

## Agenda Item 5: Leases

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IPSASB Consultative Advisory Group Meeting

Kuala Lumpur, Malaysia

December 3, 2018

# Objective of Session & Material Presented

## Agenda Item 5.1

- **Responses to IPSASB's Exposure Draft (ED) 64, *Leases***—New Strategy to Move the Leases Project Forward and Main Issues on Lease Accounting

## Agenda Item 5.2

- **Appendix A:** Comparison between Concessionary Loan and Concessionary Lease on the Accounting of the Subsidy

## Agenda Item 5.3

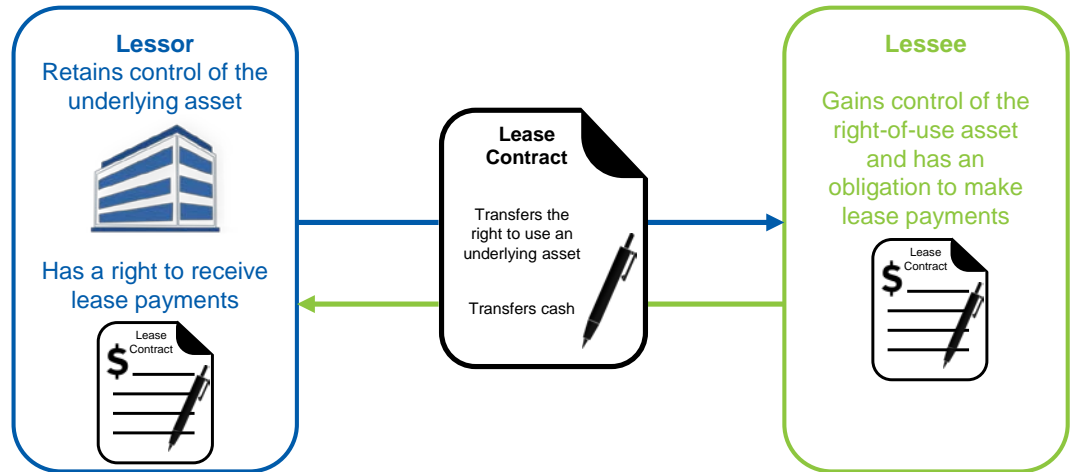
- **Appendix B:** IPSASB Due Process Checklist

## Agenda Item 5.4

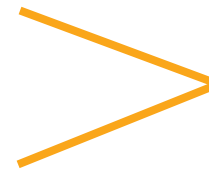
- **Appendix C:** Links to Other Documents

