

IASB/FASB Joint Meeting - Week Commencing May 16, 2011
IASB/FASB Education Sessions - Week Commencing May 9, 2011
AP 2F/FASB Memo 173 - Appendix B

Illustration of sale or assignment of lease receivables under Approach 1 and Approach 2

The following examples illustrates the accounting for receivables when sold (under Approach 1) or rentals are assigned (under Approach 2). The lessor has a lease that pays CU10,000 annually for 7 years. The rate in the lease is 8%. On the first day of Year 4, the lessor sells the receivables / assigns the rentals. Current market rates are 6%, resulting in proceeds of CU34,651. It is assumed that the transfer of receivables in Approach 1 meets the criteria to be a sale and the lessor retains beneficial interests in the receivables. Note the following:

- Under Approach 1, a sale is recorded and it results in a gain on sale (a result of the change in market rates from 8% to 6%). Amortization revenue from the contract liability continues as scheduled; however, interest income is no longer recorded because the receivable has been sold.

- Under Approach 2, a borrowing is recorded and the lessor incurs interest expense from Years 4-7. The lessor continues to recognize lease revenue at CU10,000 per year during those years.

APPROACH 1											
YEAR	LEASE PAYMENTS	LEASE CONTRACT LIABILITY	LEASE RECEIVABLE		NET LIABILITY	AMORT REVENUE	INTEREST INCOME	LEASE REVENUE	CASH FROM SALE	GAIN ON SALE	TOTAL P&L
Rate			8%								
0		52,064	52,064	52,064	-						
1	10,000	46,229	10,000	46,229	-	5,835	4,165	10,000	-	-	10,000
2	10,000	39,927	10,000	39,927	-	6,302	3,698	10,000	-	-	10,000
3	10,000	33,121	10,000	33,121	-	6,806	3,194	10,000	-	-	10,000
4	10,000	25,771	-	-	25,771	7,350	-	7,350	34,651	1,530	8,880
5	10,000	17,833	-	-	17,833	7,938	-	7,938	-	-	7,938
6	10,000	9,259	-	-	9,259	8,573	-	8,573	-	-	8,573
7	10,000	-	-	-	-	9,259	-	9,259	-	-	9,259
TOTAL			30,000			52,064	11,058	63,121	34,651	1,530	64,651

(a)

(c)

(b)

(d)

APPROACH 2							
YEAR	LEASE PAYMENTS	OP LEASE REVENUE	DEFERRED LIABILITY	CASH COLLECTED	SECURED BORROWING	INTEREST EXPENSE	TOTAL P&L
1	10,000	10,000	-	10,000	-	-	10,000
2	10,000	10,000	-	10,000	-	-	10,000
3	10,000	10,000	-	10,000	-	-	10,000
					34,651		
4	10,000	10,000	-	34,651	26,730	2,079	7,921
5	10,000	10,000	-	-	18,334	1,604	8,396
6	10,000	10,000	-	-	9,434	1,100	8,900
7	10,000	10,000	-	-	-	566	9,434
TOTAL	70,000	70,000		64,651		5,349	64,651

(f)

(e)

(g)

<u>Approach 1</u>		<u>Approach 2</u>	
Cash from Lessee	30,000 (a)		
Cash from Sale	34,651 (b)		
Total Cash Collected	64,651	Total Cash Collected	64,651 (e)
Lease Revenue	63,121 (c)	Lease Revenue	70,000 (f)
Gain on Sale	1,530 (d)	Interest Expense	(5,349) (g)
Total P&L	64,651	Total P&L	64,651