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Basis for Conclusions

[The original text has been marked up to reflect the revision of IASs 8 and 17 in 2003 and IAS 1 in 2007: new text is underlined and deleted text is struck through]

7 Paragraph 35 of the *Framework* explains that if information is to represent faithfully the transactions and events that it purports to represent, it is necessary that transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. IAS 8.10(b)(ii) ~~1.20(b)(ii)~~also requires the application of accounting policies which reflect economic substance.

8 Paragraph 22 of the *Framework* and IAS 1.27~~25~~ require the preparation of financial statements under the accrual basis of accounting. IAS 17.33~~25~~ and IAS 17.50~~42~~ specify the basis on which lessees and lessors respectively should recognise amounts payable or receivable under operating leases.

9 The underlying substance of operating lease arrangements is that the lessor and lessee exchange the use of an asset for a specified period for the consideration of a net amount of money. The accounting periods in which this net amount is recognised by either the lessor or the lessee is not affected by the form of the agreement or the timing of payments. Payments made by a lessor to or on behalf of a lessee, or allowances in rental cost made by a lessor, as incentives for the agreement of a new or renewed lease are an inseparable part of the net amount receivable or payable under the operating lease.

10 Costs incurred by the lessor as incentives for the agreement of new or renewed operating leases are not considered to be part of those initial costs which ~~may be recognised as an expense in the income statements in the period in which they are incurred~~ are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income in accordance with ~~under~~ IAS 17.52~~44~~. Initial costs, such as direct costs for administration, advertising and consulting or legal fees, are incurred by a lessor to arrange a contract, whereas incentives in an operating lease are, in substance, related to the consideration for the use of the leased asset.

11 Costs incurred by the lessee on its own behalf are accounted for using the applicable recognition requirements. For example, relocation costs are recognised as an expense in profit and loss ~~the income statement~~ in the period in which they are incurred. The accounting for such costs does not depend on whether or not they are effectively reimbursed through an incentive arrangement as they are not related to the consideration for the use of the leased asset.

Date of consensus

June 1998

Appendix to SIC-15

This appendix accompanies, but is not part of, SIC-15.

Example application of SIC-15

Example 1

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to pay the lessee's relocation costs as an incentive to the lessee for entering into the new lease. The lessee's moving costs are 1,000. The new lease has a term of 10 years, at a fixed rate of 2,000 per year.

The accounting is:

The lessee recognises relocation costs of 1,000 as an expense in Year 1. Net consideration of 19,000 consists of 2,000 for each of the 10 years in the lease term, less a 1,000 incentive for relocation costs. Both the lessor and lessee would recognise the net rental consideration of 19,000 over the 10 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of this Interpretation.

Example 2

An entity agrees to enter into a new lease arrangement with a new lessor. The lessor agrees to a rent-free period for the first three years as incentive to the lessee for entering into the new lease. The new lease has a term of 20 years, at a fixed rate of 5,000 per year for years 4 through 20.

The accounting is:

Net consideration of 85,000 consists of 5,000 for each of 17 years in the lease term. Both the lessor and lessee would recognise the net consideration of 85,000 over the 20 year lease term using a single amortisation method in accordance with paragraphs 4 and 5 of this Interpretation.