

IAS 16 Property, plant and equipment (March 2016)

Property, Plant and Equipment and IAS 38 *Intangible Assets*—Variable payments for asset purchases

The Interpretations Committee received a request to address the accounting for variable payments to be made for the purchase of an item of property, plant and equipment or an intangible asset that is not part of a business combination.

The Interpretations Committee observed significant diversity in practice in accounting for these variable payments. It discussed the accounting, both at the date of purchasing the asset and thereafter, for variable payments that depend on the purchaser's future activity as well as those that do not depend on such future activity.

The Interpretations Committee was unable to reach a consensus on whether an entity (the purchaser) recognises a liability at the date of purchasing the asset for variable payments that depend on its future activity or, instead, recognises such a liability only when the related activity occurs. The Interpretations Committee was also unable to reach a consensus on how the purchaser measures a liability for such variable payments. In deliberating the accounting for variable payments that depend on the purchaser's future activity, the Interpretations Committee considered the proposed definition of a liability in the May 2015 Exposure Draft

The Conceptual Framework for Financial Reporting as well as the deliberations of the Board on its project on leases. The Interpretations Committee observed that, during the Board's deliberations on its project on leases, the Board did not conclude on whether variable payments linked to future performance or use of the underlying asset meet the definition of a liability at commencement of a lease or, instead, meet that definition only at the time that the related performance or use occurs.

In addition, the Interpretations Committee noted that there are questions about the accounting for variable payments subsequent to the purchase of the asset. Accordingly, the Interpretations Committee concluded that the Board should address the accounting for variable payments comprehensively.

The Interpretations Committee determined that this issue is too broad for it to address within the confines of existing IFRS Standards. Consequently, the Interpretations Committee decided not to add this issue to its agenda.