

Guidance on implementing IAS 17 Leases

This guidance accompanies, but is not part of, IAS 17.

Illustrative examples of sale and leaseback transactions that result in operating leases

A sale and leaseback transaction that results in an operating lease may give rise to profit or a loss, the determination and treatment of which depends on the leased asset's carrying amount, fair value and selling price. The table below shows the requirements of the Standard in various circumstances.

Sale price at fair value (paragraph 61)	Carrying amount equal to fair value	Carrying amount less than fair value	Carrying amount above fair value
Profit	no profit	recognise profit immediately	not applicable
Loss	no loss	not applicable	recognise loss immediately

Sale price below fair value (paragraph 61)			
Profit	no profit	recognise profit immediately	no profit (note 1)
Loss <u>not</u> compensated for by future lease payments at below market price	recognise loss immediately	recognise loss immediately	(note 1)
Loss compensated for by future lease payments at below market price	defer and amortise loss	defer and amortise loss	(note 1)

Sale price above fair value (paragraph 61)			
Profit	defer and amortise profit	defer and amortise excess profit (note 3)	defer and amortise profit (note 2)
Loss	no loss	no loss	(note 1)

- Note 1 These parts of the table represent circumstances dealt with in paragraph 63 of the Standard. Paragraph 63 requires the carrying amount of an asset to be written down to fair value where it is subject to a sale and leaseback.
- Note 2 Profit is the difference between fair value and sale price because the carrying amount would have been written down to fair value in accordance with paragraph 63.
- Note 3 The excess profit (the excess of sale price over fair value) is deferred and amortised over the period for which the asset is expected to be used. Any excess of fair value over carrying amount is recognised immediately.