Project **Leases**

Topic **Sale and Leaseback Transactions**

Purpose

1. The purpose of this paper is to discuss how both a seller/lessee and a buyer/lessor should account for sale and leaseback transactions.
2. This paper is structured as follows:
   (a) Background
   (b) Accounting for sale and leaseback transactions
   (c) A discussion of when a sale and leaseback transaction should be accounted for as a sale and leaseback of the underlying asset rather than a financing
   (d) A discussion of when a gain or loss arising on a sale and leaseback transaction should be deferred
   (e) Questions for the boards.
3. Throughout this paper, it is important to remember that under the proposed new lessee accounting model sale and leaseback transactions will no longer be a source of off-balance sheet financing. This is because a seller/lessee will always recognise a liability for its obligation to pay rentals during the leaseback.

This paper has been prepared by the technical staff of the FASB and the IASCF for discussion at a public meeting of the FASB or the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

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Background

4. In a sale and leaseback transaction, the seller/lessee sells an asset it owns to a buyer/lessor and then leases back that same asset. Such transactions may be entered into to generate cash flow, to reduce the risks associated with owning the asset or to obtain off-balance sheet financing.

5. Existing accounting for sale and leaseback transactions depends on the classification of the leaseback. If the seller/lessee classifies the leaseback as an operating lease and other specified conditions are met, any gain or loss on the sale is recognised immediately. If the leaseback is classified as a finance lease, the seller/lessee defers and amortises any gain on the sale over the lease term.

6. US GAAP has additional requirements for sale and leaseback transactions involving real estate. Topic 840-40 of the *FASB Accounting Standards Codification* ™ describes specific forms of continuing involvement that do not allow a seller/lessee to qualify for sale and leaseback accounting.

7. The boards discussed the issue of sale and leaseback transaction in June 2009 (see IASB Agenda paper 11A/FASB Memo #31). Both boards tentatively decided that the seller/lessee should consider whether the entire underlying asset (rather than a portion of the underlying asset) qualifies for derecognition/sales treatment.

8. The IASB also tentatively decided that the seller/lessee should:

   (a) apply a control-based approach consistent with the revenue recognition project to determine whether an asset has been sold and should therefore be derecognised by the seller/lessee

   (b) recognise any gain on a transaction that qualifies as a sale. The amount of the gain would be adjusted as appropriate if the sales proceeds or the terms of the leaseback are not at market value.

9. The FASB tentatively decided:

(a) The seller/lessee should derecognise the underlying asset if, after applying the applicable guidance for the underlying asset, the transaction qualifies as a sale

(b) To consider whether additional criteria are needed to help entities determine whether a sale and leaseback transaction represents a sale

(c) To consider whether addition guidance is needed on how to account for a sale and leaseback transaction when the sales prices or rental prices are not at market rates.

10. The boards' preliminary views on sale and leaseback transactions were discussed at a meeting of the leases working group in September 2009. Some working group members expressed support for the approach proposed by the boards. However, the following concerns were raised:

(a) Some working group members suggested the seller/lessee should only consider the rights and obligations transferred in the leaseback for derecognition (rather than the whole of the underlying asset).

(b) Some noted that additional guidance would be needed to help determine when a sale and leaseback transaction qualifies as a sale.

(c) Some noted that the accounting by the buyer/lessor needs to be the mirror image of the accounting by the seller/lessee.

(d) Other working group members expressed concerns about the structuring opportunities that would arise if a seller/lessee was permitted to recognise gains in a sale and leaseback transaction.

Decision to consider the entire asset

11. As discussed above, both boards tentatively decided that the seller/lessee in a sale and leaseback transaction should consider whether the entire underlying asset qualifies for derecognition/sales treatment.

12. An alternative approach (which was discussed by the boards), is that the seller/lessee would consider only the bundle of rights and obligations that are

transferred to the buyer/lessor for derecognition (a partial derecognition approach). Those rights retained under the leaseback would not be derecognised. For example, in a sale and leaseback of an office building, the seller/lessee would continue to recognise a portion of the building representing its right to use the building during the leaseback and derecognise that portion of the building relating to the rights transferred to the buyer/lessor (for example, ownership rights, the right to use the building after the end of the leaseback, rights to change or develop the property).

13. The boards decided not to adopt a partial derecognition approach because:

    (a) It may be more complex to apply.

    (b) It is inconsistent with the performance obligation approach to lessor accounting.

