



MFRS 117 - Leases

Sharing Session
25 July 2013



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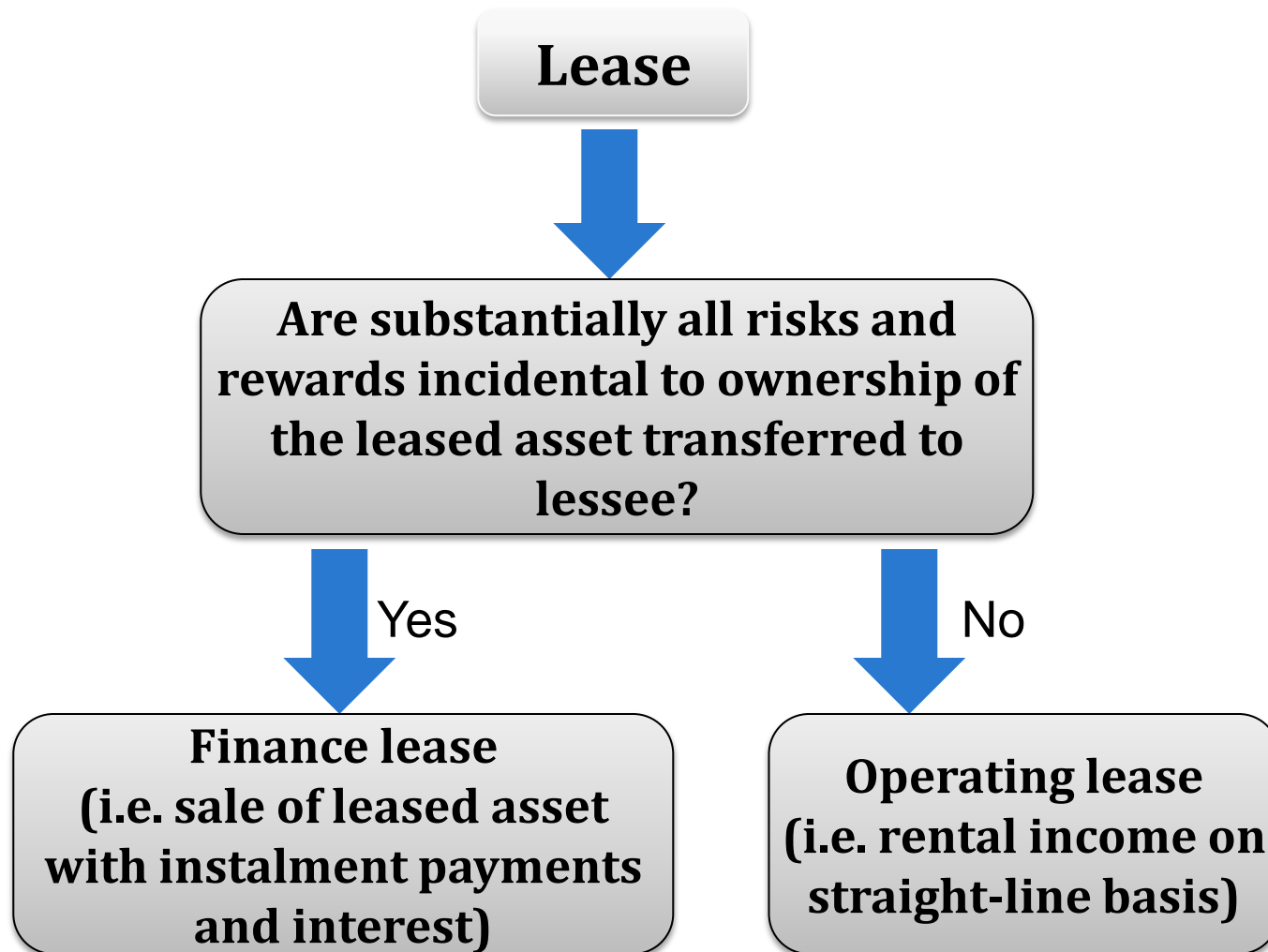
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Classification of leases – Lessor's perspective





HOW TO DETERMINE FINANCE AND OPERATING LEASE?

Primary indicators of a finance lease – MFRS 117.10

- **Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:**

➔ The lease transfers ownership of the asset to the lessee by the end of the lease term

➔ The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised

➔ The lease term is for the major part of the economic life of the asset even if title is not transferred

➔ At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset

➔ The leased assets are of such a specialised nature that only the lessee can use them without major modifications



HOW TO ACCOUNT FOR LEASES?