# Overview of ED 64, *Leases*

- Single right-of-use model for lease accounting

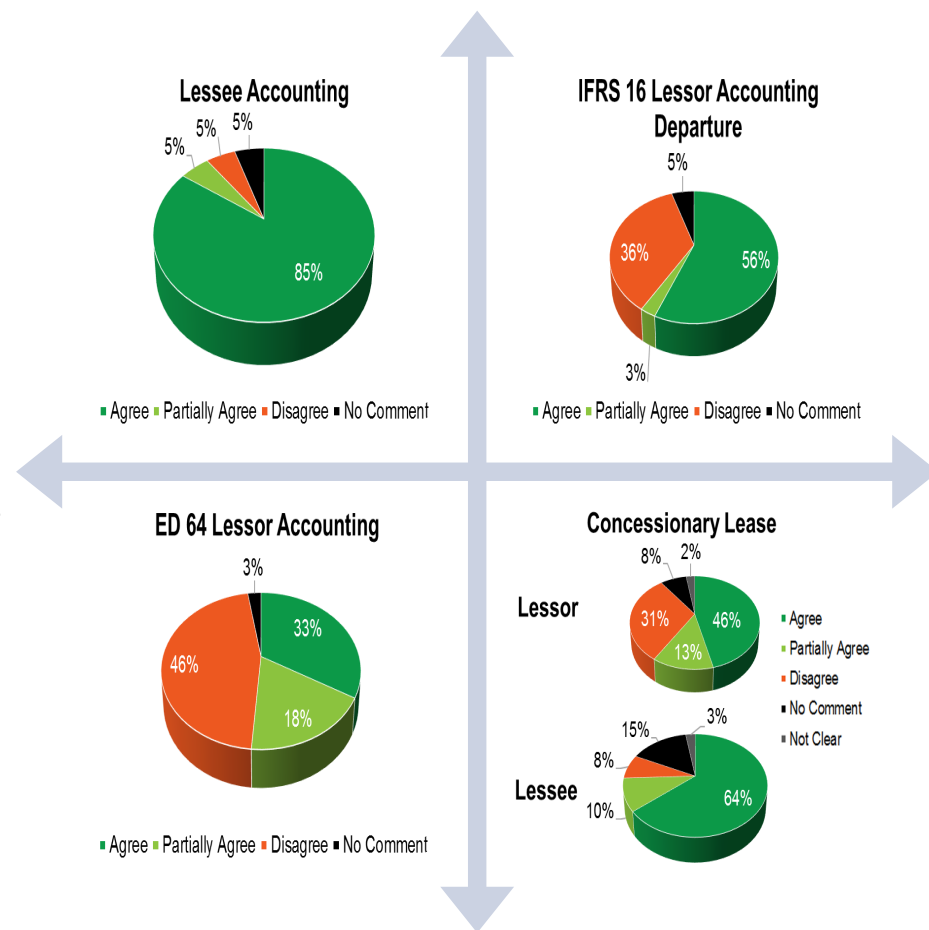


- Concessionary leases  
*Leases at below market terms*



# ED 64: A high level preliminary review of responses

- Overall support for lessee accounting
- Lessor accounting and concessionary leases:
  - Lack of a unified view
  - Opposing views on the same issues
  - Different proposals
  - Inconsistent views



## New strategy to move Leases project forward

- **IPSASB September 2018 meeting**
  - Tentative decision on lessee accounting
  - New project timetable and approach
  - Obtain CAG's views on the Leases project at the December meeting

### Question for the CAG

- *From a project management perspective, is there **any other action** in developing the Leases project the IPSASB should consider in the **public interest**?*

# Main issues on lessor accounting and concessionary leases

## Double-counting in ED 64 lessor accounting?

### ED 64

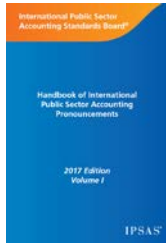
- Continue to recognize and measure the underlying asset according to the applicable IPSAS
- Recognize a lease receivable and a liability (unearned revenue)

### Some respondents believe:

- There is double-counting
- Double-counting inappropriately grosses up or inflates lessor's statement of financial position
- Respondents' proposed solutions:
  - Offsetting the liability and the underlying asset
  - Impair the underlying asset

