Project	**Leases**
Topic	**Break-out session**

Lessor: accounting model

Background

1. The exposure draft will discuss two approaches to lessor accounting: the performance obligation approach and the derecognition approach.

2. Under the performance obligation approach, the lessor retains the underlying asset in its statement of financial position and recognises a receivable and a performance obligation. Interest is accrued on the receivable and income is recognised as the performance obligation is satisfied over the lease term.

3. Under the derecognition approach, the lessor recognises a receivable, and derecognises a portion of the underlying asset that represents the right to use the underlying asset that it has transferred to the lessee. As a result of the transfer, the lessor also recognises income and expense at lease commencement. If the carrying amount of the underlying asset is less than its fair value of the underlying asset (eg leases by manufacturer/dealers, re- leases of assets carried at historic cost) a gain would be recognised at lease commencement. Interest is accrued on the receivable.

4. Presentation under each model is as follows:

	Performance obligation	Derecognition
Statement of financial position	Underlying asset X Lease receivable X Performance Obligation (X) Net lease asset / liability X	Lease receivable X (separate from other receivables) Notes: PP&E (by class): Residual asset X Owned assets X
Statement of comprehensive income	Lease income X Interest income X Depreciation (X) (separate presentation)	Revenue X Cost of sales (X) (gross or net depending on business model) Interest income X

Who applies which approach?

5. The boards have tentatively decided to adopt a hybrid approach to lessor accounting. Under that approach, the lessor will apply the performance obligation to leases when the lessor's exposure to the risks and benefits associated with the underlying asset is significant. The derecognition approach would apply to all other leases

6. We think that the hybrid approach would result that the performance obligation approach is applied to most existing operating leases and the derecognition approach to most existing finance leases.

Question 3– Lessor accounting model
Do you support the proposed hybrid approach to lessor accounting? If you do not support the boards' proposed approach how would you decide which types of leases to apply the derecognition approach and which types apply the performance obligation approach?