



ED/2010/9 - *Leases*

Public Discussion

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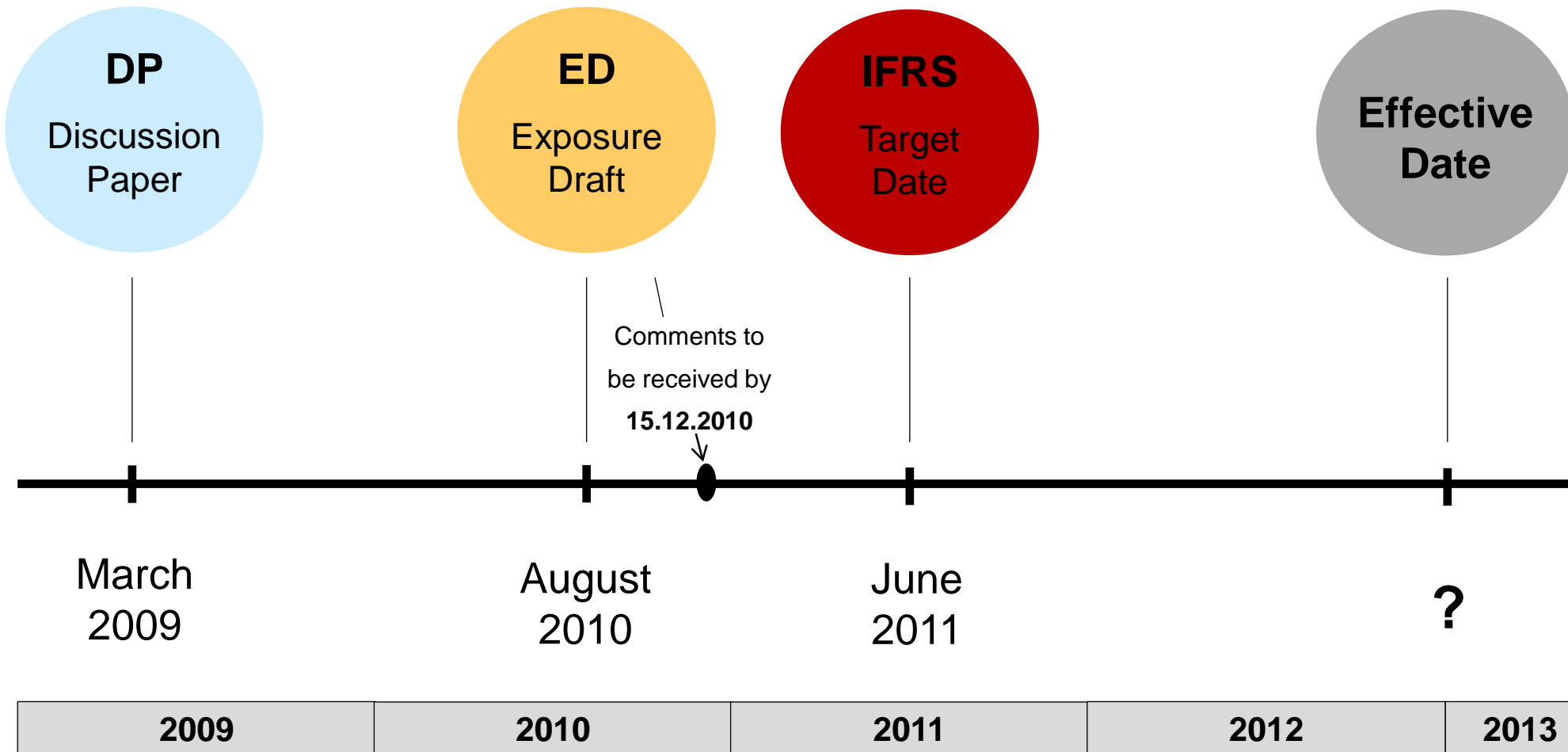


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Replacement of IAS 17 – time schedule of the IASB





1. Accounting Model – Definition – Scope

Accounting Model

- **Lessee**

- DR Right of Use (RoU) – Asset
- CR Liability to make lease payments

- **Lessor**

Does the lessor retain exposure to **significant risks or benefits** associated with the underlying asset during or after the expected lease term?