14. This decision may need to be reconsidered once the boards have developed the derecognition approach to lessor accounting. However, in this paper the staff have assumed that the parties to the sale and leaseback transaction should consider whether the entire asset has been sold/purchased.

Accounting for sale and leaseback transactions

15. Sale and leaseback transactions can be accounted for as either:

    (a) A sale of the underlying asset followed by the leaseback of the same asset; or

    (b) A financing transaction.

16. The following table summarises the required accounting depending upon whether the transaction is treated as a sale and leaseback transaction or a financing transaction:

	Seller/Lessee	Buyer/Lessor (assumes performance obligation model)
Sale and leaseback accounting	• Derecognises underlying asset • Records right-of-use asset and obligation to pay rentals • Gain/loss on sale will be recognised	• Recognises underlying asset • Records a receivable and a performance obligation
Financing	• Does not derecognise the leased asset • Records the proceeds received as a liability • No gain or loss on sale is recognised (interest expense will be reflected in income over the lease term)	• Does not recognise the leased asset • Records a receivable for the proceeds paid

17. Appendix A to this paper illustrates how a simple sale and leaseback transaction would be accounted for under the boards' proposed model for lessee accounting and the performance obligation model for lessor accounting assuming that the transaction is accounted for as a sale and leaseback. The following points should be noted:

    (a) Sale and leaseback transactions will no longer represent a source of off-balance sheet financing for lessees. This is because the lessee will always recognise a liability for its obligation to pay rentals during the leaseback.

(b) Sale and leaseback transactions can give rise to significant one-off gains. The gains represent the difference between the sales proceeds and the carrying amount of the underlying asset.

When should a sale and leaseback transaction be accounted for as a sale and leaseback rather than a financing?

18. This section discusses two different approaches to determining whether a sale and leaseback transaction should be accounted for as a sale and leaseback rather than a financing:

    (a) Determine whether the transaction is a sale of the underling asset (a sales approach). If the transaction does not qualify as a sale, it would be accounted for as a financing. Two approaches to determine whether a sale has occurred are discussed in this paper.

    (b) Determine whether the leaseback is a lease or a repurchase of the underlying (is the leaseback a lease approach). If the leaseback is a repurchase of the underlying asset the transaction would be accounted for as a financing.

19. The staff considered but rejected an approach whereby the seller/lessee would determine whether the underlying asset qualifies for derecognition under the approach proposed in the financial instruments derecognition project (a derecognition approach). The staff think that applying a derecognition approach developed for financial assets may not reflect the economics of non-financial assets.

The sales approach

20. As noted above, the boards have previously decided that the seller/lessee should only account for a transaction as a sale and leaseback transaction if it determines that the sales transaction is in fact a sale of the underlying asset.

21. The two approaches to determine whether a sale has occurred are:

(a) Approach A – apply the control criteria developed in the revenue recognition project to determine if a sale has occurred.

(b) Approach B – determine whether control has been transferred and all but a trivial amount of the risks and benefits associated with the underlying asset have transferred to the buyer/lessor.

22. These two approaches are discussed in the following sections.

Approach A – apply the control criteria developed in the revenue recognition project to determine if a sale has occurred.

23. As part of the revenue recognition project, the boards have developed guidance to help a reporting entity determine when it has transferred a promised good or service to the customer (ie when an entity has 'sold' a good).

24. Under the revenue recognition project an entity transfers a promised good or service when the customer obtains control of that good or service.

25. Control is defined as:

> An entity's present ability to direct the use of and receive the benefit from that good or service

26. Indicators that the customer has obtained control of a good or service include:

(a) the customer has an unconditional obligation to pay

(b) the customer has legal title

(c) the customer has physical possession

(d) the customer specifies the design or function of the good or service.

27. In a sale and leaseback transaction the sales contract and the lease contract are interdependent (ie they are (1) are entered into at or near the same time, (2) are negotiated as a package with a single objective, and (3) are performed either concurrently or continuously). Consequently, when applying these indicators to a sale and leaseback transaction it is necessary to consider the effect of the sales contract and the lease contract together. Applying these indicators to sale and leaseback transactions:

(a) The buyer/lessor will normally have an unconditional obligation to pay. In most sale and leaseback transactions the sales price is paid up front.

(b) The buyer/lessor will normally obtain legal title to the underlying asset. However, if the leaseback includes purchase options, or there are provisions in the sales or lease contracts that indicate title to the asset is expected to transfer back to the seller/lessee at the end of the lease, the buyer/lessor may only obtain title to the underlying asset temporarily.

