The Journal is running a series of updates on IFRS, IAS, IFRIC and SIC. In this issue, Mr. Mohammad Samsul Arefin ACMA (UK), CGMA, FCMA has taken the responsibility to update the reflection on some latest pronouncements by IASB in their website.

Mr. Arefin has been working as Head of Internal Audit & Compliance in RAK Ceramics (Bangladesh) Limited.

IFRS Update

The International Accounting Standard Board (IASB) published updates on amendment initiatives to its respective standards and other undertakings during last 2 months (November – December 2020). Some important updates are as follows:

Amendments to IFRS 16 - Sale and Leaseback Transactions:

The International Accounting Standards Board proposed to amend IFRS 16 Leases by specifying how a company measures the lease liability in a sale and leaseback transaction.

Sale and leaseback transactions are transactions for which a company sells an asset and leases that same asset back from the new owner.

IFRS 16 includes requirements for how to account for sale and leaseback transactions at the time the transaction takes place. However, it does not specify how to measure the lease liability when reporting after that date.

The proposed amendment would improve the sale and leaseback requirements already in IFRS 16 by providing greater clarity for the company selling and leasing back an asset both at the date of transaction and subsequently. By doing so, the amendment would help ensure the Standard is applied consistently to such transactions.

The proposed amendment would not change the accounting for leases other than those arising in a sale and leaseback transaction.

The proposed amendment has been drafted and is open for public comment until 29 March 2021.

The extract of this amendment is as follows:

(Paragraphs 100, 102 and C2 are amended and paragraphs 100A, 102A–102B, C1C and C20E are added)

Assessing whether the transfer of the asset is a sale:

- 100 If the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset:

(a) the seller-lessee shall:

(i) initially measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller lessee. The seller-lessee shall determine that proportion by comparing the present value of the expected lease payments (see paragraph 100A), discounted using the rate specified in paragraph 26, to the fair value of the asset sold. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

(ii) (ii) recognize a lease liability arising from the leaseback. The seller lessee shall initially measure the lease liability at the present value of the expected lease payments (see paragraph 100A) that are not paid at the commencement date, discounted using the rate specified in paragraph 26.

- 100A for the purposes of applying paragraphs 100–102B, the expected lease payments comprise the following payments relating to the right to use the asset during the lease term at market rates:

(a) fixed payments (including in-substance fixed payments), less any lease incentives;

(b) variable lease payments (regardless of whether they depend on an index or a rate);

(c) amounts expected to be payable by the seller-lessee under residual value guarantees; and

(d) payments of penalties for terminating the lease, if the lease term reflects the seller- lessee exercising an option to terminate the lease.

- 102 The entity shall measure any potential adjustment required by paragraph 101 on the basis of the more readily determinable of:

(a) the difference between the fair value of the consideration for the sale and the fair value of the asset; and

(b) the difference between the present value of the contractual payments for the lease and the present value of the expected lease payments

- 102A The seller-lessee shall subsequently measure:

(a) the right-of-use asset arising from the leaseback applying paragraphs 29–35.

(b) the lease liability arising from the leaseback applying paragraph 102B.

- 102B The seller-lessee shall subsequently measure the lease liability arising from the leaseback by:

(a) increasing the carrying amount to reflect interest on the lease liability (see paragraph 37).

(b) reducing the carrying amount to reflect the expected lease payments for the reporting period as determined at the commencement date, or if applicable the revised expected lease payments for the reporting period as determined at the date of re-measurement.

(c) re-measuring the carrying amount as specified in paragraph 36(c), except in the circumstances described in paragraph 42(b). In applying paragraphs 40(a) and 45, the revised lease payments as described in those paragraphs shall be the revised expected lease payments at the date of re-measurement. Except for a change in the lease term or a lease modification (see paragraphs 40(a) and 45), the seller-lessee shall not re-measure the lease liability to reflect a change in future variable lease payments.

(d) recognizing any difference between the actual payments made for the lease (excluding any above-market terms described in paragraph 101(b)) and the expected lease payments for the reporting period as specified in paragraph 38. If there are shortfalls in the actual payments made (i.e. the payments made are less than the payments due) or recoveries of shortfalls, the seller-lessee shall also adjust the carrying amount of the lease liability and make a corresponding adjustment as specified in paragraph 38.

Lease liability in a sale and leaseback:

- C20E A seller-lessee shall apply Lease Liability in a Sale and Leaseback retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application. However, if retrospective application to a sale and leaseback transaction that includes variable lease payments would be possible only with the use of hindsight, the seller-lessee shall determine the expected lease payments for that transaction at the beginning of the annual reporting period in which the seller-lessee first applies the amendment (date of initial application of the amendment). In such circumstances, the seller-lessee shall:

  (a) measure the lease liability arising from the leaseback at the present value of the remaining expected lease payments at the date of initial application of the amendment, discounted using the rate specified in paragraph 37;

  (b) measure the right-of-use asset arising from the leaseback at its carrying amount as if the amendment had been applied since the commencement date, but measured using the remaining expected lease payments at the date of initial application of the amendment plus the actual payments made for the lease until that date; and

  (c) recognize the cumulative effect of applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application of the amendment.

IASB issues Discussion Paper on Business Combinations Under Common Control:

03 December 2020

The IASB has published a discussion paper (DP) on how the Board might explore standard setting relating to business combinations under common control (BCUCC).

IFRS 3 Business Combinations set outs reporting requirements for mergers and acquisitions—referred to as business combinations in IFRS Standards. However, that Standard does not specify how to report transactions that involve transfers of businesses between companies within the same group. Such transactions are common in many countries around the world.

Comments on the discussion paper are open until 1 September 2021.

IASB issues request for information as part of the Post Implementation Review (PIR) on IFRS 10, 11 and 12:

10 December 2020

The IASB has issued a request for information (RFI) as part of its post implementation review (PIR) on IFRS 10, 11 and 12, which have been effective since 1 January 2013 and set out accounting and disclosure requirements for consolidated accounts and joint arrangements. The RFI has a deadline for comments of 10 May 2021.

PIRs are carried out to assess the effects of a new Standard after entities have applied the requirements for some time, so the IASB can determine if the effects of the Standard are what they expected.

Source of information:

IASB website
BDO Global