

IAS 17 Leases (November 2005)

Time pattern of user's benefit from an operating lease

The IFRIC was asked to consider the income and expense recognition profile of an operating lease in which the annual payments rise by a fixed annual percentage over the life of the lease.

The constituent asked whether it would be acceptable to recognise these increases in each accounting period when they are intended to compensate for expected annual inflation over the lease period.

The IFRIC noted that the accounting under IAS 17 for operating leases does not incorporate adjustments to reflect the time value of money, for example by deferring a portion of a level payment to a later period. Rather, IAS 17 requires a straight-line pattern of recognition of income or expense from an operating lease unless another systematic basis is more representative of the time pattern of the user's benefit.

The IFRIC noted that recognising income or expense from annual fixed inflators as they arise would not be consistent with the time pattern of the user's benefit. Accordingly, the IFRIC decided not to take this item onto its agenda as it did not expect significant diversity in practice to arise.