IFRS NEWS

HOW TO ACCOUNT FOR REPURCHASE AGREEMENT UNDER IFRS 15

Repurchase agreement is a common type of business transactions. However, VAS does not have specific instruction for these transactions. IFRS 15 – Revenue from Contract with Customers (replaced IAS 18 and IAS 11) provides a revenue recognition model for the type of contract "Repurchase Agreement" within the detailed guidance.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

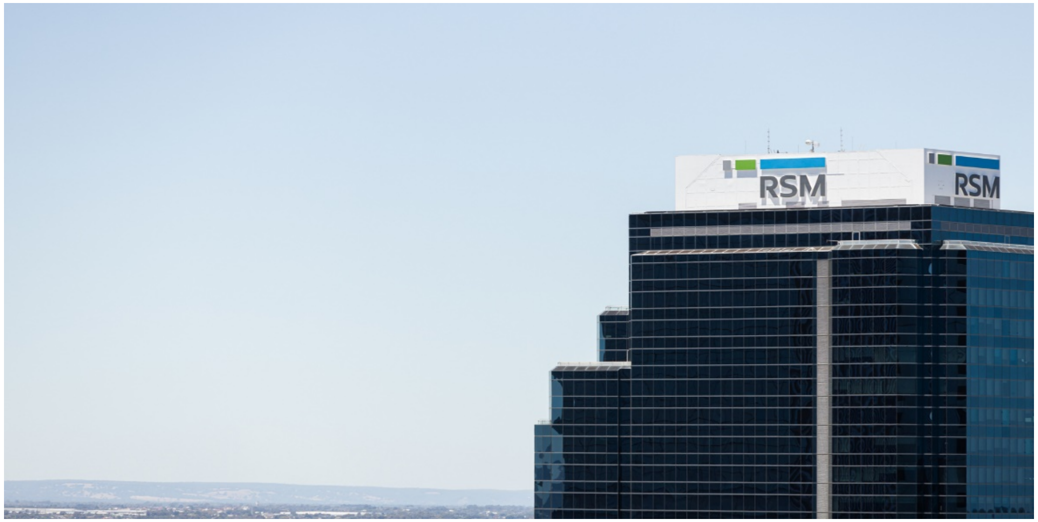
RSM

WHAT EXACTLY ARE "REPURCHASE AGREEMENT"?

A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component.

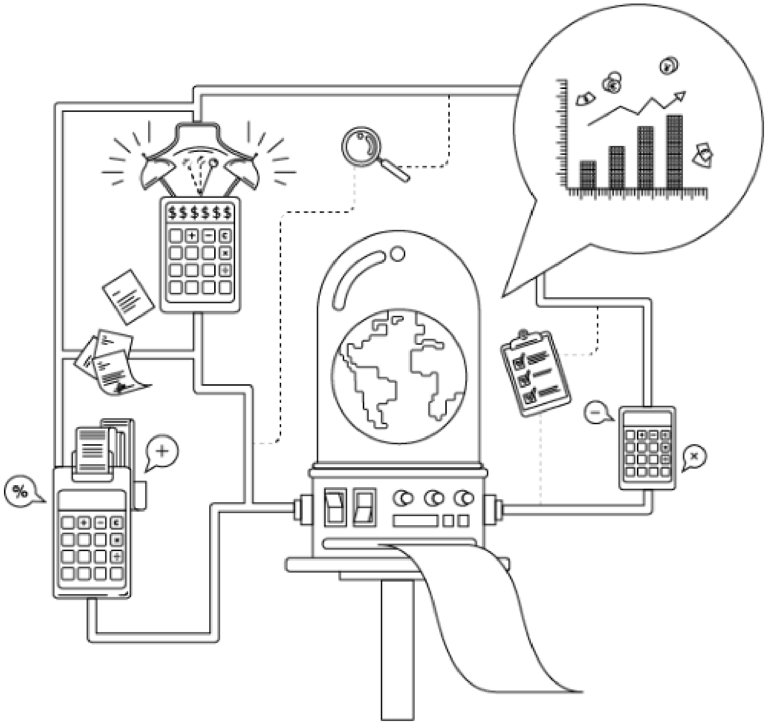
Forms of repurchase agreement

- Entity has obligation to repurchase (a forward)
- Entity has right to repurchase (a call option)
- Entity has obligation to repurchase – at customer's request (a put option)



ACCOUNTING TREATMENT ON EACH CASE

FORWARD OR CALL OPTION



In these two forms according to IFRS 15, the entity still hold control over the asset.