- **yes => Performance Obligation Approach (POA)**

- DR Right to receive lease payments
- CR Performance Obligation

- **no => Derecognition Approach (DA)**

- DR Right to receive lease payments 100
- CR Revenue 100
- DR Cost of Sales 80
- CR Residual Asset 80



1. Accounting Model – Definition – Scope

Definition

- **ED Leases ***

A contract in which the **right is conveyed** to use a **specified asset** (the underlying asset), for a **period of time**, in exchange for **consideration**.

- **IAS 17 ***

An agreement whereby the lessor **conveys the right** to use an **asset** to the lessee for an agreed **period of time** in return for a **payment** or series of payments.

* Words in sentences partly repositioned.



1. Accounting Model – Definition – Scope

Scope

all Leases (incl. RoU-assets in the course of subleases), except

- IAS 38 / IFRS 6 / IAS 41
- leases between the date of inception and the date of commencement of a lease, if *onerous* (=> IAS 37)
- service components (SC) within a contract containing both, lease and SC, if the SC are
 - *distinct*
 - *non-distinct* => in case the lessor applies the DA
- investment properties
 - lessee: if the FV-model is applied for subsequent measurement
 - lessor: if the FV-model is applied
- sale or purchase: in case control is transferred or a purchase option is being exercised



2. Lessee

Recognition

Statement of Financial Position

- | | |
|-------------|------------------------------------|
| - RoU-Asset | - Liability to make lease payments |
|-------------|------------------------------------|

Point in time: commencement of the lease.

Statement of Comprehensive Income

- | | |
|--|--------------------|
| - Interest expense
- Amortisation
- Revaluation loss
- Loss due to a change in the liability to make lease paym.
- Impairment loss | - Revaluation gain |
|--|--------------------|



2. Lessee

Initial Measurement

- reference date of inception of the lease
- lease liability PV of the payments
 - lessee's incremental borrowing rate or
 - rate the lessor charges the lessee
- lease term probability of occurrence =>
the longest possible term that is more likely than not to occur
- lease payments expected outcome
 - contingent rentals
 - residual value guarantees
 - term option penalties
- RoU-Asset = lease liability + initial direct costs



2. Lessee

Subsequent Measurement

- lease liability
 - amortised costs (effective interest method)
 - reassessment – indicator based
 - with respect to lease terms and payments
 - recognition
 - relating to previous / current period – P&L
 - relating to future periods – RoU-Asset
 - (generally) no change of the discount rate
- RoU-Asset
 - amortised costs (...; basis: IAS 38)
- revaluation RoU-Asset
 - possible (...)
- impairm.-test RoU-Asset
 - IAS 36 at each reporting date



2. Lessee

Presentation

[separate presentation](#)

Statement of financial position

Intangible Assets	...
Property, Plant & Equipment	...
- <u>Leases</u>	Financial Liabilities
- other	- <u>Leases</u>
Investment Properties	- other
- <u>Leases</u>	...
- other	
...	

in **Profit or Loss** **or** in the **Notes**

- [Amortisation of the RoU-Assets](#) (separately from other amortisations)
- [Interest expense](#) (separately from other interest expense)

in the **Statement of Cash Flows** (as financing activities)

- [Cash payments for leases](#)



3. Lessor – approach to be applied

POA or DA?

at the date of inception of a lease
a lessor shall assess:

whether the lessor retains exposure to **significant risks or benefits** associated with the underlying asset either

