
Straight away

IFRS bulletin from PwC

15 December 2011

IASB/FASB leasing redeliberations – December 2011

What is the issue?

The boards met this week to discuss:

- Cancellable leases;
- Rental income recognition for investment properties; and
- Disclosures for leases excluded from the 'receivable and residual' approach for lessors.

A number of tentative decisions were made in respect of these issues; they are discussed below. Perhaps more interestingly, the staff clarified that a number of technical issues will come back to the boards early in 2012. These include a paper revisiting the definition of an investment property, following the board's tentative decision at the October 2011 meeting to exclude all investment properties from the 'receivable and residual' approach to lessor accounting.

The staff also confirmed that they continue to explore the issue of lessee income statement recognition patterns following feedback from constituents and concerns raised by certain board members at the October 2011 meeting. This issue will also be brought back to the boards early in 2012.

Cancellable leases

The boards tentatively agreed that a cancellable lease would meet the definition of short-term lease, with the

resulting simplified accounting, when the initial non-cancellable period, together with any penalty notice period, is 12 months or less. A lease is defined as a cancellable lease when both the lessee and lessor each have the right to cancel the lease at any point.

Rental income recognition for investment properties

The IASB board members tentatively agreed that all lessors of investment property, as currently defined by IAS 40, 'Investment property', should recognise rental income on a straight-line basis, or another systematic basis if that basis is more representative of the time pattern in which rentals are earned from the investment property.

A number of board members stressed that the issue of lessor income statement recognition may need to be revisited in light of any decisions made on lessee income statement recognition. The lessee expense recognition issue will be brought back to the boards in early 2012.

Disclosure for leases excluded from the receivable and residual approach

The boards tentatively agreed to a disclosure package for those lessors that are excluded from the scope of the 'receivable and residual' approach.

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