



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.

WHAT EXACTLY ARE “REPURCHASE AGREEMENT”?

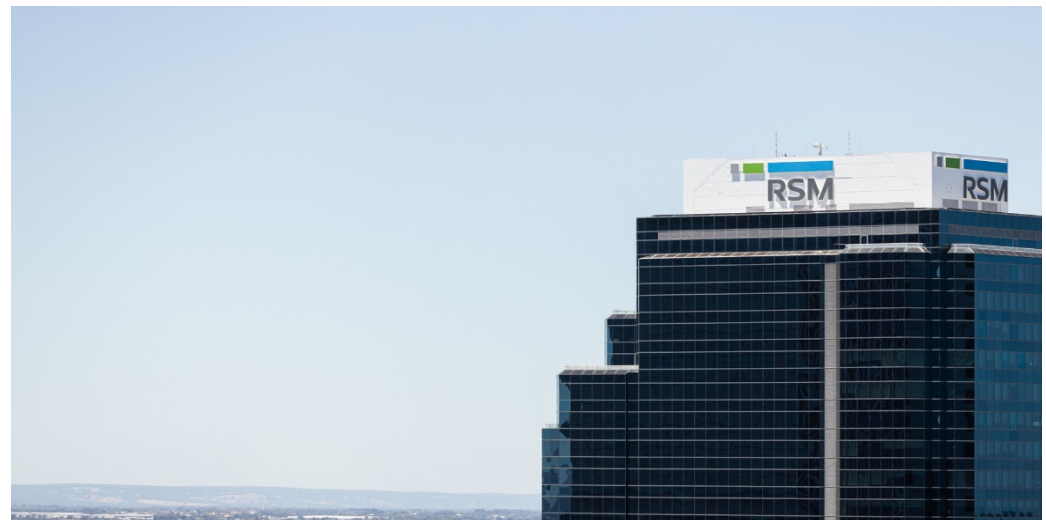
A repurchase agreement is a contract in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the customer, an asset that is substantially the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

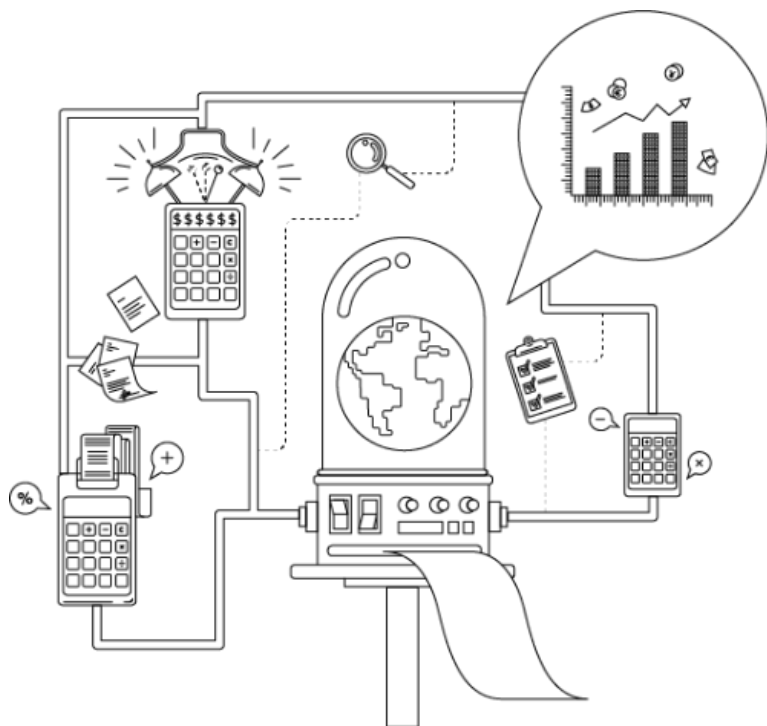
Entity has right to repurchase (a call option)

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.

⇒ *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

PUT OPTION

(1) REPURCHASE PRICE < ORIGINAL SELLING PRICE

(2) REPURCHASE PRICE ≥ ORIGINAL SELLING PRICE

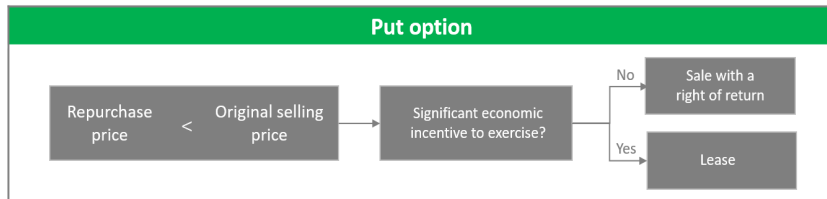
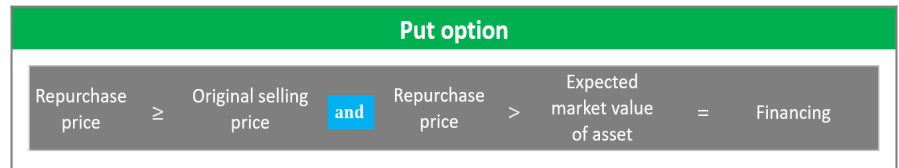
The entity shall consider at contract inception whether the customer has a **significant economic incentive (*)** to exercise that right.

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

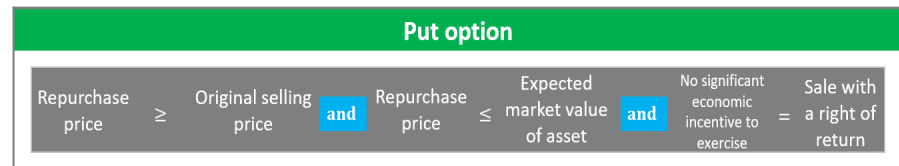
- If the customer **has** a significant economic incentive to exercise its right => The entity account for the agreement as a **lease** in accordance with IFRS 16
- If the customer **does not have** a significant economic incentive to exercise its right => The entity account for the agreement as if it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

- If repurchase price is **more than** the expected market value => The entity account for the agreement as a **financing arrangement**

(*) 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.



- 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**.



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

This newsletter is only intended for information about the new laws enacted, not for advice or applying to specific cases. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. RSM Vietnam as well as members in RSM network shall not be responsible for any loss whatsoever sustained by any person who relies on this communication. Please refer to your advisors for specific advice.

RSM Vietnam is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm, each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London EC4N 6JJ. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM International Association, 2021. All rights reserved.

