

ACCOUNTING STANDARDS BOARD

STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

LEASES

(GRAP 13)

Issued by the
Accounting Standards Board

February 2010

Acknowledgement

The Standard of Generally Recognised Accounting Practice (GRAP) on *Leases* is based on the International Public Sector Accounting Standard (IPSAS) 13 on *Leases* from the *Handbook of International Public Sector Accounting Pronouncements* of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) and is used with the permission of the IFAC.

Handbook of International Public Sector Accounting Pronouncements © by the International Federation of Accountants (IFAC). All rights reserved.

The approved text of IPSAS is that published by the IFAC in the English language, and copies may be obtained directly from:

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, New York 10017 USA

Internet: http://www.ifac.org

Copyright on IPSAS, exposure drafts and other publications of the IPSASB are vested in IFAC and terms and conditions attached should be observed.

Copyright © 2024 by the Accounting Standards Board

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the Accounting Standards Board. The approved text is published in the English language.

Permission to reproduce limited extracts from the publication will not usually be withheld.

Contents

Standard of Generally Recognised Accounting Practice

Leases

	Paragraphs
Introduction	
Objective	.01
Scope	.02 - .05
Definitions	.06 - .09
Changes in lease payments between the inception of the lease and the commencement of the lease term	.07
Hire purchase contracts	.08
Incremental borrowing rate of interest	.09
Classification of leases	.10 - .21
Leases and other contracts	.22 - .24
Operating lease incentives	.25
Leases in the financial statements of lessees	.26 - .42
Finance leases	.26 - .39
Initial recognition	.26 - .31
Subsequent measurement	.32 - .37
Disclosures	.38 - .39
Operating leases	.40 - .42
Disclosures	.42
Leases in the financial statements of lessors	.43 - .67
Finance leases	.43 - .58
Initial recognition	.45 - .47
Subsequent measurement	.48 - .56
Disclosures	.57 - .58
Operating leases	.59 - .67
Disclosures	.66 - .67
Sale and leaseback transactions	.68 - .76

Transitional provisions .77 - .78

Initial adoption of the Standard of GRAP .77

Amendments to Standards of GRAP .78

Effective date .79 - .81B

Initial adoption of the Standard of GRAP .79

Entities already applying Standards of GRAP .80 - .81B

Withdrawal of the Standard of GRAP on *Leases* (2004) .82

Appendix 1 – Classification of a lease

Appendix 2 – Accounting for a finance lease by a lessor

Appendix 3 – Accounting for a finance lease by a lessee

Appendix 4 – Sale and leaseback transactions that result in operating leases

Comparison with International Public Sector Accounting Standard on *Leases* (December 2006)

LEASES

This Standard was originally issued by the Accounting Standards Board (the Board) in December 2006. Since then, it has been amended by:

- Improvements to the Standards of GRAP, issued by the Board in February 2010.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 21 *Impairment of Non-cash-generating Assets*
  - GRAP 26 *Impairment of Cash-generating Assets*
  - GRAP 104 *Financial Instruments*
- Improvements to the Standards of GRAP, issued by the Board in March 2012.
- Consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.
- Improvements to the Standards of GRAP, issued by the Board in November 2013.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 105 *Transfers of Functions Between Entities Under Common Control*
  - GRAP 106 *Transfers of Functions Between Entities Not Under Common Control*
  - GRAP 107 *Mergers*
- Improvements to the Standards of GRAP, issued by the Board in April 2017.
- Consequential amendments when the following Standards of GRAP became effective:
  - GRAP 32 *Service Concession Arrangements: Grantor*
  - IGRAP 18 *Recognition and Derecognition of Land*
- Improvements to the Standards of GRAP, issued by the Board in March 2020.

Introduction

This pronouncement is set out in paragraphs .01 to .82. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*[1].

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

[1] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

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

Scope

.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all leases other than:

(a) leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources;

(b) licencing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and

(c) the initial recognition and initial measurement of assets and liabilities in a lease agreement acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

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 the Standard of GRAP on Investment Property (GRAP 16));

(b) investment property provided by lessors under operating leases (see GRAP 16);

(c) biological assets within the scope of the Standard of GRAP on Agriculture (GRAP 27) held by lessees under finance leases; or

(d) biological assets within the scope of GRAP 27 provided by lessors under operating leases.

