IFRIC Update February 2021

IFRIC *Update* is a summary of the decisions reached by the IFRS Interpretations Committee (Committee) in its public meetings.

The Committee met on 2 February 2021, and discussed:

Items on the current agenda

- Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases*)—Agenda Paper 2

Committee's tentative agenda decisions

- Costs Necessary to Sell Inventories (IAS 2 *Inventories*)—Agenda Paper 3
- Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 *Events after the Reporting Period*)—Agenda Paper 4

Other matters

- Work in Progress—Agenda Paper 5

Related information

Next scheduled IFRS Interpretations Committee meeting:

16–17 March 2021

Interpretations Committee open items

For further information about IFRS Interpretations Committee activities including how to receive past IFRIC *Updates* follow the Interpretations Committee group page.

Items on the current agenda

Sale and Leaseback of an Asset in a Single-Asset Entity (IFRS 10 *Consolidated Financial Statements* and IFRS 16 *Leases*)—Agenda Paper 2

The Committee considered feedback on the tentative agenda decision discussing the applicability of the sale and leaseback requirements in IFRS 16 to a transaction in which an entity sells its equity interest in a subsidiary that holds only a real estate asset and leases that real estate asset back. The Committee recommended that the Board undertake narrow-scope standard-setting to address this and similar transactions.

Next step

The Board will discuss the Committee's recommendation at a future Board meeting.

Committee's tentative agenda decisions

The Committee discussed the following matters and tentatively decided not to add standard-setting projects to the work plan. The Committee will reconsider these tentative decisions, including the reasons for not adding standard-setting projects, at a future meeting. The Committee invites comments on the tentative agenda decisions. Interested parties may submit comments on the open for comment page by 14 April 2021. All comments will be on the public record and posted on our website unless a respondent requests confidentiality and we grant that request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. The Committee will consider all comments received in writing by 14 April 2021; agenda papers analysing comments received will include analysis only of comments received by that date.

Costs Necessary to Sell Inventories (IAS 2 *Inventories*)—Agenda Paper 3

The Committee received a request about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. In particular, the request asked whether an entity includes all costs necessary to make the sale or only those that are incremental to the sale.

Paragraph 6 of IAS 2 defines net realisable value as 'the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale'. Paragraphs 28–33 of IAS 2 include further requirements about how an entity estimates the net realisable value of inventories. Those paragraphs do not identify which specific costs are 'necessary to make the sale' of inventories. However, paragraph 28 of IAS 2 describes the objective of writing inventories down to their net realisable value—that objective is to avoid inventories being carried 'in excess of amounts expected to be realised from their sale'.

The Committee observed that, when determining the net realisable value of inventories, IAS 2 requires an entity to estimate the costs necessary to make the sale. This requirement does not allow an entity to limit such costs to only those that are incremental, thereby potentially excluding costs the entity must incur to sell its inventories but that are not incremental to a particular sale. Including only incremental costs could fail to achieve the objective set out in paragraph 28 of IAS 2.

The Committee concluded that, when determining the net realisable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business. An entity uses its judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine whether the estimated costs necessary to make the sale are limited to incremental costs when determining the net realisable value of inventories. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 *Events after the Reporting Period*)—Agenda Paper 4

The Committee received a request about the accounting applied by an entity that is no longer a going concern (as described in paragraph 25 of IAS 1 *Presentation of Financial Statements*). The request asked whether such an entity:

a. can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and has not previously prepared financial statements for those periods (Question I).
b. restates comparative information to reflect the basis of accounting used in preparing the current period's financial statements if it had previously issued financial statements for the comparative period on a going concern basis (Question II).

Question I

Paragraph 25 of IAS 1 requires an entity to prepare financial statements on a going concern basis 'unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so'. Paragraph 14 of IAS 10 states that 'an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so'.

Applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10, an entity that is no longer a going concern cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis.

The Committee therefore concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis.

Question II

Based on its research, the Committee observed no diversity in the application of IFRS Standards with respect to Question II—entities do not restate comparative information to reflect the basis of preparation used in the current period when they first prepare financial statements on a basis that is not a going concern basis. Therefore, the Committee has not [yet] obtained evidence that the matter has widespread effect.

For the reasons noted above, the Committee [decided] not to add a standard-setting project on these matters to the work plan.

Other matters

Work in Progress—Agenda Paper 5

The Committee received an update on the current status of open matters not discussed at its meeting in February 2021.