Talking points for podcast 104

February 2021 IFRIC Update

The IFRS Interpretations Committee met on 2 February where it discussed three topics:

- Sale and leaseback of an asset in a single asset entity
- Preparation of financial statements when an entity is not a going concern
- Which costs are included as part of the estimated costs necessary to make the sale when determining the net realisable value of inventories.

The Committee considered the 19 comment letters received in response to a tentative agenda decision (TAD), issued in September 2020, about the **sale and leaseback of an asset in a single-asset entity**.

- This issue considers a narrow fact pattern in which an entity owns and sells 100% of the equity in a subsidiary that holds only one real estate asset and then leases that real estate asset back. The asset that the subsidiary holds does not meet the definition of a business.The Committee noted that this narrow fact pattern would rarely, if ever, exist.
- Although there was consensus that the TAD would result in appropriate accounting in the narrow fact pattern submitted, there were different views on how the conclusions would apply to other similar fact patterns.
- The Committee decided to recommend narrow-scope standard-setting, reflecting its view that finalising the TAD for such a narrow fact pattern would not be sufficient to improve diversity in practice.

The Committee decided to issue a TAD relating to the **preparation of financial statements when an entity is not a going concern**, specifically the presentation of prior year financial statements and comparatives, outlining its view that:

- IFRS Standards provide an adequate basis for an entity that is no longer a going concern to determine that it should not prepare financial statements for prior periods that have not yet been authorised for issue on a going concern basis.
- there is no evidence of widespread diversity in practice relating to the restatement of comparative information when entities first prepare financial statements on a basis that is not a going concern.

The Committee decided to issue a TAD explaining its view that IAS 2 does not limit **costs necessary to sell inventories** to incremental costs. However, IAS 2 does not identify which specific costs should be included and there is no notion that IAS 2 would require a "full cost" approach.

The **next IFRS Interpretations Committee meeting** will be in March. The Committee has a number of topics in progress, which could be on the agenda. These include follow up from the four tentative decisions published in December (relating to classification of debt with covenants, attributing benefit to periods of service, customisation costs in a cloud computing arrangement and hedging variability in cash flows due to real interest rates); and two new topics not yet discussed by the Committee (accounting for warrants that are initially classified as liabilities and non-refundable value-added tax on lease payments).

2021-01-12_RITM4431934