Lease

Finance lease

Lessor

- Does not recognise the leased asset in its financial statements
- Records a finance lease receivable

Lessee

- Records the leased asset and a liability for the future lease payments
- Records depreciation of leased asset

Operating lease

Lessor

- Continues to record the leased asset in its financial statements
- Recognises rental income
- Records depreciation of leased asset

Lessee

- Does not recognise the leased asset in its financial statements
- Recognises rental expense

Scenario

Company A leases an asset from Company B. The details of the lease are stated below:

Cost of leased asset: RM64,100

Fair value of leased asset: RM83,497

Residual value: RM5,260

Rental payment: RM30,000 per year

Lease term: 3 years

Annual depreciation: RM19,613 $[(64,100 - 5,260) / 3]$

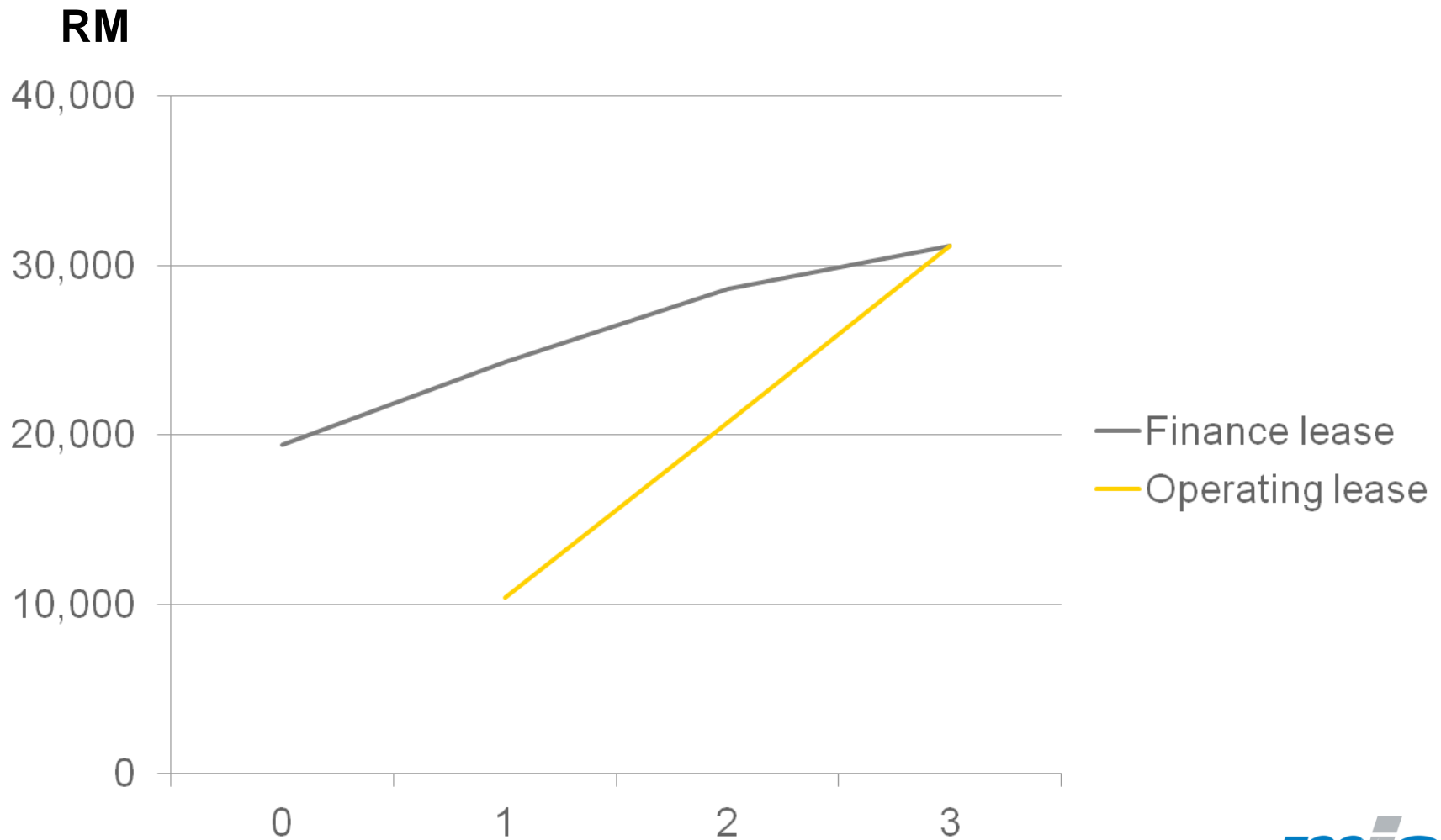
Finance Lease

Year	Sales proceeds RM	Cost of leased asset RM	Annual interest income RM	Net income recognised in profit or loss RM
0	83,497	(64,100)	-	19,397
1	-	-	4,919	4,919
2	-	-	4,336	4,336
3	-	-	2,508	2,508
Total	83,497	(64,100)	11,763	31,160

Operating Lease

Year	Rental income RM	Depreciation RM	Net income recognised in profit or loss RM
1	30,000	19,613	10,387
2	30,000	19,613	10,387
3	30,000	19,614	10,386
Total	90,000	58,840	31,160

Cumulative net income recognised in profit or loss



Exposure Draft on Leases – Lessor’s Perspective

- ▶ Exposure draft on leases proposes a “**right-of-use**” model i.e. requires lessees to recognise leases on balance sheets. Lessors would apply an approach similar to today’s finance leases.
- ▶ Upon lease commencement a lessor would need to:
 - ▶ **Derecognise** the leased asset
 - ▶ **Recognise:**
 - **Lease receivable** for the right to receive lease payments
 - **Residual asset** (representing lessor’s right to the leased asset)
 - Any **upfront profit**



Questions & Answers





Thank You