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Financial Reporting(INT.)

财务报告（国际会计准则）

Chapter 8 IAS 17 Lease

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1

Finance lease

2

Operating lease

3

Sale and leaseback

4

Example



IAS 17 Lease



Type

- **Finance lease.** A lease that transfers substantially all the risks and rewards incident to ownership of an asset.
- **Operating lease.** A lease other than a finance lease.



Substance over form

- 1. Ownership of asset has been transferred from lessor to lessee.
- 2. Lessee has the option to purchase asset at a price which is sufficiently lower than its FV.
- 3. Lease term is almost the same as the major part of economic life of asset. (IFRS doesn't specify the period but US GAAP has given us guidance of >75 %.)

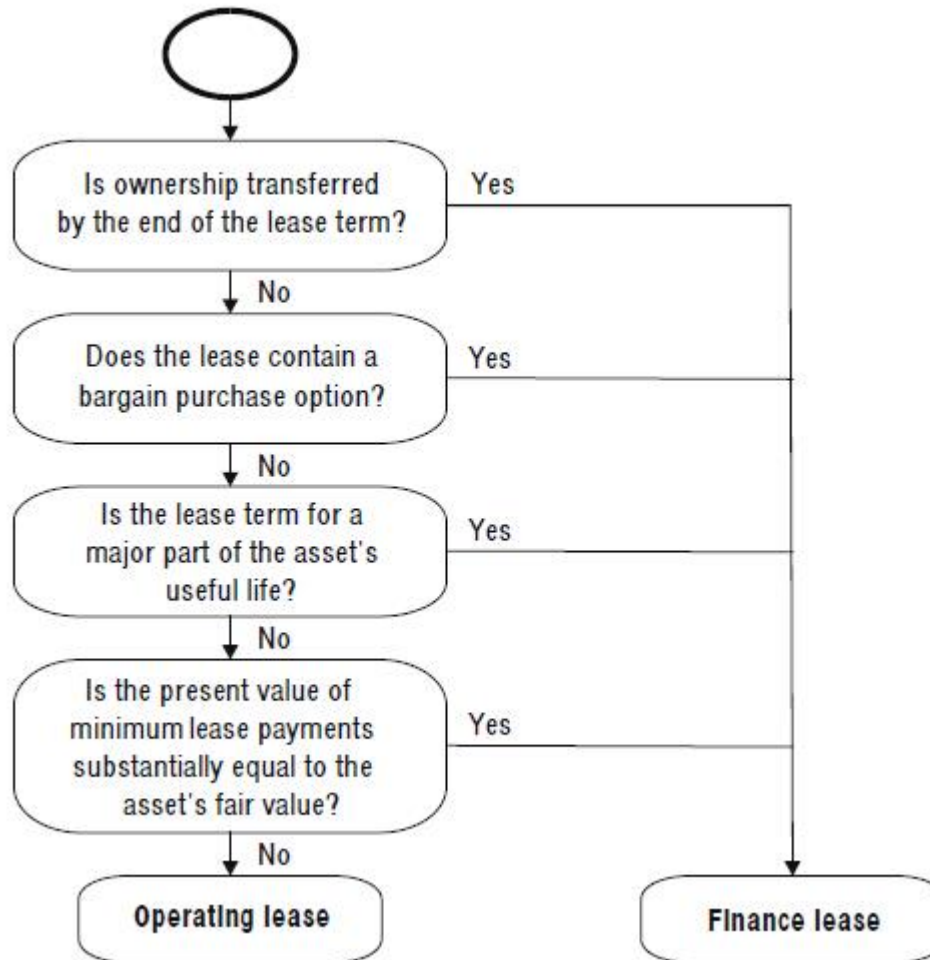


IFRS 17 Lease

- 4. At the start of the lease, PV of minimum lease payment is close to FV of asset. (Again, IFRS doesn't specify the percentage but US GAAP has given us a guidance of >90%.)
- 5. Leased assets are specified nature and can only be used by lessee and they can be used by others if any significant modification to assets occurs.