.03 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. Entities may enter into complex arrangements for the delivery of services, which may or may not include leases of assets. These arrangements are discussed in paragraphs .22 to .24.

.04 This Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licencing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

.05 Legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of this Standard to reflect the financial consequences of the transactions. However this will not legitimise the contravention of the legislation.

Definitions

.06 The following terms are used in this Standard with the meanings specified:

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 (i.e. the recognition of the assets, liabilities, revenue and expenses resulting from the lease, as appropriate).

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, and future market rates of interest).

Economic life is either:

(a) the period over which an asset is expected to yield economic benefits or service potential to one or more users; or

(b) the number of production or similar units expected to be obtained from the asset by one or more users.

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.

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.

Gross investment in the lease is the aggregate of:

(a) the minimum lease payments receivable by a lessor under a finance lease; and

(b) any unguaranteed residual value accruing to the lessor.

Guaranteed residual value is:

(a) for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and

(b) for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

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 finance lease; and

(b) in the case of a finance lease, the amounts to be recognised at the commencement of the lease terms are determined.

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of:

(a) the minimum lease payments; and

(b) the unguaranteed residual value

to be equal to the sum of (i) the fair value of the leased asset; and (ii) any initial direct costs of the lessor.

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.

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.

The lessee's incremental borrowing rate of interest is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

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, where appropriate, 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.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the 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.

An operating lease is a lease other than a finance lease.

Unearned finance revenue is the difference between:

(a) the gross investment in the lease; and

(b) the net investment in the lease.

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Useful life (of a leased asset) is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

Changes in lease payments between the inception of the lease and the commencement of the lease term

.07 A lease agreement or commitment may include a provision to adjust the lease payment for changes in the construction or acquisition cost of the leased property or

for changes in some other measure of cost or value, such as general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.

Hire purchase contracts

.08 The definition of a lease includes contracts for the hire of an asset which contain a provision giving the hirer an option to acquire title to the asset upon the fulfilment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

Incremental borrowing rate of interest

.09 Where an entity has borrowings which are guaranteed by the government, the determination of the lessee's incremental borrowing rate of interest shall reflect the existence of any government guarantee and any related fees. This will normally lead to the use of a lower incremental borrowing rate of interest.

Classification of leases

.10 The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity, technological obsolescence or changes in value due to changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.

.11 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

.12 Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

.13 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease

term;

(b) the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the 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;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

(e) the leased assets are of a such a specialised nature that only the lessee can use them without major modifications; and

(f) the leased assets cannot easily be replaced by another asset.

.14 Other indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual value accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

.15 The examples and indicators in paragraphs .13 and .14 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.

.16 Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs .10 to .15 if the changed terms had been in effect at the inception of the lease, the revised agreement is considered as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

.17 When a lease includes both land and buildings elements, an entity assesses the

classification of each element separately in accordance with paragraphs .10 to .16. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

.18 Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

.19 For a lease of land and buildings in which the amount that would initially be recognised for the land element, in accordance with paragraph .26, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs .10 to .16. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

.20 Separate measurement of the land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with GRAP 16 and the fair value model is adopted. Detailed calculations are required for this assessment only if the classification of one or both elements is otherwise uncertain.

.21 In accordance with GRAP 16, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognised. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee's property interest so that it is no longer classified as investment property.

This will be the case if, for example, the lessee:

(a) occupies the property, which is then transferred to owner-occupied property at a deemed cost equal to its fair value at the date of change in use; or

(b) grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance lease to the third party, although it may be accounted for as an operating lease by the third party.

Leases and other contracts

.22 A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate and/or transfer assets. Entities often enter into such

agreements, particularly in relation to long-lived physical assets and infrastructure assets. Other agreements may involve an entity using infrastructure from the private sector. The entity determines whether the agreement is a service concession arrangement, as defined in the Standard of GRAP on *Service Concession Arrangements: Grantor* (GRAP 32).

.23 Where an arrangement does not meet the conditions for recognition of a service concession arrangement in accordance with GRAP 32, and the arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard should be applied in accounting for the lease component of the arrangement.

