HMRC - CFM23078 - FRS 102: Derecognition Of A Financial Liability

Derecognition of a financial liability

A financial liability should be removed from the balance sheet (i.e. derecognised) only when it is extinguished, that is, when the obligation specified in the contract is either discharged (for example, when a debt is repaid), cancelled (for example, a debt is released), or expires (for example, statutory limitation prevents a creditor pursuing a debt, or a written option expires without being exercised by the holder).

Where a debt between an existing borrower and lender is replaced by one with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed - in other words, the book profit or loss - must be recognised in profit or loss.

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