(c) The buyer/lessor does not obtain physical possession of the underlying asset until the end of the leaseback period. However, this should not in itself preclude treatment as a sale unless:

  (i) there are provisions in the sales or lease contracts that indicate title to the asset is expected to transfer back to the seller/lessee at the end of the lease; or

  (ii) it is reasonably certain that the contract will cover the expected useful life of the asset and any risks or benefits associated with the underlying asset retained by the lessor at the end of the contract are expected to be not more than trivial.

(d) In a sale and leaseback transaction the buyer/lessor normally will not specify the design or function of the underlying asset.

28. Applying the control principle and the indicators those staff who support this approach think that most sale and leaseback transactions will be accounted for as sale and leasebacks transactions rather than financings.

29. The staff that support this approach have analysed some common features in sale and leaseback transactions to determine whether they would prevent the use of sale and leaseback accounting. Based upon this analysis, those staff think that the following features of a leaseback would normally prevent the use of sale and leaseback accounting:

(a) The contract is expected to transfer title back to the seller/lessee (either automatically or though a forward contract).

(b) The contract includes a purchase option.

(c) Contracts in which it is reasonably certain that the contract will cover the expected useful life of the asset and any risks or benefits associated with the underlying asset retained by the lessor at the end of the contract are expected to be not more than trivial.

(d) The return the buyer/lessor receives from the transaction is fixed (the lessor's return is a lenders return).

30. Those staff who support this approach note that it ensures consistency with the proposed control approach in the revenue recognition project.

Approach B – determine whether control has been transferred and all but a trivial amount of the risks and benefits associated with the underlying asset have transferred to the buyer/lessor.

31. At the February 2010 joint meeting on leases, the boards tentatively decided that transactions that are purchases or sales of the underlying asset should not be accounted for as leases. In particular, the boards tentatively decided that the proposed new leases requirements should clarify that a contract is a purchase or sale if at the end of the contract, it transfers:

(a) Control of the underlying asset.

(b) All but a trivial amount of the risks and benefits associated with the underlying asset.

32. At the February 2010 meeting, the boards also decided that a purchase/sale of an underlying asset has generally occurred in the following situations:

(a) Contracts in which the title of the underlying asset transfers to the lessee automatically.

(b) Contracts that include a bargain purchase option, if it is reasonably certain that option will be exercised.

(c) Contracts in which the return that the lessor receives is fixed.

(d) Contracts in which it is reasonably certain that the contract will cover the expected useful life of the asset and any risks or benefits associated with the underlying asset retained by the lessor at the end of the contract are expected to be not more than trivial.

33. This approach requires those principles along with the following additional conditions be used to determine whether a sale and leaseback results in the sale of the underlying asset to the buyer/lessor. These additional conditions are required due to certain provisions/conditions being in sale and leaseback transactions that may not be in normal sales contracts. This approach results in a sale and leaseback being accounted for as sale and leaseback (rather than a financing) if the underlying asset has been sold. Accordingly, if the leaseback is a purchase, then the seller/lessee couldn't have sold the underlying asset to lease it back. Therefore, those transactions should be accounted for as a financing.

34. For example, a real estate transaction where the seller/lessee makes guarantees to the buyer/lessor could result in the seller/lessee retaining more than a trivial amount of the risks and benefits associated with the underlying asset. Some think that the sale and leaseback in this situation is just an alternate source of financing and should be accounted for as a financing.

35. The following are conditions that normally would not be treated as a sale of the underlying asset if more than a trivial amount of the risks and benefits associated with the underlying asset are retained by the seller/lessee:

(a) The seller/lessee has an obligation or an option to repurchase the property or the buyer/lessor can compel the seller/lessee to repurchase the property.

(b) The seller/lessee guarantees the buyer/lessor's investment or a return on that investment.

(c) The seller/lessee provides the buyer/lessor with a residual value guarantee.

(d) The seller/lessee provides nonrecourse financing to the buyer/lessor.

(e) The seller/lessee is not relieved of the obligation under any existing debt related to the property.

(f) The seller/lessee provides collateral on behalf of the buyer/lessor (other than the underlying asset) or guarantees the buyer/lessor's debt.

(g) The seller/lessee's rental payment is contingent on some predetermined or determinable level of future operations of the buyer/lessor.

(h) The seller/lessee enters into a sale-leaseback transaction involving property improvements or integral equipment without leasing the underlying land to the buyer/lessor.

(i) The buyer/lessor is obligated to share with the seller/lessee any portion of the appreciation of the property.