# Main issues on lessor accounting and concessionary leases

## Double-counting in ED 64 lessor accounting?



### Meaning of “Double-counting”, “Gross” and “Offset/net”

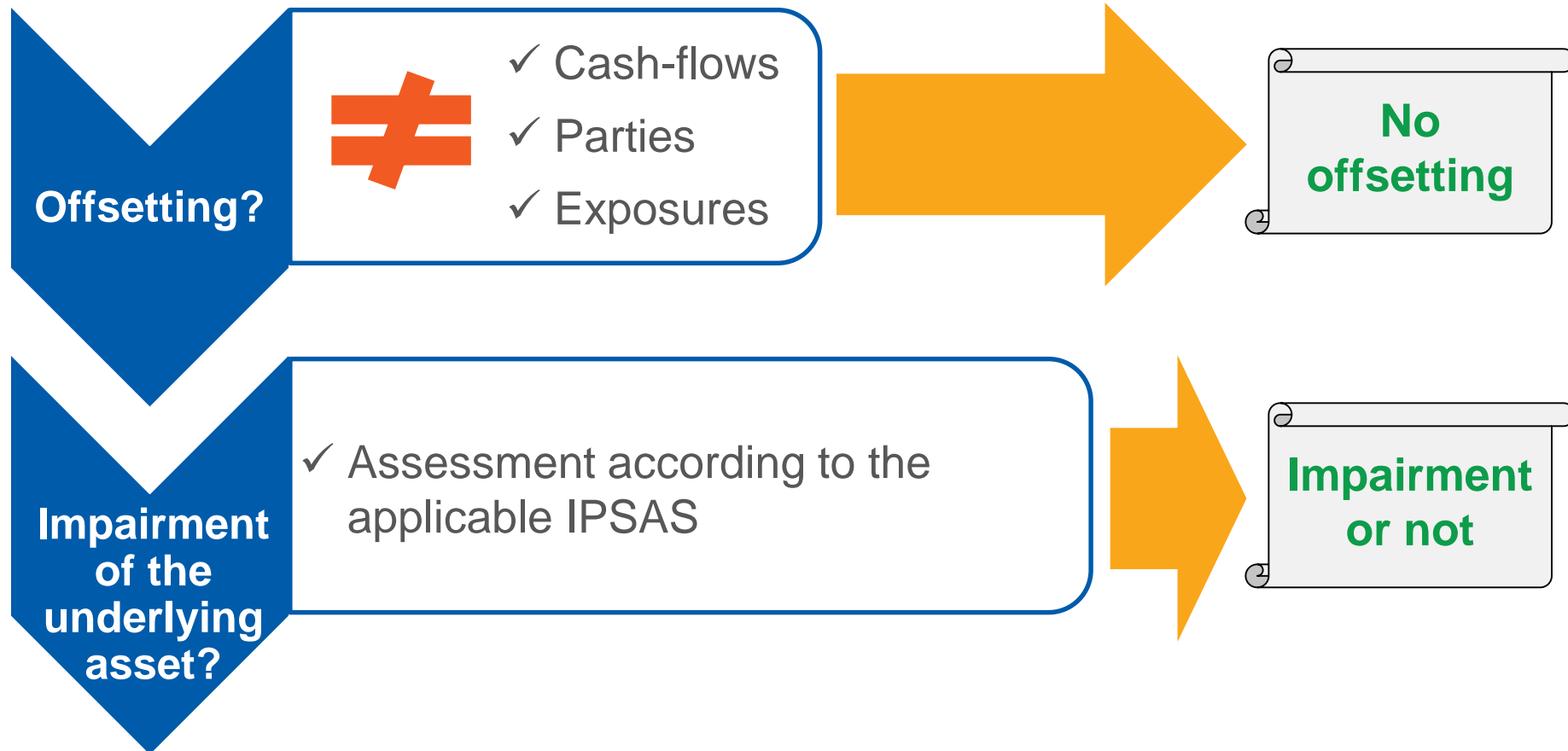
- Double-counting:
  - A single transaction (economic phenomenon) is recognized or counted **more than once**.
  - Is an **accounting error** because it leads to a misrepresentation of financial performance and financial position.
- “Gross” and “offset”/“net” is related to presentation of elements in the financial statements, and **do not give rise to accounting errors**
- “Double-counting” and “gross” **should not be used interchangeably**

### ED 64 View:

There is no double-counting.



# Main issues on lessor accounting and concessionary leases





# Main issues on lessor accounting and concessionary leases

## Question for the CAG

- Does the CAG agree with the IPSASB that **there is no double-counting** in continuing to recognize **both the underlying asset** and to recognize a debit entry for the **lease receivable** on one side and a credit entry for the **liability (unearned revenue)** on the other side?

