

IAS 16 Property, plant and equipment (September 2012)

Purchase of right to use land

In January 2012, the Interpretations Committee received a request to clarify whether the purchase of a right to use land should be accounted for as a:

- purchase of property, plant and equipment;
- purchase of an intangible asset; or
- lease of land.

In the fact pattern submitted, the laws and regulations in the jurisdiction concerned do not permit entities to own freehold title to land. Instead, entities can purchase the right to exploit or build on land. According to the submitter, there is diversity in practice in the jurisdiction on how to account for a land right.

The Interpretations Committee identified characteristics of a lease in the fact pattern considered, in accordance with the definition of a lease as defined in IAS 17. The Interpretations Committee noted that a lease could be indefinite via extensions or renewals and, therefore, the existence of an indefinite period does not prevent the 'right to use' from qualifying as a lease in accordance with IAS 17. The Interpretations Committee also noted that the lessee has the option to renew the right and that the useful life for depreciation purposes might include renewal periods. Judgement will need to be applied in making the assessment of the appropriate length of the depreciation period.

The Interpretations Committee, notwithstanding the preceding observations, noted that the particular fact pattern is specific to one jurisdiction. Consequently, the Interpretations Committee decided not to take this issue onto its agenda.