



Solution 120.1

Component	Retail and consumer
Index	Leases
Short title	Accounting for rent-free periods

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

Issue

Lease payments under an operating lease are recognised as an expense in the income statement on a straight-line basis over the lease term unless the time pattern of the user’s benefit is better represented by another basis [IAS17R.33].

How should lessee management account for rent-free periods in lease agreements?

Background

A retailer entered into a lease agreement for a period of 5 years.

The agreement specifies that the retailer will not have to make any payments during the first year of the lease term. The retailer will have to make monthly payments of 100,000 from the second year onwards.

Management has appropriately classified the agreement as an operating lease.

Solution

Management should take into account the rent-free period in the calculation and presentation of the lease payments over the whole lease term. The rent-free period is an integral part of the rental agreement.

Management should recognise the rental expenses in the income statement on a straight-line basis over the five years of the agreement. The retailer’s monthly rental expense is therefore 80,000 ($100,000 \times 48/60$) during years 1 to 5.