.24 Entities may also enter into a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether a service concession arrangement as defined in GRAP 32 or a lease, as defined by this Standard, has arisen. In these cases, professional judgment is exercised, and if a lease has arisen, this Standard is applied; and if a lease has not arisen, entities account for those agreements by applying the provisions of other relevant Standards of GRAP, or in the absence thereof, other relevant international and/or national accounting standards as explained in the *Framework to Standards of Generally Recognised Accounting Practice*[2] and in the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3).

Operating lease incentives

.25 All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

Leases in the financial statements of lessees

Finance leases

Initial recognition

.26 At the commencement of the lease term, lessees shall recognise assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statement of financial position. The assets and liabilities shall be recognised at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the

[2] In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

.27 Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.

.28 If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of an entity are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recognised in the lessee's financial statements both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognised in the financial statements at the same amounts except for any initial direct costs of the lessee that are added to the amount recognised as an asset.

.29 It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets.

.30 If for the presentation of liabilities on the face of the statement of financial position a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.

.31 Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

Subsequent measurement

.32 Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

.33 In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.

.34 A finance lease gives rise to a depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets

that are owned, and the depreciation recognised shall be calculated in accordance with the Standards of GRAP on Property, Plant and Equipment (GRAP 17) and Intangible Assets (GRAP 31). If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

.35 The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

.36 The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments payable for the period, and it is, therefore, inappropriate simply to recognise the lease payments payable as an expense. Accordingly, the asset and the related liability are unlikely to be equal in amount after the commencement of the lease term.

.37 To determine whether a leased asset has become impaired an entity applies relevant impairment tests in the Standards of GRAP on *Impairment of Cash-generating Assets* (GRAP 26) and *Impairment of Non-cash-generating Assets* (GRAP 21).

Disclosures

.38 Lessees shall, in addition to meeting the requirements of the Standard of GRAP on Financial Instruments (GRAP 104) make the following disclosures for finance leases:

(a) for each class of asset, the net carrying amount at the reporting date;

(b) a reconciliation between the total of future minimum lease payments at the reporting date, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years;

(c) contingent rents recognised as an expense in the period;

(d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;

(e) a general description of the lessee's material leasing arrangements including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;

(ii) the existence and terms of renewal or purchase options and escalation clauses; and

(iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing; and

(f) the depreciation and the finance charge relating to the leased asset shall be included as part of the total depreciation and finance charges respectively.

.39 In addition, the requirements for disclosure in accordance with GRAP 16, GRAP 17, GRAP 21, GRAP 26, GRAP 27 and GRAP 31 are applied to the amounts of leased assets held under finance leases that are accounted for by the lessee as acquisitions of assets.

Operating leases

.40 Lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

.41 For operating leases, lease payments (excluding costs for services such as insurance and maintenance) are recognised as an expense in the statement of financial performance on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

Disclosures

.42 Lessees shall, in addition to meeting the requirements of GRAP 104, make the following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years;

(b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;

(c) lease and sublease payments recognised in the statement of financial performance in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and

(d) a general description of the lessee's significant leasing arrangements

including, but not limited to, the following:

(i) the basis on which contingent rent payable is determined;

(ii) the existence and terms of renewal or purchase options and escalation clauses; and

(iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

Leases in the financial statements of lessors

Finance leases

.43 This Standard describes the treatment of finance revenue earned under finance leases. The term “manufacturer or trader lessor” is used in this Standard to refer to all entities that manufacture or trade assets and also act as lessors of those assets, regardless of the scale of their leasing, trading and manufacturing activities. With respect to an entity that is a manufacturer or trader lessor, this Standard also describes the treatment of gains or losses arising from the transfer of assets.

.44 Entities may enter into finance leases as a lessor under a variety of circumstances. Some entities may trade assets on a regular basis. For example, government may create a special purpose entity that is responsible for the central procurement of assets and supplies for all other entities. Centralisation of the purchasing function may provide greater opportunity to obtain trade discounts or other favourable conditions. A central purchasing entity, for example public works may purchase items on behalf of other entities, with all transactions being conducted in the name of the other entities, or a central purchasing entity may purchase items in its own name and its functions may include:

(a) procuring assets and supplies;

(b) transferring assets by way of sale or finance lease; and/or

(c) managing a portfolio of assets, such as a motor vehicle fleet or buildings, for use by other entities and making those assets available for short or long-term lease, or purchase.

