

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.

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below. Alternatively, please visit [www.bdointernational.com/Services/Audit/IFRS/IFRS Country Leaders](http://www.bdointernational.com/Services/Audit/IFRS/IFRS_Country_Leaders) where you can find full lists of regional and country contacts.

Europe

Caroline Allouët	France	caroline.allouet@bdo.fr
Jens Freiberg	Germany	jens.freiberg@bdo.de
Teresa Morahan	Ireland	tmorahan@bdo.ie
Ehud Greenberg	Israel	ehudg@bdo.co.il
Ruud Vergoossen	Netherlands	ruud.vergoossen@bdo.nl
Reidar Jensen	Norway	reidar.jensen@bdo.no
María Sukonkina	Russia	m.sukonkina@bdo.ru
René Krügel	Switzerland	rene.kruegel@bdo.ch
Brian Creighton	United Kingdom	brian.creighton@bdo.co.uk

Asia Pacific

Wayne Basford	Australia	wayne.basford@bdo.com.au
Zheng Xian Hong	China	zheng.xianhong@bdo.com.cn
Fanny Hsiang	Hong Kong	fannyhsiang@bdo.com.hk
Khoon Yeow Tan	Malaysia	tanky@bdo.my

Latin America

Marcelo Canetti	Argentina	mcanetti@bdoargentina.com
Luis Pierrend	Peru	lpierrend@bdo.com.pe
Ernesto Bartesaghi	Uruguay	ebartesaghi@bdo.com.uy

North America & Caribbean

Armand Capisciolto	Canada	acapisciolto@bdo.ca
Wendy Hambleton	USA	whambleton@bdo.com

Middle East

Arshad Gadit	Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	Lebanon	agholam@bdo-lb.com

Sub Saharan Africa

Nigel Griffith	South Africa	ngriffith@bdo.co.za
----------------	--------------	---------------------

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2016 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdointernational.com