non- Refundable taxes	60,000	60,000
	1,260,000	1,260,000
Deductions		
Trade Discounts (1,000,000 * 10%)	(100,000)	(100,000)
	1,150,000	1,150,000
Other Costs		
Engineer's Fee	30,000	30,000
Transport cost	50,000	50,000
Site Preparation cost	35,000	35,000
Fixing cost	25,000	25,000
Net proceeds from the sale of products manufactured during testing (90,000-35,000)	(55,000)	Not allowed to deduct
Cost incurred on the removal	15,000	15,000
Cost to be capitalized	1,260,000	1,315,000