- **during** the expected term of the lease or
- **after** the expected term of the lease:

yes: **POA**

no: **DA**

- after the date of the inception of the lease: approach shall not be changed



3. Lessor – approach to be applied

POA:

significant **risks or benefits** associated with the underlying asset

- **during** the expected term of the lease (based on the following factors):
 - contingent rentals
 - options to extend or terminate the lease
 - material „*non-distinct*“ services
- **after** the expected term of the lease (based on the following factors – since the expectation or ability to generate significant returns by re-leasing or selling the underlying asset):
 - duration of lease term not significant in relation to remaining useful life
 - significant change in the value of the underlying is expected (any residual value guarantees to be considered)

=> determination s/b comprehensively + credit risk is not relevant here



4. Lessor - POA

Recognition

Statement of Financial Position

underlying asset + right to receive lease paym. - lease liability <hr/> = net lease asset (liability)	
--	--

Statement of Comprehensive Income

- expense due to changes in the lease liability - impairment losses	- lease income ** - interest income - income due to changes in the lease liability
--	--

** to be classified as revenue, if in the course of ordinary activities.



4. Lessor - POA

Initial Measurement

- reference inception of the lease
- lease receivable PV of the lease payments
(basis: rate charged the lessee)
+ initial direct costs
- lease term probability of occurrence =>
the longest possible term that is more likely than not to occur
- lease payments expected outcome
 - contingent rentals
 - residual value guarantees
 - term option penalties
- lease liability = lease receivable **excl.** initial direct costs



4. Lessor - POA

Subsequent Measurement

- lease receivable
 - amortised costs (effective interest method)
 - reassessment – indicator based
 - with respect to the lease term
 - => adjust the **lease liability**
 - with respect to the amount
 - => recognise in P&L – to the extent lease liab. is *satisfied*
 - => adjust the **lease liability** – to the extent lease liab. is not satisfied
 - (generally) no change of the discount rate
 - impairment test in accordance with IAS 39 at each reporting date
- release of lease liab.
 - according to pattern of use of underlying (output / input); straight line alternatively



4. Lessor - POA

separate presentation

Presentation

- Statement of FP

Assets	Equity and Liabilities
<u>lease</u> + <u>lease receivable</u> - <u>PO</u> <hr/> = <u>net lease asset</u>	or <u>net lease liability</u>

- Statement of CI

Expense	Income
<u>amortis. 'underlying'</u>	<u>interest income</u> <u>income from satisfaction of lease liability</u>

- Statement of CF

as operating activities
lease payments



4. Lessor - POA

Presentation (head lease)

Presentation by intermediate lessor in a sublease (paragraph 43)

B29 The following example illustrates in italics how an intermediate lessor would present lease assets and liabilities arising from a sublease.

Example 3 – Presentation of information from a sublease

Property, plant and equipment		X
Cash		X
<i>Right-of-use asset</i>	X	
<i>Lease receivables</i>	X	
<i>Lease liability</i>	(X)	
<i>Net sublease asset</i>		X
Total assets		X
		<hr/>
Trade and other payables		X
<i>Liability to make lease payments</i>		X
Total liabilities		(X)
		<hr/> <hr/>

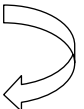


5. Lessor - DA

Recognition (1/2)

Statement of Financial Position

~~Underlying asset~~
Residual Asset
right to receive lease paym.



Statement of Comprehensive Income

- COS (= derecognition partly)*
- expense from reassessing lease receivable
- impairment losses
=> lease receivable
=> residual asset

- revenue (= lease receivable)*
- interest income
- income from reassessing lease receivable

* as **revenue** and **COS** if
in the course of ordinary activities.



5. Lessor - DA

Recognition (1/2)

to illustrate the entry upon recognition:

Euro

DR	Right to receive lease payments	100
CR	Lease income (revenue)	100
DR	Lease expense (COS - cost of sales)	80
CR	Underlying asset (residual asset)	80



5. Lessor - DA

Initial Measurement (1/2)

- reference inception of the lease
- lease receivable PV of the lease payments
(basis: the rate charged the lessee)
+ initial direct costs

- lease term probability of occurrence =>
the longest possible term that is more likely than not to occur

- lease payments expected outcome
 - contingent rentals
 - residual value guarantees
 - term option penalties



