

ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY



*Amendments to
UK GAAP for
COVID-19-related
rent concessions*

26 January 2021

This webinar will commence shortly

Introduction

Sally Baker
Technical manager
ICAEW

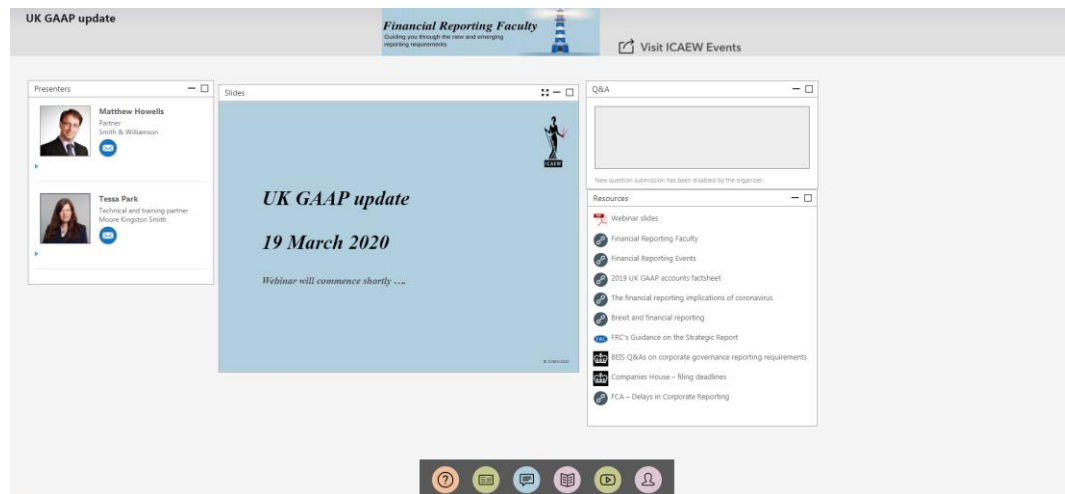


Tessa Park
Technical Partner
Moore Kingston Smith



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- Minimise and maximise the widgets by clicking on the icons located in the dock at the bottom of the console
- Download the slides and access other relevant information from the resources panel

Contents

Amendments to FRS 102 and
FRS 105

Relevant disclosures

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Accounting for COVID-related rent concessions - background

- Many landlords were offering rent concessions to tenants as a result of the pandemic.
- Premises not being used due to people working from home.
- Divergence in practice as to how such transactions were being accounted for as nothing specific in FRS 102.
- May 2020 – IASB issued an amendment to IFRS 16 *Leases* regarding accounting for such concessions under IFRS.
- However, only covered lessees and not helpful to UK GAAP reporters as treatment of leases under IFRS is now radically different from UK GAAP.
- FRC issued an amendment to FRS 102 in October 2020.

The amendments – scope and effective date

- Covers accounting for both lessees and lessors in respect of operating leases.
- Only applies to the accounting for rent concessions arising from the COVID-19 pandemic – not to be applied by analogy to any other rent concessions.
- Does not apply to finance leases.
- Applies for accounting periods beginning on or after 1 January 2020.
- Early adoption permitted – useful for e.g. June or September 2020 year ends.
- Scope and effective date same for FRS 102 and FRS 105.



Accounting requirements - lessees

- Changes in lease payments recognised in P&L on a systematic basis over the period for which the rent concession is intended to compensate.
- Only applies in situations where all the following criteria are met:
 - The concession is a temporary concession arising as a direct result of the COVID-19 pandemic;
 - The change in lease payments results in revised consideration that is less than the consideration for the lease immediately preceding the concession;
 - Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
 - There is no significant change to the other terms and conditions of the lease.
- The requirements are identical in both FRS 102 and FRS 105.

Example 1

- XYZ Ltd is a media company. In March 2020 all staff started working from home.
- Some staff returned to the office in July 2020 but only about 25%.
- Year end is 31 December 2020.
- Annual rental charge is £250,000.
- Landlord agrees a reduction of £75,000 to cover the period from 1 April to 31 December 2020.
- Criteria for applying the amendment are met.

Example 1 (cntd)

For the year ended 31 December 2020:

- Normal rental charge recognised for the first 3 months:
 $£250,000 \times 3/12 = £62,500$ (or £20,833.33 per month)
- Reduced rent is intended to compensate for the next 9 months
- Reduced rent for the 9 months is $£187,500 - £75,000 = £112,500$
- The £112.5k is spread over the 9 months with £12,500 charged to P&L per month

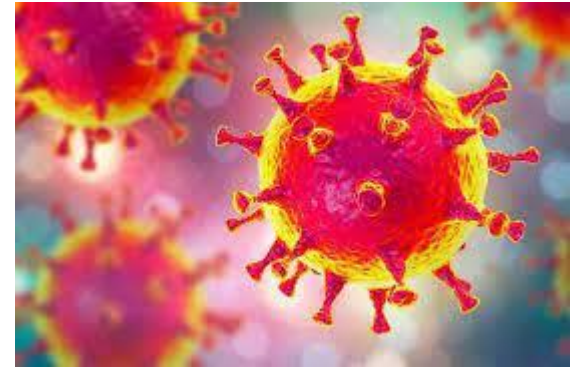
Example 2

- Annual rental charge is still £250,000 however instead of reduced rent from April to December, landlord waives rent completely for April through to the end of July. Rent then charged as normal after the end of July.
- For first 3 months of the year – total rent charged is £62,500
- For April through to end of July – no rent charged to P&L at all
- For August to the end of December – rent charged as normal
(5 months x £20,833.33) = £104,167
(or $5/12 \times £250,000$)

