

**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
<b>TOTAL</b>			<b>30,000</b>			<b>52,064</b>	<b>11,058</b>	<b>63,121</b>	<b>34,651</b>	<b>1,530</b>	<b>64,651</b>

(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
<b>TOTAL</b>	<b>70,000</b>	<b>70,000</b>		<b>64,651</b>		<b>5,349</b>	<b>64,651</b>

(f)

(e)

(g)

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