Initial recognition

.45 Lessors shall recognise lease payments receivable under a finance lease as assets in their statement of financial position. They shall present such assets as a receivable at an amount equal to the net investment in the lease.

.46 Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance revenue to reimburse and reward the lessor for its investment and services.

.47 Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or trader lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of revenue recognised over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognised as an expense when the gain or loss is recognised, which for a finance lease is normally at the commencement of the lease term.

Subsequent measurement

.48 The recognition of finance revenue shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

.49 A lessor aims to allocate finance revenue over the lease term on a systematic and rational basis. This revenue allocation is based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance revenue.

.50 Estimated unguaranteed residual values used in computing the lessor's gross investment in a lease are reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the revenue allocation over the lease term is revised and any reduction in respect of amounts already accrued is recognised immediately.

.51 Manufacturer or trader lessors shall recognise selling gains or losses in the period, in accordance with the policy followed by the entity for outright sales.

.52 If artificially low rates of interest are quoted, any gains or losses on sale of assets shall be restricted to those which would apply if a market rate of interest were charged. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease shall be recognised as an expense when the gain or loss is recognised.

.53 Entities that manufacture or trade assets may offer to potential purchasers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or trader lessor gives rise to two types of revenue:

(a) gain or loss equivalent to the gain or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts; and

(b) finance revenue over the lease term.

.54 The sales revenue recognised at the commencement of the lease term by a manufacturer or trader lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale of an asset recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value. The difference between the sales revenue and the cost of sale is the gain or loss on sale which is recognised in accordance with the entity's policy for outright sales.

.55 Manufacturer or trader lessors may sometimes offer customers lower rates of interest than their normal lending rates. The use of such a rate would result in an excessive portion of the total revenue from the transaction being recognised at the time of sale. If artificially low rates of interest are quoted, revenue recognised as gain or loss on sale would be restricted to that which would apply if the entity's normal lending rate for that type of transaction were charged.

.56 Initial direct costs are recognised as expenses at the commencement of the lease because they are mainly related to earning the manufacturer's or trader's gain or loss on sale.

Disclosures

.57 Lessors shall, in addition to meeting the requirements of GRAP 104, disclose the following for finance leases:

(a) a reconciliation between the gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, an entity shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years;

(b) unearned finance revenue;

(c) the unguaranteed residual values accruing to the benefit of the lessor;

(d) the accumulated allowance for uncollectible minimum lease payments receivable;

(e) contingent rents recognised as revenue in the period; and

(f) a general description of the lessor's material leasing arrangements.

.58 As an indicator of growth in leasing activities it is often useful also to disclose the gross investment less unearned revenue in new business added during the accounting period, after deducting the relevant amounts for cancelled leases.

Operating leases

.59 Lessors shall present assets subject to operating leases in their statement of financial position according to the nature of the asset.

.60 Lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.

.61 Costs, including depreciation, incurred in earning the lease revenue are recognised as an expense. Lease revenue (excluding receipts for services provided such as insurance and maintenance) is recognised on a straight-line basis over the lease term even if the receipts are not on such a basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

.62 Initial direct costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as expenses over the lease term on the same basis as the lease revenue.

.63 The depreciation policy for depreciable leased assets shall be consistent with the lessor's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with GRAP 17 and GRAP 31.

.64 To determine whether a leased asset has become impaired, an entity applies GRAP 21 or GRAP 26.

.65 A manufacturer or trader lessor does not recognise any selling gain on entering into an operating lease because it is not the equivalent of a sale.

Disclosures

.66 Lessors shall, in addition to meeting the requirements of GRAP 104, disclose the following for operating leases:

(a) the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:

(i) not later than one year;

(ii) later than one year and not later than five years; and

(iii) later than five years;

(b) total contingent rents recognised as revenue in the period; and

(c) a general description of the lessor's leasing arrangements.

