



## Solution 120.4

<b>Component</b>	Retail and consumer
<b>Index</b>	Leases
<b>Short title</b>	Consideration of contingent rental payments

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

Contingent rent is the portion of the lease payments that is based on a factor other than just the passage of time. Examples of contingent rent are percentage of sales, amount of usage and price indices [IAS17R.4].

Minimum lease payments are the payments over the lease term that the lessee makes, excluding contingent rent, cost for services and taxes to be paid by and reimbursed to the lessor [IAS17R.4].

Should management include contingent rental payments in the relevant calculations of lease payments?

### Background

A real estate entity builds a new shopping centre.

Entity A, a retailer, entered a lease agreement with the real estate entity.

The lease agreement requires A to pay rentals equal to 3% of its monthly sales in the shopping centre subject to a minimum payment of 200 per month.

### Solution

True contingent rentals are excluded from the calculation of minimum lease payment. However, any guaranteed "contingent" amounts, such as the 200 per month, are included in the minimum lease payments. Management should include the minimum payment of 200 per month but not any estimate of rentals in excess of that amount.