IFRS 17 Lease





IFRS 17 Lease

- **Risks and rewards**

Majority risks and rewards has been transferred from the lessor to lessee then it's considered to be a finance lease.

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IFRS 17 Lease

- **Risks**
- Costs of repairing, maintaining and insuring the assets.
- Risk of obsolescence
- Risks of losses from idle capacity of the asset (if machine breaks down then lessee bears the loss)



IFRS 17 Lease

- **Rewards**
- Use of assets for almost all of its useful life.
- Use of the assets is not disrupted.



Finance lease



Measurement

Initial measurement

DR PPE (include transaction cost and CR cash)

CR lease liability

The amount to be recorded in this way is the **lower of the fair value** and the **present value** of the **minimum lease payments**.



IFRS 17 Lease

- **Present value of minimum lease payment:**

Present value of minimum lease payment= Sum of rental payable and residual value (perhaps this would be guaranteed by the lessee if there is fall in value.)

Lease term= non cancellable period relating to the lease period + secondary period if lessee has an option to lease the asset at the end of the lease period.

Discount rate= implicit interest rate at the start of the lease contract (IRR) or lessee's borrowing costs.



Subsequent measurement

- **PPE:**
- DR P/L-depreciation expense
- CR accumulated depreciation
- **Lease liability:**
- DR lease liability (Exclude the deposit and CR Cash)
- DR P/L-finance cost
- CR cash



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The asset should be **depreciated** (on the bases set out in IASs 16 and 38) over the shorter of:

- The lease term
- The asset's useful life

If there is reasonable certainty of eventual ownership of the asset, then it should be depreciated over its useful life.



Operating lease



Expense the lease payment on a straight line basis

- DR P/L
- CR cash



Sale and leaseback



IFRS 17 Lease

A **sale and leaseback** transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually negotiated as a package. The accounting treatment depends upon the type of lease involved. If the transaction results in a **finance lease**, then it is in substance a loan from the lessor to the lessee (the lessee has sold the asset and then leased it back), with the asset as security. In this case, any 'profit' on the sale should not be recognised as such, but should be deferred and amortised over the lease term



Sale and finance leaseback



IFRS 17 Lease

This is a way to finance the business.

- Sell asset and lease for most/all of useful life
- 'Profit' on sale is spread over the lease period

'Sale' element of transaction

- DR cash (sale proceeds)
- CR PPE (CV)
- CR/DR deferred income (gain on sale-release over lease term)

Lease element of transaction

- DR PPE (PV of min lease payment)
- CR lease liability



Sale and operating leaseback



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- **(A) Sell below fair value:**
- If the seller is short of cash and therefore has to sell at a loss take the **WHOLE** loss to the income statement on disposal.
- If the seller has the benefit of below market rentals for the lease of the asset then “defer” the loss over the lease period.
- $SP < FV > CV$



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(B) Sale above fair value:

- Defer the 'additional' gain and spread over the lease period.
- $SP > FV > CV$



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- On 1 October 2013, Fresco acquired an item of plant under a five-year finance lease agreement. The plant had a cash purchase cost of \$25 million. The agreement had an implicit finance cost of 10% per annum and required an immediate deposit of \$2 million and annual rentals of \$6 million paid on 30 September each year for five years.



IFRS 17 Lease

What would be the current liability for the leased plant in Fresco's statement of financial position as at 30 September 2014?

- A.\$19,300,000
- B.\$4,070,000
- C.\$5,000,000
- D.\$3,850,000



IFRS 17 Lease

- During the year ended 30 September 2014 Hyper entered into two lease transactions:
- On 1 October 2013, a payment \$90,000 being the first of five equal annual payments of a finance lease for an item of plant. The lease has an implicit interest rate of 10% and the fair value (cost to purchase) of the leased equipment on 1 October 2013 was \$340,000.
- On 1 January 2014, a payment of \$18,000 for a one-year lease of an item of excavation equipment.



IFRS 17 Lease

What amount in total would be charged to Hyper's statement of profit or loss for the year ended 30 September 2014 in respect of the above transactions?

- A.\$108,000
- B.\$111,000
- C.\$106,500
- D.\$115,500

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Thank You!