5. Lessor - DA

Initial Measurement (2/2)

- **residual asset**

$$= \text{carrying amount underlying asset} \times \frac{\text{rights remaining with the lessor (at FV)}}{\text{total of all rights associated with the underlying asset (at FV)}}$$

- **portion (amount to be derecognised)**

$$= \text{carrying amount underlying asset} \times \frac{\text{right to receive lease payments (at FV)}}{\text{total of all rights associated with the underlying asset (at FV)}}$$



5. Lessor - DA

Subsequent Measurement

- leases receivable
 - amortised costs (effective interest method)
 - reassessment – indicator based
 - with respect to the lease term
 - => against the **residual asset**
 - with respect to the amount
 - => to be recognised in **P&L**
 - (generally) no change of discount rate
 - impairment test in accordance with IAS 39 at each reporting date
- residual asset
 - generally no reassessment – except:
 - adjustment to lease term
 - impairment in accordance with IAS 36



5. Lessor - DA

Presentation

[separate presentation](#)

Statement of Financial Position

Property, Plant & Equipment

- [residual asset](#)
- [residual asset - subleases](#)
- other

Financial Receivables

- [lease receivables](#)
- [lease receivables - subleases](#)
- other

Statement of Comprehensive Income

presentation of [lease income](#) and [lease expense](#) – following business model, either

- in separate line items or
- net in a single line item

[interest income](#) – separately from other interest income

Statement of CF (operating activities) – [lease payments](#)



6. Short term Leases

Short term Lease = maximum possible lease term: up to 12 months

Lessee

Approach: recognition of lease liability undiscounted
RoU-Asset = lease liability + initial direct costs

Option: election on lease-by-lease basis allowed

Lessor

Approach:

- accrual accounting
- underlying lease asset to be accounted for in line with existing IFRS

Option: election on lease-by-lease basis allowed



7. Sale and Lease-Back

Step 1: Assessment, whether the transaction is a sale / purchase
No – **Lessee**: treat as financing
Lessor: recognise a corresponding receivable
Yes – Step 2 to be applied

Step 2: How to account for the lease?
Lessee accounts for the lease in line with the RoU-approach
Lessor applies POA (DA not an allowed alternative)

Approach, if considerations are not at fair value

Lessee - adjust RoU-asset to reflect current market rates
- adjust gain / loss from disposal, accordingly

Lessor - adjust carrying value of underlying asset and lease liability to FV



8. Disclosures

Guidance: ED.70 to ED.86 (= 17 paragraphs)

Objective: **quantitative and qualitative disclosures**

(ED.70-72)

with regard to the lease in order to

- identify and explain the amounts recognised in the FS arising from leases
(ED.73 - ED.82; including „reconciliation of opening and closing balances“)
and
- describe how leases may affect the amount, timing and uncertainty of the entity's future CFs
(ED.83 – ED.86; including X-references to IFRS 7.31-42; with modifications for IFRS 7.37 and IFRS 7.39)



9. Transition Rules

Principle

Disclosures

simplified retrospective approach
in line with IAS 8 (excluding information re EPS)

Lessee

General approach (for all existing lease contracts):

- recognition of a lease liability based on its PV
- RoU-asset (= lease liab.) – impairment to be considered

Special Rule:

- adjustment of the lease payments in case they are *uneven over the lease term*
- simple finance leases – use carrying amounts (IAS 17)
- short term leases – no discounting



9. Transition Rules

Principle

simplified retrospective approach

Disclosures

in line with IAS 8 (excluding information re EPS)

Lessor - POA

- a) lease receivable (based on PV of lease payments)
- b) PO (same as a))
- c) reinstate previously derecognised underlying assets at depreciated costs (if had never been derecognised)

Lessor - DA

- a) lease receivable (based on PV of lease payments)
- b) residual asset –
at FV as of transition to the new lease-acctg. rules



The following IFRS will be superseded:

- IAS 17
- IFRIC 4
- SIC 15
- SIC 27

Comments to be provided by:

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Thank you for your attention!

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