.67 In addition, the disclosure requirements of GRAP 16, GRAP 17, GRAP 21, GRAP 26, GRAP 27 and GRAP 31 apply to lessors for assets provided under operating leases.

Sale and leaseback transactions

.68 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

.69 If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as revenue in the financial statements of a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

.70 If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For this reason it is not appropriate to regard an excess of sales proceeds over the carrying amount as revenue. Such excess is deferred and amortised over the lease term.

.71 If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any gain or loss shall be recognised immediately. If the sale price is below fair value, any gain or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

.72 If the leaseback is an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any gain or loss is recognised immediately.

.73 For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.

.74 For finance leases, no such adjustment is necessary unless there has been an impairment in value and that impairment is required to be recognised in accordance with the requirements of GRAP 21 or GRAP 26.

.75 Disclosure requirements for lessees and lessors apply equally to sale and leaseback

transactions. The required description of the material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

.76 Sale and leaseback transactions may be required to be separately disclosed in accordance with the Standard of GRAP on *Presentation of Financial Statements.*

Transitional provisions

Initial adoption of the Standards of GRAP

.77 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.

Amendments to Standards of GRAP

.78 Paragraphs .38 and .42 were amended by the Improvements to the Standards of GRAP issued on 1 April 2012. An entity shall apply these_amendments retrospectively, in accordance with GRAP 3.

Effective date

Initial adoption of the Standards of GRAP

.79 An entity shall apply this Standard for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

Entities already applying Standards of GRAP

.80 An entity shall apply amendments to this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 April 2015, it shall disclose that fact.

.81 Paragraph .17 was amended, and paragraph .16 of the original text (2004) was deleted by the Improvements to the Standards of GRAP issued in February 2010. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 April 2019. An entity shall apply these amendments prospectively to lease arrangements that exist on the effective date of the amendment in accordance with GRAP 3. Any adjustments that result from the initial adoption of the amendment should be made against the opening balance of accumulated surplus and deficit. If an entity applies this Standard for a period beginning before 1 April 2019, it shall disclose that fact.

.81A Paragraphs .22, .23 and .24 where amended by GRAP 32 issued in August 2013. An entity shall apply these amendments for annual financial

statements covering periods beginning on or after 1 April 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before 1 April 2019, it shall disclose that fact.

.81B Paragraphs .64, .67 and .74 were amended by the Improvements to the Standards of GRAP (2020) issued in March 2020. These amendments are effective for annual periods beginning on or after 1 April 2023. An entity shall apply these amendments prospectively in accordance with GRAP 3. Earlier application is permitted. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Withdrawal of the Standard of GRAP on *Leases* (2004)

.82 This Standard supersedes the previous Standard of GRAP on *Leases* issued in October 2004.

