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International
Accounting Standards
Board

*This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.*

*Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.*

**INFORMATION FOR OBSERVERS**

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| **IFRIC meeting:** | **May 2007, London** |
| **Project:** | **Review of tentative agenda decision published in March 2007 IFRIC Update**<br>**IAS 16 *Property, Plant and Equipment*/IAS 18 *Revenue* – Sale of assets held for rental (Agenda Paper 10(iii))** |

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**Tentative agenda decision published in March 2007 IFRIC Update**

The IFRIC received a request to give guidance on the accounting for sales of assets held for rental. Some entities sell assets after renting them out to third parties. In such circumstances, it appears that this asset is manufactured or acquired with a dual intention, to rent it out and to sell it. The issue is whether the sale of such asset should be presented gross (revenue and costs of sales) or net (gain or loss) in the income statement.

The IFRIC noted that IAS 16 paragraph 68 states that gains arising from derecognition of an item of property, plant and equipment shall not be classified as revenue. Also, when the asset is classified as held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* IFRS 5 paragraph 24 refers to the derecognition requirements of paragraphs 67-72 of IAS 16, thereby confirming that gains should not be classified as revenue. However, the IFRIC believed that, in some limited circumstances, reporting gross revenue in the income statement would be consistent with the *Framework* paragraph 72, with IAS 18 *Revenue*, IAS 2 *Inventories*, and IAS 40 *Investment Properties* and with the prohibition on offsets in IAS 1 *Presentation of Financial Statements*.

For this reason, the IFRIC [decided] to draw the issue to the attention of the Board and not to take the item onto its own agenda.