



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 27 [2008]

Recognition of Partially Paid Operating Lease of Land

The issue:

Whether the current practice of presenting "partially paid prepaid lease rentals" in the financial statements is acceptable under FRS 117.

Scenario:

Entity A entered into an S&P agreement with Entity B for the purchase of a leasehold land costing RM1 million. To date, Entity A has paid a total of RM600,000. How should Entity A account for the purchase and how would this be presented on the face of the balance sheet?

Current accounting practice as observed by the Submitter:

Entity A could recognize the full cost of the leasehold land of RM1 million as prepaid lease rental ("gross method") and Entity A will also recognise the obligation to pay the remaining amount of RM400,000 as payables. This method appears to be commonly used.

Alternatively, Entity A could reflect the RM600,000 paid to date as prepaid lease rental ("net method") and the remaining outstanding amount of RM400,000 need not be accrued for.

Reasons for the FRSIC to address the issue:

The gross method may not meet the requirements in FRS 117.14 which requires that "an upfront payment made to obtain the right to use the land to be capitalised as a lease payment..."

As such transactions are common in Malaysia, perhaps FRSIC could provide further guidance on the acceptability of the above-mentioned methods under FRSs.

Submitter's proposal or recommendation to address the issue:

We are not certain whether the gross method is acceptable under FRS 117 and would appreciate FRSIC's view on this matter.

Submitted on:

9 April 2008

Corresponding FRSIC Consensus:

PROJECT WAS DISCONTINUED.

The FRSIC's deliberation: FRSIC has considered this issue but decided to discontinue the project as any guidance in response to this issue would have a limited shelf life in view of the new standard on leases. In addition, divergence in practice surrounding this issue is not prevalent to warrant an issuance of a consensus to respond to the issue.

[Last updated: 14 November 2011]