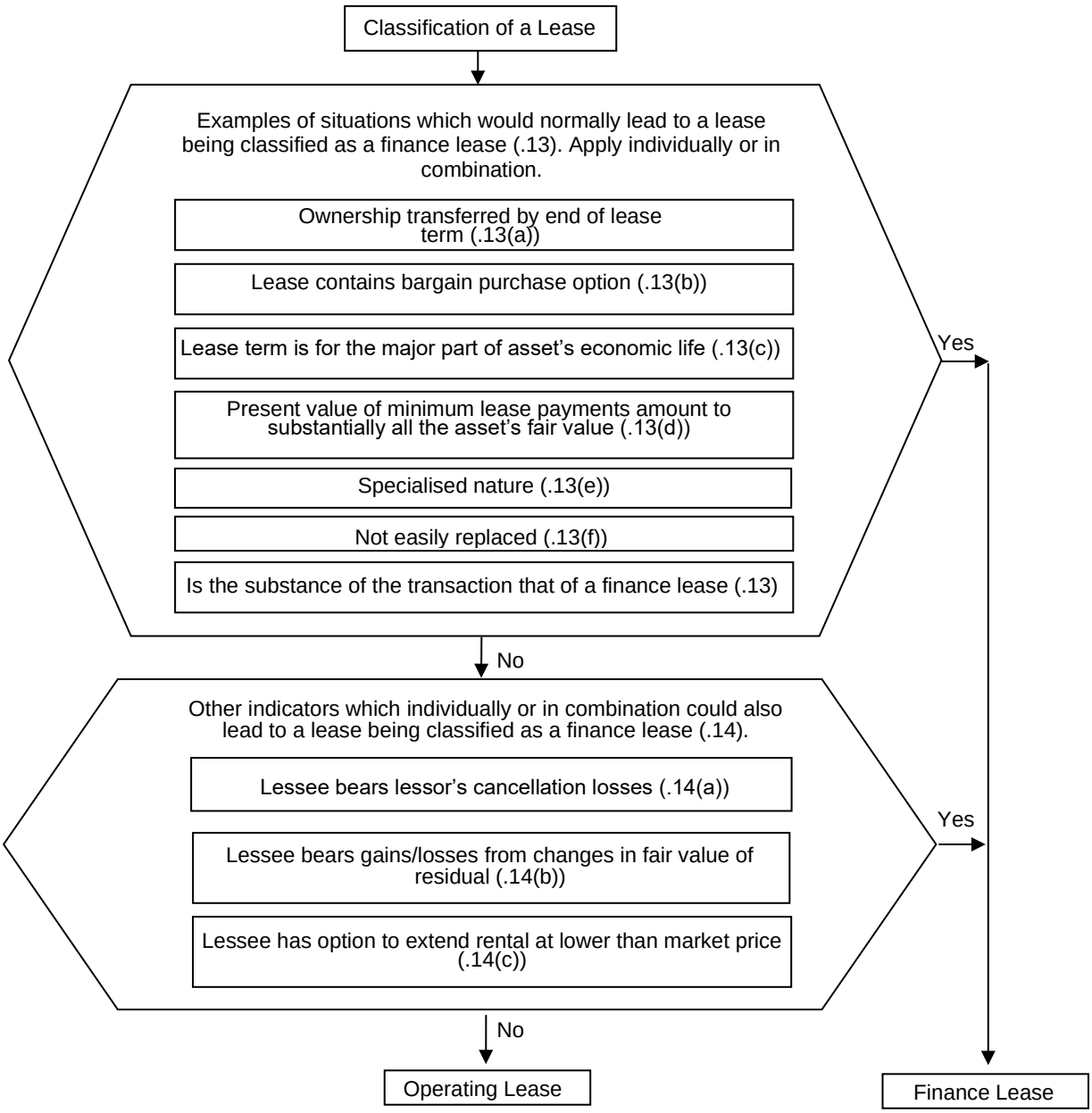
Appendix 1 – Classification of a lease

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

The objective of the chart on the next page is to assist in classifying a lease as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

The examples contained in this chart do not necessarily reflect all possible situations in which a lease may be classified as a finance lease, nor should a lease necessarily be classified as a finance lease by virtue of the route followed in this chart. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract (paragraph .13).