# Main issues on lessor accounting and concessionary leases

## Recognize the subsidy in a concessionary lease?

### ED 64

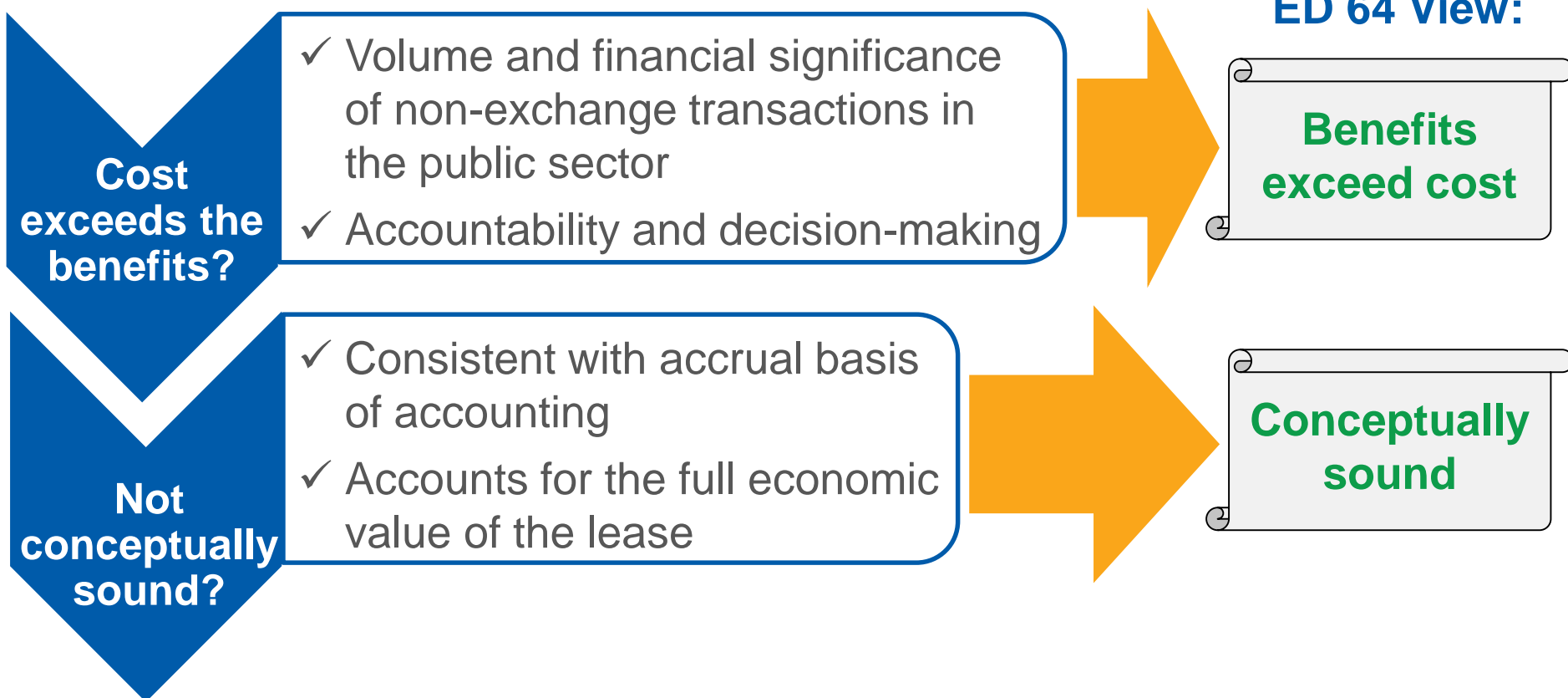
- Proposes to recognize the subsidy in a concessionary lease for both lessors and lessees.

### Some respondents disagree:

- Cost-benefit reasons
- Recognize revenue above cash is not conceptually sound
- Concessionary lease is not comparable to a concessionary loan, especially leases for zero and nominal consideration (no financing element)

# Main issues on lessor accounting and concessionary leases

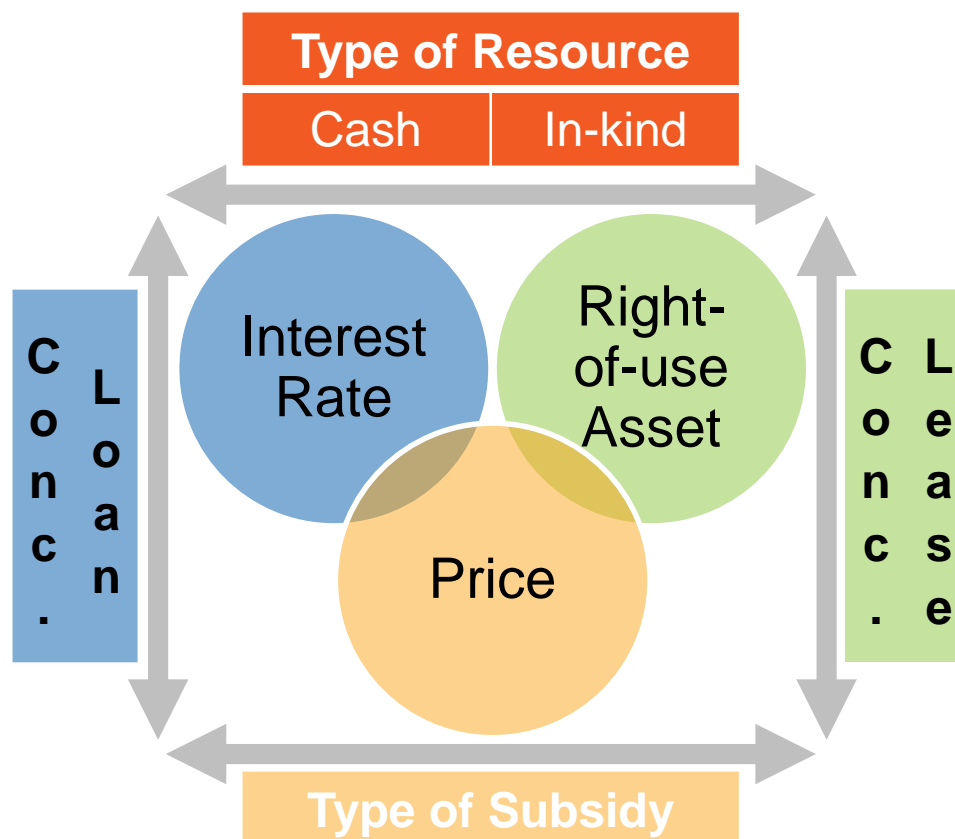
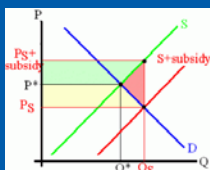
## Recognize the subsidy in a concessionary lease?