(j) Any other provision or circumstance that allows the seller/lessee to participate in any future profits of the buyer/lessor or the appreciation of the leased property, for example, a situation in which the seller/lessee owns or has an option to acquire any interest in the buyer/lessor.

36. Many of the conditions in paragraph 35 above are consistent with the leases guidance in Topic 840-40. Consequently, the staff notes that they will be familiar to US GAAP preparers.

37. In determining whether the underlying asset has been sold in a sale and leaseback, it will be necessary to consider the effect of the sales contract and the lease contract together. Under this approach, the sale and leaseback contracts should be accounted for as a single contract, even if entered into separately. This is because the sales contract and the lease contract are interdependent (ie they are (1) are entered into at or near the same time, (2) are negotiated as a package with a single objective, and (3) are performed either concurrently or continuously).

38. By analyzing the contracts as a single contract and requiring the sale to meet the principles above to be eligible for sale and leaseback accounting, many sales and

leasebacks may be accounted for as financings. Accounting for a sale and leaseback as a financing is appropriate if the purpose of the transaction is, for example, a relatively inexpensive form of asset-backed financing, or if the underlying asset is expected to return to the seller/lessee at the end of the lease.

39. Staff who support this approach think that sales and leasebacks, in many instances, are just an alternate source of financing and should be accounted for as a financing. In fact, the threshold to achieve a sale in a sale and leaseback should be higher due to the continuing involvement of the seller/lessee (ie, the control the seller/lessee retains in a sale and leaseback). Consequently, by first requiring the sale to qualify as a sale under the principles above and consider other conditions of both the sale and lease contracts, many leases may be recorded in the financial statements as financings.

40. Staff who support this approach think that recording the substance of the transaction provides better information than recording the form of the transaction. In the case of a sale and leaseback, recording a financing, which better reflects the economics of many sale and leaseback transactions, provides better information to users of financial statements than derecognizing an asset, recognizing a gain, and recording an obligation, for an asset that the seller/lessee retains possession of and may very well repurchase in the future.

41. In addition, staff who support this approach note that *not* all sales and leasebacks will be accounted for as financings. All sales and leasebacks will be able to qualify for sale and leaseback accounting. For example, an entity who determines they do not want to be a property owner may qualify for sale and leaseback accounting. However, if the property owner desires provisions in the contracts to retain ownership rights at the end of the lease, the transaction will be appropriately recorded as a financing.

42. Staff who support this approach also think that not requiring all provisions of both the sale and lease contract to be analysed in determining if the transaction qualifies for sale and leaseback accounting results in certain transactions being

accounted for as a leaseback of the underlying that the seller/lessee never in fact sold.

Is the leaseback a lease approach

43. Under this approach, if the leaseback is a purchase rather than a lease, the sale and leaseback transaction would be treated as a financing – the seller/lessee has in effect repurchased the underlying asset.

44. The boards have already developed criteria for determining whether a lease is a lease or a purchase of the underlying asset. Applying these criteria, a leaseback would be treated as a repurchase of the underlying asset (and the transaction would be accounted for as a financing) if the leaseback transfers:

    (a) Control of the underlying asset back to the seller/lessee at the end of the leaseback

    (b) All but a trivial amount of the risks and benefits associated with the underlying asset to the seller/lessee.

45. The staff have analysed how some common features in sale and leaseback transactions would be treated under this approach. Most transactions would be accounted for in the same way as under the sales approach if the control criterion in the revenue recognition project is used to determine if there has been a sale. The main difference is that under this approach a lease that includes a non bargain purchase option would be accounted for as a sale and leaseback rather than a financing.

Staff recommendations and question for the boards

46. Applying the criteria developed by the boards to determine when a transaction is a purchase or a sale to sale and leaseback transactions results in only those transactions that would qualify as sales of the underlying asset being treated as sales. This approach would consider the details of the sales contract along with the details of the lease contract to determine whether the sale was in fact a sale

(for example, if the lease is a purchase of the underlying asset, then the sale of the underlying asset would not qualify as a sale). However, this may result in leases being accounted for as financings.

47. Determining whether the leaseback is a lease or a repurchase of the underlying asset ensures that leases are accounted for as leases whether they arise from a normal lease or a sale and leaseback (ie history does not matter under this approach). However, this may result in sales of underlying assets being accounted for as sales when the underlying asset has in fact not been sold.

48. The staff are divided on which of these two approaches is preferable.

    (a) Some staff think that the seller/lessee should not qualify for sale and leaseback accounting unless a sale has occurred. These staff support sales Approach B in determining if a sale has occurred.