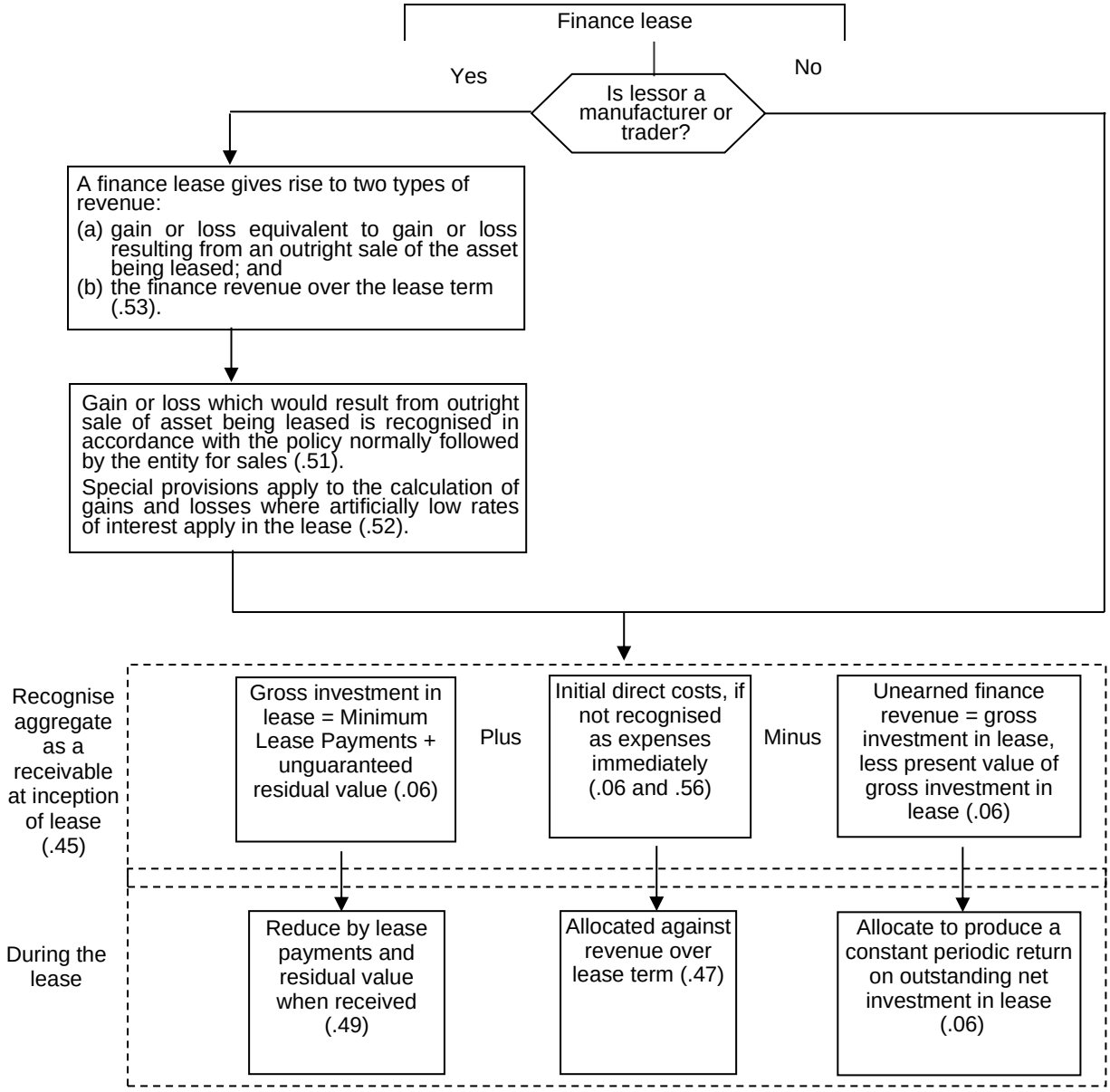
In the flowchart, the numbers in parentheses refer to paragraph numbers in this Standard.


Classification of a Lease
Examples of situations which would normally lead to a lease being classified as a finance lease (.13). Apply individually or in combination.
Ownership transferred by end of lease term (.13(a))
Lease contains bargain purchase option (.13(b))
Lease term is for the major part of asset's economic life (.13(c))
Present value of minimum lease payments amount to substantially all the asset's fair value (.13(d))
Specialised nature (.13(e))
Not easily replaced (.13(f))
Is the substance of the transaction that of a finance lease (.13)
Yes
No
Other indicators which individually or in combination could also lead to a lease being classified as a finance lease (.14).
Lessee bears lessor's cancellation losses (.14(a))
Lessee bears gains/losses from changes in fair value of residual (.14(b))
Lessee has option to extend rental at lower than market price (.14(c))
Yes
No
Operating Lease
Finance Lease