Example 3

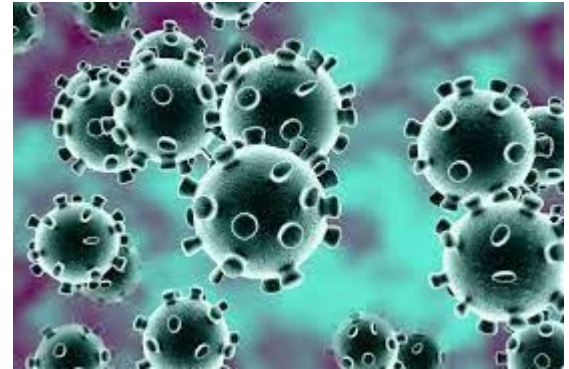
- Annual rent still £250k, year end December.
- The rent concession agreed is a reduction of £2,000 per month until the end of December 2021.
- In addition the original lease end date of December 2025 is amended to 31 December 2023.

- This means that the amendment does not apply as the criteria for applying it are not fully met.



Accounting requirements - lessors

- Requirements are exactly the same for lessors (only the other way round – reduction in income spread over concession period rather than reduction in expense).
- Same criteria for whether a rent concession is in scope or not.
- Again, accounting requirements in FRS 102 and FRS 105 are identical.



Disclosure requirements

- Lessees are required to disclose the amount of the change in lease payments recognised in profit or loss as a result of the application of the amendment.
- This is in addition to other disclosure requirements e.g. split of operating lease payments and the total operating lease charge for the year.
- Disclosure requirements for lessors are unchanged – consider to what extent disclosure is required for a true and fair view (e.g. if rent concessions granted are material to the entity – exceptional item?).
- Where the amendment has been adopted early, both lessees and lessors are required to disclose that fact.
- May be a knock on effect on other disclosures if particularly significant effect (exceptional item?).

Disclosure requirements – small and micro entities

For small entities applying section 1A of FRS 102:

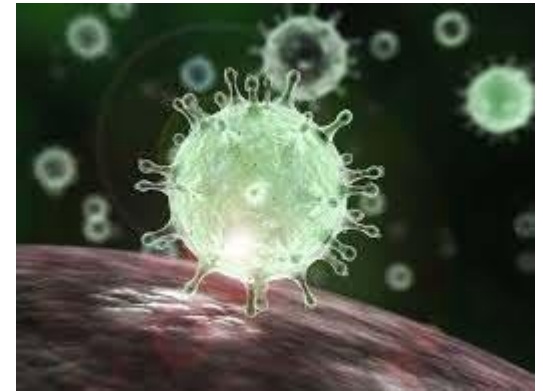
- If amendment adopted early, encouraged to disclose that fact.
- Scoped out of the other disclosures.
- However, may well be necessary for a true and fair view – e.g. where the effect of rent concessions (as lessee or lessor) is material to the financial statements.

For micro entities:

- No disclosure requirement / encouragement at all (even for early adoption).
- Question of truth and fairness of accounts not relevant as micro entity accounts are deemed to show a true and fair view.

In summary

- Likely to have widespread application as potentially affects a lot of entities.
- Care will however need to be taken to make sure that the criteria are met.
- The 'long stop date' of 30 June 2021 is not that far off (will we have normality by then?!).
- The accounting is relatively straightforward but some thought may be needed around the disclosures.
- Where this amendment does not apply, still some room for interpretation as to how rent concessions should be accounted for.



Further resources

[*icaew.com/financialreporting*](https://www.icaew.com/financialreporting)

Coronavirus hub [icaew.com/coronavirus/financial-reporting](https://www.icaew.com/coronavirus/financial-reporting)

- Helpsheet: COVID-19-related rent concession under FRS 102 and FRS 105
- Checklist: implications of COVID-19 for the preparation of accounts under FRS 102
- Checklist: implications of COVID-19 for the preparation of accounts under FRS 105

Factsheets [icaew.com/ukgaapfactsheets](https://www.icaew.com/ukgaapfactsheets) (Financial Reporting Faculty members)

- 2020 UK GAAP accounts factsheet
- 2019 UK GAAP accounts factsheet

Future events

For details, please visit [icaew.com/frfevents](https://www.icaew.com/frfevents)



Bitesize Briefings

COVID-19 series



Webinars

28 January - 2020/21 Reporting: Going concern and impairment



2021 Financial Reporting Conference

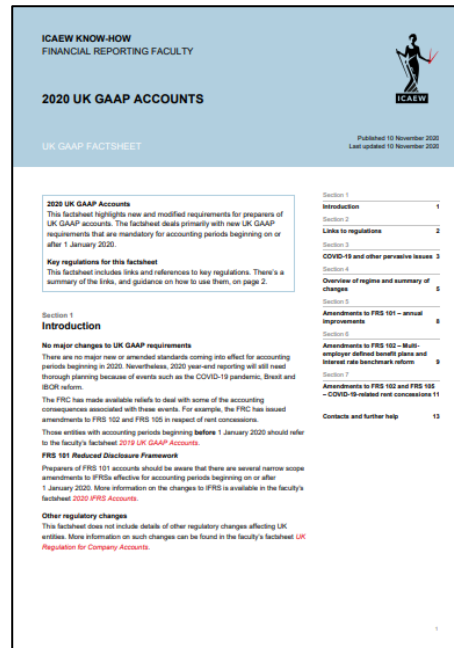
11 October 2021 | Details coming soon

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Contact the Financial Reporting Faculty

+44 (0)20 7920 8533

 frfac@icaew.com