    (b) Other staff think that a lease should be accounted for as a lease whether it arises from a sale and leaseback transaction or a stand-alone lease.

49. The staff are also divided on which of the two approaches to determining whether a sale has occurred is preferable.

    (a) Some think that the control criteria developed by the revenue recognition team should be used to determine if a sale has taken place. This ensures consistency with the proposed approach to other sales type transactions.

    (b) Others think that most sale and leaseback transactions are in substance financings. Only recognising the transaction as a sale if it transfers control and all but a trivial amount of the risks and benefits associated with the underlying asset to the buyer/lessor ensures that most transactions are treated as financings.

Questions for the boards

Question 1
Which of the two approaches to sale and leaseback transactions do the boards support: (a) Determining whether there is a sale (b) Determining whether the lease is a lease? If the boards support a sales approach, which of the two approaches to determining whether a sale has occurred do the boards prefer: (a) The control approach proposed in the revenue recognition project (b) Determining whether the transaction transfers control and all but a trivial amount of the risks and benefits associated with the underlying asset to the buyer lessor?

When should a gain or loss arising on a sale and leaseback transaction be deferred?

50. No gain or loss will arise on a sale and leaseback transaction if the transaction is accounted for as a financing. However, there may be situations in which the boards would wish to defer a gain or loss arising in a transaction that is accounted for as a sale and leaseback.

51. The staff think that as long as both the sale and the leaseback are established at fair value, gains or losses arising from the transaction should not be deferred. This is because:

    (a) Deferring gains or losses is inconsistent with the boards' conceptual frameworks–any deferred income/loss balance recognised will not meet the definition of a liability/asset.

    (b) Defining those transactions for which gains or losses will be deferred will increase the complexity of the new requirements.

52. The staff note that the boards have already tentatively decided that a seller/lessee should disclose the main features of any sale and leaseback transactions carried out during the reporting period including any gains or losses arising on the transaction.

53. However, the staff note that in a sale and leaseback transaction the seller/lessee may be willing to pay higher than market rentals in return for increased proceeds from the sale of the asset. Similarly, the seller/lessee may be willing to accept a lower sales price for the asset if the future rentals are below market rates. The following table summarises the effect that a sale or leaseback at other than a market rate could have on the recorded assets and liabilities:

	Seller/lessee	**Buyer/lessor**
Sales proceeds are greater than fair value **Leaseback is at above market rates**	• Any gain on disposal will be overstated • Any loss on disposal will be understated • The right-of-use asset will be overstated	• The carrying amount of the property may be overstated[1] • The performance obligation will be overstated
Sales proceeds are less than fair value **Leaseback is at below market rates**	• Any gain on disposal will be understated • Any loss on disposal will be overstated • The right-of-use asset will be understated	• The carrying amount of the property may be understated • The performance obligation will be understated

[1] If the fair value of a leased asset is deemed to include the value of any in place leases, this may not be true. For example, an asset that is leased out at greater than market rates will have a higher fair value than the same asset that is leased out at a market rate. IAS 40 *Investment Property* requires a lessor to reflect the value of in place leases when determining the fair value of an investment property.

54. The following sections discuss two approaches to how transactions of this type should be addressed:

    (a) **Approach A** – defer gains arising on transactions where either the sale or the leaseback is not established at fair value

    (b) **Approach B** – adjust the asset, liabilities, gains and losses recognised to reflect current market rentals

Approach A – defer gains arising on transactions where either the sale or the leaseback is not established at fair value

55. Under approach A, a seller/lessee would be required to do the following for transactions where either the sale or the leaseback is not established at fair value:

    (a) Any loss arising on the transaction would be recognised immediately, unless it is compensated for by lower than market rate rentals during the leaseback.

    (b) Any gain arising on the transaction would be deferred and recognised over the term of the lease.

56. This approach ensures that any losses arising on a transaction are recognised immediately and that no gains are recognised in situations where the sale or the leaseback is not at market rates.

Approach B – adjust the asset, liabilities, gains and losses recognised to reflect current market rentals

57. Under approach B the new leases requirements would include guidance to ensure that that the assets, liabilities, gains and losses arising in a sale and leaseback transaction are neither over nor under stated. To achieve this the following adjustments would be made:

    For the seller/lessee

    (a) The right-of-use asset recognised by the seller/lessee would reflect current market rentals for that asset (ie the right-of-use asset would

equal the present value of *market rate* rentals for that asset rather than the rentals payable in the leaseback)

(b) Any difference between the right-of-use asset recognised by the seller/lessee and the present value of the expected lease payments would be recognised as an adjustment to any gain or loss on disposal.

