

## Agenda Item 5: Leases

Appendix A: Comparison between  
concessionary loan and concessionary lease on  
the accounting of the subsidy

João Fonseca, Principal

IPSASB Consultative Advisory Group Meeting

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# Comparison between a concessionary loan and a concessionary lease

## Lender – Concessionary Loan      Lessor – Concessionary Lease

Loan: CU5.000

Contractual Interest Rate: 5%

Market Interest Rate: 10%

Loan Term: 5 years

Loan Plan						Cash Flow	Present Value	Dif.	Coef. 10%
Year	Op Bal	Int (5%)	Princ	Cash Flow	CI Bal				
1	5,000	250	905	1,155	4,095	1,155	1,050	105	0.909
2	4,095	205	950	1,155	3,145	1,155	954	200	0.826
3	3,145	157	998	1,155	2,147	1,155	868	287	0.751
4	2,147	107	1,048	1,155	1,100	1,155	789	366	0.683
5	1,100	55	1,100	1,155	0	1,155	717	438	0.621
<b>Total</b>		<b>774</b>	<b>5,000</b>	<b>5,774</b>		<b>5,774</b>	<b>4,378</b>	<b>1,396</b>	
Fair Value of Loan Plan									
Year	Op Bal	Int (10%)	Cash Flow		CI Bal				
1	4,378	438	1,155		3,661				
2	3,661	366	1,155		2,872				
3	2,872	287	1,155		2,004				
4	2,004	200	1,155		1,050				
5	1,050	105	1,155		0				
<b>Total</b>		<b>1,396</b>	<b>5,774</b>						

Loan	5,000
FV Loan	4,378
Subsidy	622

Annual Market Lease Payments: CU1.500

Annual Contractual Lease Payments: CU1.155

Market Interest Rate: 10%

Lease Term:

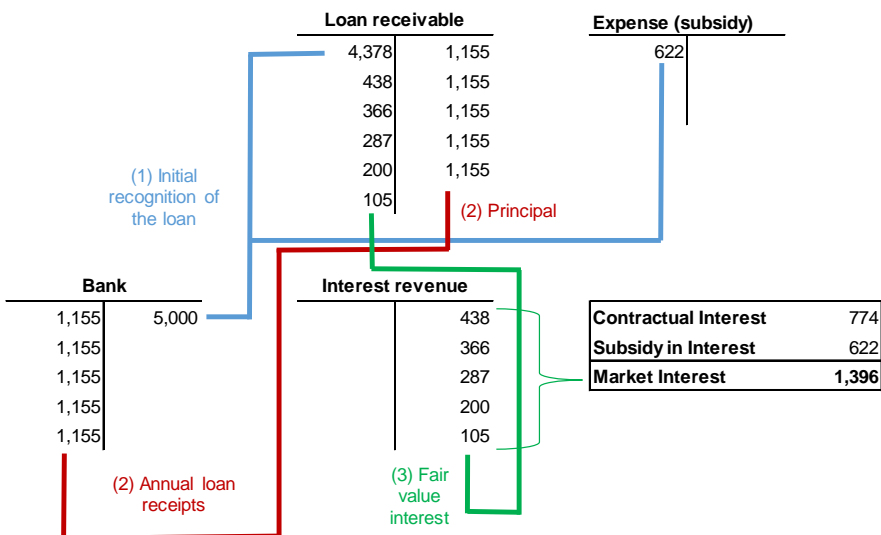
	Undiscounted Annual Market Lease Payments	Present Value of Annual Market Lease Payments	70% of:		Off-market portion of the lease
			Undiscounted Annual Contractual Lease Payments	Present Value of Annual Contractual Lease Payments	
	1	2	3	4	5=2-4
<b>Year 1</b>	1,500	1,364	1,155	1,050	314
<b>Year 2</b>	1,500	1,240	1,155	955	285
<b>Year 3</b>	1,500	1,127	1,155	868	259
<b>Year 4</b>	1,500	1,025	1,155	789	236
<b>Year 5</b>	1,500	931	1,155	717	214
<b>Total</b>	<b>7,500</b>	<b>5,686</b>	<b>5,775</b>	<b>4,378</b>	<b>1,308</b>

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Capital balance</b>	<b>4,378</b>	<b>3,661</b>	<b>2,872</b>	<b>2,005</b>	<b>1,050</b>
Interest payable	438	366	287	200	105
Principal	717	789	868	955	1,050
Contractual Lease payments	1,155	1,155	1,155	1,155	1,155
<b>Capital balance</b>	<b>3,661</b>	<b>2,872</b>	<b>2,005</b>	<b>1,050</b>	<b>0</b>

# Comparison between a concessionary loan and a concessionary lease

## Lender – Concessionary Loan



### Conclusion:

In a concessionary loan, the subsidy is recognized:

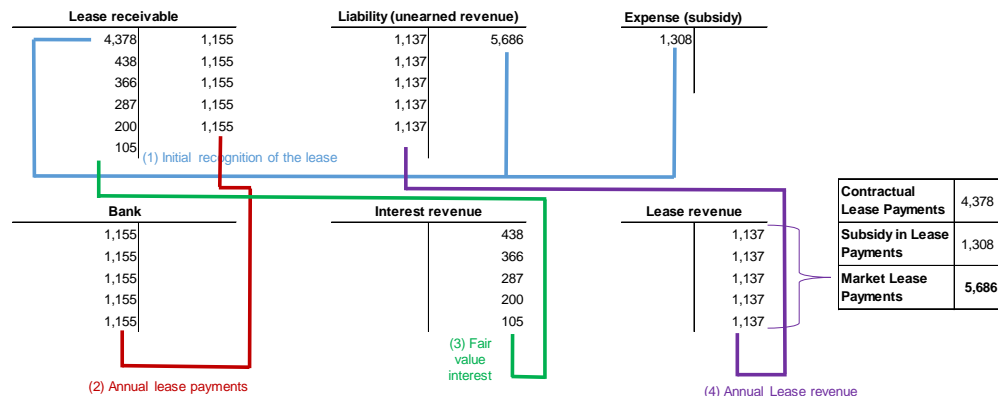
- (a) As expense at initial recognition; and
- (b) As interest revenue over the loan term.

1,396 Market interest revenue

-622 Subsidy

Net impact on surplus or deficit **774 Contractual interest payments**

## Lessor – Concessionary Lease



### Conclusion:

In a concessionary lease, the subsidy is recognized:

- (a) As expense at initial recognition; and
- (b) As lease revenue over the lease term.

5,686 Market lease revenue

-1,308 Subsidy

Net impact on surplus or deficit **4,378 Contractual lease payments**

**Overall conclusion:** The net impact on surplus or deficit of concessionary loans and concessionary leases is the contractual interest/lease payments, respectively.



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