

International Accounting Standard 17

Leases

This version includes amendments resulting from IFRSs issued up to 31 December 2008.

IAS 17 *Leases* was issued by the International Accounting Standards Committee in December 1997. It replaced IAS 17 *Accounting for Leases* (issued in September 1982). Limited amendments were made in 2000.

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In December 2003 the IASB issued a revised IAS 17.

Since then, IAS 17 has been amended by the following IFRSs:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004)
- IFRS 7 *Financial Instruments: Disclosures* (issued August 2005).

IAS 1 *Presentation of Financial Statements* (as revised in September 2007)* amended the terminology used throughout IFRSs, including IAS 17.

The following Interpretations refer to IAS 17:

- SIC-15 *Operating Leases—Incentives* (issued December 1998, and subsequently amended)
- SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* (issued December 2001 and subsequently amended)
- SIC-29 *Service Concession Arrangements: Disclosures* (issued December 2001 and subsequently amended)
- SIC-32 *Intangible Assets—Web Site Costs* (issued March 2002 and subsequently amended)
- IFRIC 4 *Determining whether an Arrangement contains a Lease* (issued December 2004)
- IFRIC 12 *Service Concession Arrangements* (issued November 2006 and subsequently amended).

* effective date 1 January 2009

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International Accounting Standard 17 *Leases* (IAS 17) is set out in paragraphs 1–70 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 17 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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Introduction

- IN1 International Accounting Standard 17 *Leases* (IAS 17) replaces IAS 17 *Leases* (revised in 1997) and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

Reasons for revising IAS 17

- IN2 The International Accounting Standards Board developed this revised IAS 17 as part of its project on Improvements to International Accounting Standards. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.
- IN3 For IAS 17 the Board's main objective was a limited revision to clarify the classification of a lease of land and buildings and to eliminate accounting alternatives for initial direct costs in the financial statements of lessors.
- IN4 Because the Board's agenda includes a project on leases, the Board did not reconsider the fundamental approach to the accounting for leases contained in IAS 17. For the same reason, the Board decided not to incorporate into IAS 17 relevant SIC Interpretations.

The main changes

Scope

- IN5 Although IAS 40 *Investment Property* prescribes the measurement models that can be applied to investment properties held, it requires the finance lease accounting methodology set out in this Standard to be used for investment properties held under leases.

Definitions

Initial direct costs

- IN6 Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease. The definition of the interest rate implicit in the lease has been amended to clarify that it is the discount rate that results in the present value of the minimum lease payments and any unguaranteed residual value equalling the fair value of the leased asset plus initial direct costs of the lessor.

Inception of the lease/commencement of the lease term

- IN7 This Standard distinguishes between the inception of the lease (when leases are classified) and the commencement of the lease term (when recognition takes place).

Unearned finance income/net investment in the lease

- IN8 The definitions of these terms have been simplified and articulated more explicitly to complement the changes relating to initial direct costs referred to in paragraphs IN10–IN12 and the change in the definition of the interest rate implicit in the lease referred to in paragraph IN6.

Classification of leases

- IN9 When classifying a lease of land and buildings, an entity normally considers the land and buildings elements separately. The minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests in the land and buildings elements of the lease. The land element is normally classified as an operating lease unless title passes to the lessee at the end of the lease term. The buildings element is classified as an operating or finance lease by applying the classification criteria in the Standard.

Initial direct costs

- IN10 Lessors include in the initial measurement of finance lease receivables the initial direct costs incurred in negotiating a lease. This treatment does not apply to manufacturer or dealer lessors. Manufacturer or dealer lessors recognise costs of this type as an expense when the selling profit is recognised.
- IN11 Initial direct costs incurred by lessors in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.
- IN12 The Standard does not permit initial direct costs of lessors to be charged as expenses as incurred.

Transitional provisions

- IN13 As discussed in paragraph 68 of the Standard, an entity that has previously applied IAS 17 (revised 1997) is required to apply the amendments made by this Standard retrospectively for all leases, or if IAS 17 (revised 1997) was not applied retrospectively, for all leases entered into since it first applied that Standard.

International Accounting Standard 17

Leases

Objective

- 1 The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

Scope

- 2 This Standard shall be applied in accounting for all leases other than:
- (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and
 - (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

However, this Standard shall not be applied as the basis of measurement for:

- (a) property held by lessees that is accounted for as investment property (see IAS 40 *Investment Property*);
 - (b) investment property provided by lessors under operating leases (see IAS 40);
 - (c) biological assets held by lessees under finance leases (see IAS 41 *Agriculture*); or
 - (d) biological assets provided by lessors under operating leases (see IAS 41).
- 3 This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Definitions

- 4 The following terms are used in this Standard with the meanings specified:
- A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.*
- A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.*
- An operating lease is a lease other than a finance lease.*
- A non-cancellable lease is a lease that is cancellable only:*
- (a) upon the occurrence of some remote contingency;

- (b) with the permission of the lessor;
- (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The *inception of the lease* is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- (a) a lease is classified as either an operating or a finance lease; and
- (b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease term are determined.

The *commencement of the lease term* is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, income or expenses resulting from the lease, as appropriate).

The *lease term* is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
- (b) for a lessor, any residual value guaranteed to the lessor by:
 - (i) the lessee;
 - (ii) a party related to the lessee; or
 - (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Economic life is either:

- (a) the period over which an asset is expected to be economically usable by one or more users; or