# Main issues on lessor accounting and concessionary leases

## Economics of the Subsidy

Comparison between concessionary loans and concessionary leases



ED 64 View:

Comparable transactions

# Main issues on lessor accounting and concessionary leases

## Accounting of the Subsidy

### Comparison between concessionary loans and concessionary leases

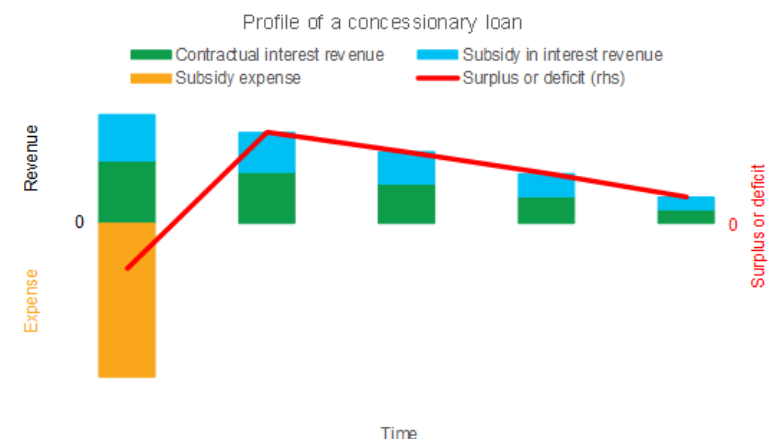
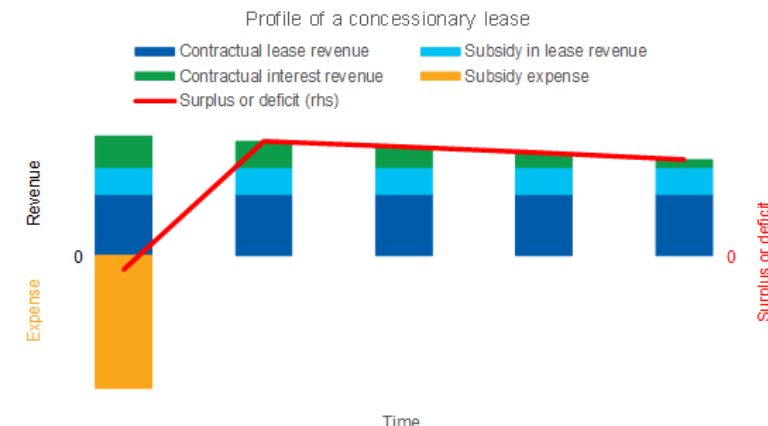
ASSET		LIABILITY		EQUITY	
DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
+	-	-	+	-	+

EXPENSE		REVENUE	
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ED 64 View:

Comparable accounting

# Main issues on lessor accounting and concessionary leases

## Question for the CAG

- *Does the CAG agree with the IPSASB that the **subsidy** in a concessionary lease **should be recognized** in lessors' and lessees' financial statements?*



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