

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (May 2008)

Deposits on returnable containers

The IFRIC was asked to provide guidance on the accounting for the obligation to refund deposits on returnable containers. In some industries, entities that distribute their products in returnable containers collect a deposit for each container delivered and have an obligation to refund this deposit when containers are returned by the customer. The issue is whether the obligation should be accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

The IFRIC noted that paragraph 11 of IAS 32 *Financial Instruments: Presentation* defines a financial instrument as ‘any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.’ Following delivery of the containers to its customers, the seller has an obligation only to refund the deposit for any returned containers.

In circumstances in which the containers are derecognised as part of the sale transaction, the obligation is an exchange of cash (the deposit) for the containers (non-financial assets). Whether that exchange transaction occurs is at the option of the customer. Because the transaction involves the exchange of a non-financial item, it does not meet the definition of a financial instrument in accordance with IAS 32.

In contrast, when the containers are not derecognised as part of the sale transaction, the customer’s only asset is its right to the refund. In such circumstances, the obligation meets the definition of a financial instrument in accordance with IAS 32 and is therefore within the scope of IAS 39. In particular, paragraph 49 of IAS 39 states that ‘the fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.’

The IFRIC concluded that divergence in this area was unlikely to be significant and therefore decided not to add this issue to its agenda.