$\Rightarrow$ *No revenue recognition conditions are met.*

Therefore, the entity must account for these two forms of contract as:

A **lease** in accordance with IFRS 16 if the repurchase price is **less than** the original selling price of the asset;

A **financing arrangement** if the repurchase price is **equal to** or **more than** the original selling price of the asset.

Forward or call option				
Repurchase price	<	Original selling price	=	Lease
Repurchase price	≥	Original selling price	=	Financing

ACCOUNTING TREATMENT ON EACH CASE

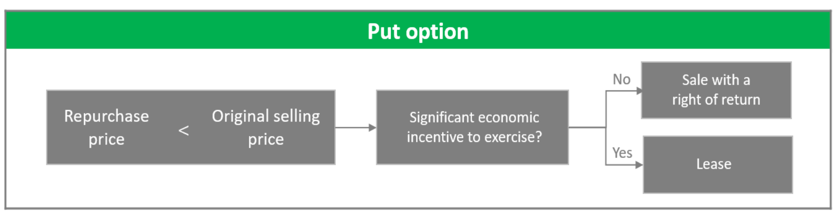
PUT OPTION

(1) REPURCHASE PRICE < ORIGINAL SELLING PRICE

The entity shall consider at contract inception whether the customer has **a significant economic incentive (*)** to exercise that right.

- If the customer **has** a significant economic incentive to exercise its right => The entity account for the agreement as a **lease** in accordance with IFRS 16
- If the customer **does not have** a significant economic incentive to exercise its right => The entity account for the agreement as if it were the **sale of a product with a right of return.**

(*) To determine whether a customer has a significant economic incentive to exercise its right, an entity shall consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the customer has a significant economic incentive to exercise the put option.



PUT OPTION

(2) REPURCHASE PRICE ≥ ORIGINAL SELLING PRICE

The entity shall consider at contract inception the **expected market value** and whether the customer has **a significant economic incentive** to exercise that right.

- If repurchase price is **more than** the expected market value

  => The entity account for the agreement as a **financing arrangement**

Put option								
Repurchase price	≥	Original selling price	and	Repurchase price	>	Expected market value of asset	=	Financing

- If repurchase price is **less than** or **equal to** the expected market value and the customer **does not have** a significant economic incentive to exercise its right => The entity account for the agreement as if it were the **sale of a product with a right of return.**

Put option										
Repurchase price	≥	Original selling price	and	Repurchase price	≤	Expected market value of asset	and	No significant economic incentive to exercise	=	Sale with a right of return

CONTACT US

Ho Chi Minh City
5th Floor, Sai Gon 3 Building
140 Nguyen Van Thu Street
Da Kao Ward, District 1
Ho Chi Minh City, Vietnam

Dang Xuan Canh
Managing Partner
Head of Audit Services
T: +84 28 3827 5026
E: canh.dang@rsm.com.vn

Hanoi
25th Floor, Tower A, Discovery Complex
302 Cau Giay Street, Dich Vong Ward
Cau Giay District
Hanoi, Vietnam

Nguyen Thanh Lam
Partner
Head of Hanoi Office
T: +84 24 3795 5353
E: lam.nguyen@rsm.com.vn

Danang
5th Floor, Dai Thang Building
264 Xo Viet Nghe Tinh Street
Cam Le District
Danang, Vietnam

facebook.com/RSMVietnam

linkedin.com/company/rsm-vietnam

rsm.global/vietnam