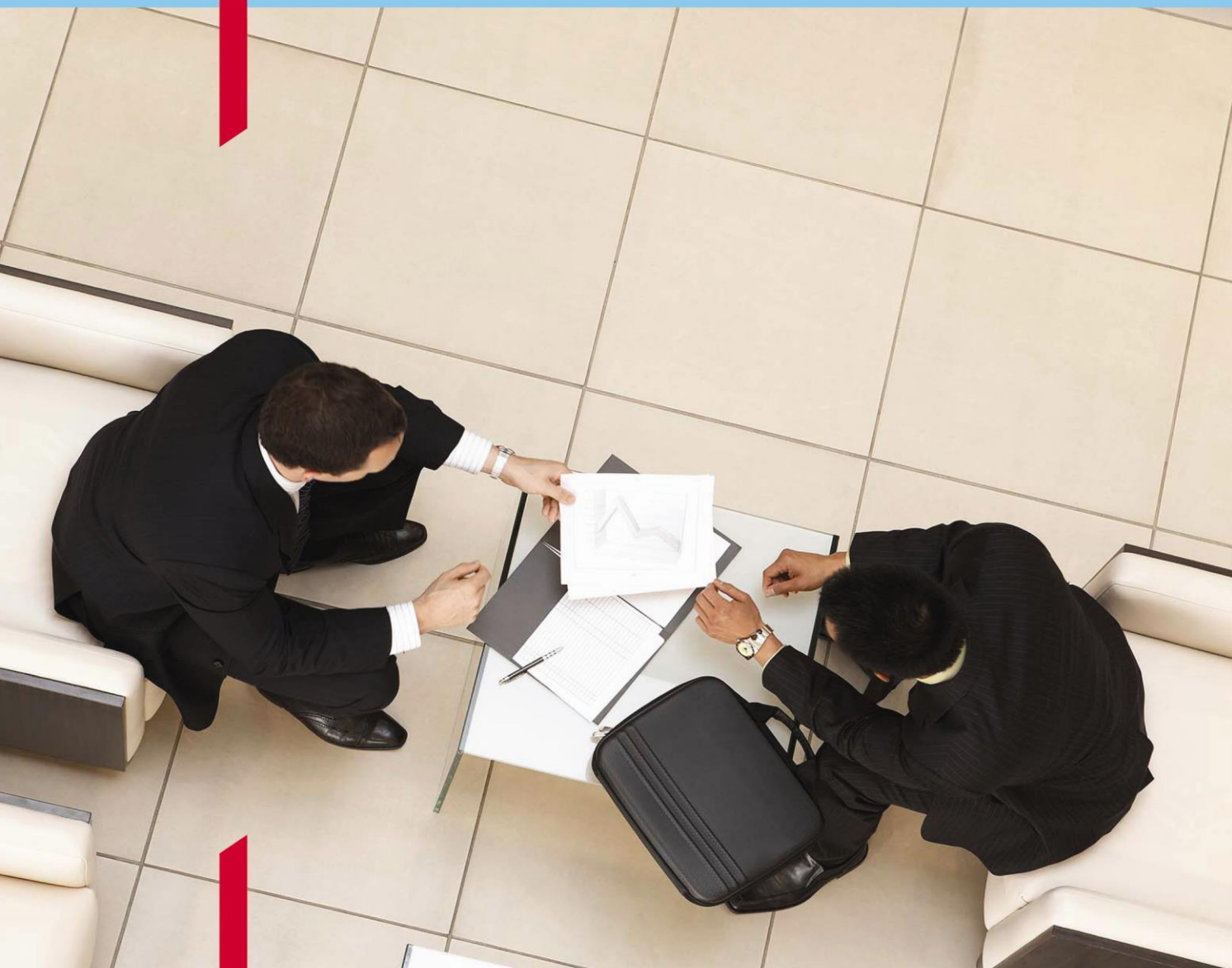


IFRS AT A GLANCE

IAS 17 *Leases*



IAS 17 Leases

Also refer:
 SIC-15 *Operating Leases - Incentives*
 SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
 IFRIC 4 *Determining Whether an Arrangement Contains a Lease*

Effective Date
 Periods beginning on or after 1 January 2005

DEFINITIONS

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

Operating lease - lease other than a finance lease.

Finance lease - a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

ACCOUNTING TREATMENT

- Lessor**
- Treats contract as an executory contract
 - Retains leased asset on the statement of financial position
 - Recognises lease income on a straight line basis over the lease term.

- Lessee**
- Treats contract as an executory contract
 - Does not recognise leased asset on the statement of financial position
 - Recognises lease expense on a straight line basis over the lease term.

CLASSIFICATION

- Finance lease**
 (Meeting only one criterion leads to financial lease classification)
1. The lease transfers ownership of the asset to the lessee by the end of the lease term
 2. The lessee has a bargain purchase option and it is certain at the date of inception that the option will be exercised
 3. The lease term is for the major part of the economic life of the asset even if title is not transferred
 4. At the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset
 5. The leased assets are of such a specialised nature that only the lessee can use them without major modifications
 6. Gains or losses from the fluctuation in the fair value of the residual accrue to the lessee
 7. The lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent
 8. If the lessee can cancel the lease, the lessor's associated losses are borne by the lessee.

ACCOUNTING TREATMENT

- Lessor**
- Derecognises the tangible asset (and recognises resultant gain/loss)
 - Lessor recognises a receivable equal to the net investment of the lease
 - Leased asset not recognised on the statement of financial position
 - Recognises finance income based on a pattern reflecting a constant periodic rate of return on the lease.

- Lessee**
- Recognises a leased asset on the statement of financial position at the lower of the fair value of the leased asset and present value of lease payments
 - Discount rate is the implicit rate in the lease
 - Liability recognised
 - Lease payments made are apportioned between finance charges and reduction of liability
 - The finance charge allocation is allocated to a period to produce a constant rate of interest over the period.

CONSIDERATIONS TO NOTE

- A lessee may classify a property interest held under an operating lease as an investment property. If this is done, then that interest is accounted for as if it were a finance lease
- Lessors and lessees recognise incentives granted to a lessee under an operating lease as a reduction in lease rental income or expense over the lease term
- A lease of land and building should be treated as two separate leases, a lease of the land and a lease of the building, and the two leases may be classified differently
- A series of linked transactions in the legal form of a lease is accounted for based on the substance of the arrangement; the substance may be that the series of transactions is not a lease
- Special requirements apply to manufacturer or dealer lessors granting finance leases.

SALE AND LEASEBACK TRANSACTIONS

Finance lease
 Any excess of sale proceeds over carrying amount is recognised by the lessor over the lease term and not immediately.

- Operating lease**
- If the sale price is at fair value, any excess of sale proceeds over carrying amount is recognised by the lessor immediately
 - If the sale is below fair value, any profit or loss should be recognised immediately unless the loss is in respect of future lease payments below market value in which case it is deferred
 - If the sale price is above market value, the excess of fair value is amortised over the lease period.

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