For the buyer/lessor

(c) The underlying asset would be initially measured at fair value. Any difference between the fair value of the underlying asset and the cost of the asset would be recognised as an adjustment to the buyer/lessor's performance obligation.

Staff recommendations

58. Some staff support approach A because they think that:

(a) It would be simpler to apply than approach B.

(b) Approach B may not work in practice because it may not be possible to determine reliably the market rate for the leaseback. The inability to determine fair value of the leaseback is consistent with prior decisions reached by the Boards on requiring an entity to fair value a lease.

59. Other staff support approach B because:

(a) It does not result in the recognition of deferred income balances that may not meet the boards' definition of a liability.

(b) It ensures that the assets, liabilities, gains and losses recognised by both the buyer/lessor and seller/lessee are neither under nor overstated.

Questions for the boards

Question 2
The staff recommend that as long as the sale and leaseback transaction results in a sale of the underlying asset and both the sale and leaseback are established at fair value, gains or losses arising from the transaction should not be deferred. Do the boards agree? If not, what alternative approach would you recommend and why?

Question 3
The staff have identified two alternative approaches for accounting for transactions where either the sale or the leaseback is not established at fair value: **Approach A** – defer gains arising on transactions where either the sale or the leaseback is not established at fair value **Approach B** – adjust the asset, liabilities, gains and losses recognised to reflect current market rentals Which of the two approaches do the boards prefer? If you would prefer an alternative approach please describe what that approach would be.

Appendix A – Accounting for a simple sale and leaseback transaction

A1. The following example illustrates how a simple sale and leaseback transaction would be accounted for under the boards' proposed models for lessee and lessor accounting.

Facts

Entity X owns an office building which has a carrying amount of CU700 and a fair value of CU1000. The remaining useful life of the building is 20 years. Entity X agrees to sell the building to entity Y for CU1000. At the same time, entity X agrees to lease the building back from entity Y for 5 years. Annual rentals on the leaseback are CU85. Entity X's incremental borrowing rate and the rate that entity Y is charging in the transaction is 10%.

At the start of the leaseback the present value of the lease payments discounted at entity X's incremental borrowing rate is CU322

Accounting by entity X (the seller/lessee)

A2. On the transaction date, entity X records the following journals:

Dr	Cash	1000	
Cr	Property		700
Cr	Gain on sale		300

To recognise sale of property

Dr	Right-of-use asset	322	
Cr	Obligation to pay rentals		322

To recognise leaseback

A3. The following table illustrates the relevant portions of entity X's statement of financial position and profit or loss:

Statement of financial position

	Year						
	0	**0**	**1**	**2**	**3**	**4**	**5**
	Pre-sale	**Post-sale**					
Property	700	0	0	0	0	0	0
Cash	0	1000	915	830	745	660	575
Right-of-use asset	0	322	258	193	129	64	0
Obligation to pay rentals	0	-322	-269	-211	-148	-77	0
Net assets	700	1000	904	812	726	647	575

Profit or loss

	Year					
	1	**2**	**3**	**4**	**5**	**Total**
Gain	300	0	0	0	0	300
Amortisation	-64	-64	-64	-64	-64	-322
Interest	-32	-27	-21	-15	-8	-103
	203	-91	-86	-79	-72	-125

Accounting by entity Y (the buyer/lessor)

A4. On the transaction date, entity Y records the following journals:

Dr	Property	1000	
Cr	Cash		1000

To recognise the purchase of property

Dr	Receivable	322	
Cr	Performance obligation		322

To recognise leaseback

A5. The following table illustrates the relevant portions of entity Y's statement of financial position and profit or loss:

Statement of financial position

	Year						
	0	**0**	**1**	**2**	**3**	**4**	**5**
	Pre-sale	**Post-sale**					
Property	0	1000	950	900	850	800	750
Cash	1000	0	85	170	255	340	425
Receivable	0	322	269	211	148	77	0
Performance obligation	0	-322	-258	-193	-129	-64	0
Net assets	1000	1000	1046	1088	1124	1153	1175

Profit or loss

	Year					
	1	**2**	**3**	**4**	**5**	**Total**
Release of performce obligation	64	64	64	64	64	322
Interest income	32	27	21	15	8	103
Depreciation	-50	-50	-50	-50	-50	-250
	46	41	35	29	22	175