Appendix 2 – Accounting for a finance lease by a lessor

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

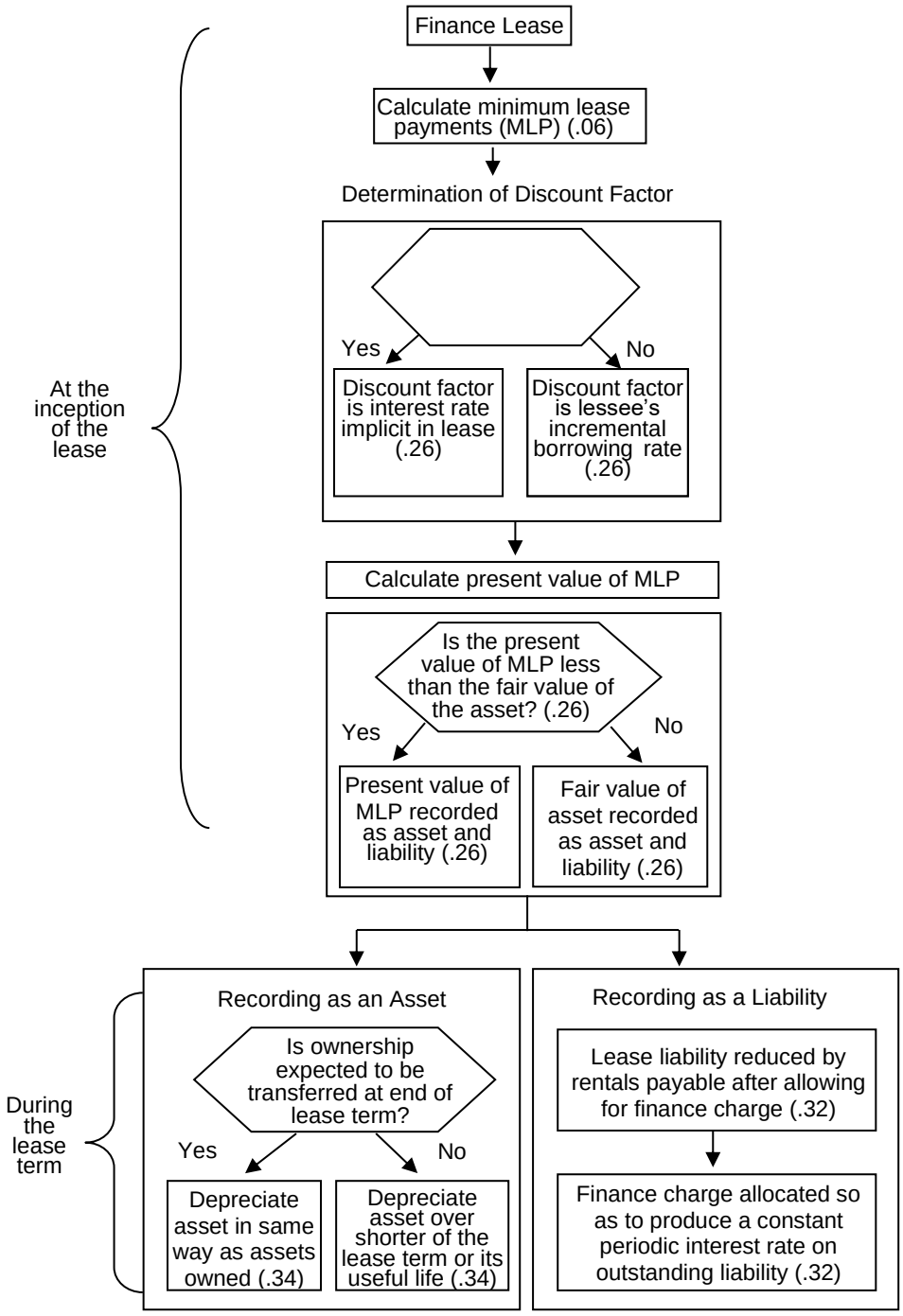
In the flowchart, the numbers in parentheses refer to paragraph numbers in this Standard.



Appendix 3 – Accounting for a finance lease by a lessee

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

In the flowchart, the numbers in parentheses refer to paragraph numbers in this Standard.



Appendix 4 – Sale and leaseback transactions that result in operating leases

This appendix is illustrative only and does not form part of this Standard. The purpose of this appendix is to illustrate the application of this Standard and to assist in clarifying its meaning.

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

Sale price established at fair value (paragraph .71)	**Carrying amount equal to fair value**	**Carrying amount less than fair value**	**Carrying amount above fair value**
Gain	no gain	recognise gain immediately	no gain
Loss	no loss	no loss	recognise loss immediately

Sale price below fair value (paragraph .71)			
Gain	no gain	recognise gain immediately	no gain (note 1)
Loss <u>not</u> compensated by future lease payments at below market price	recognise loss immediately	recognise loss immediately	(note 1)
Loss compensated by future lease payments at below market price	defer and amortise loss	defer and amortise loss	(note 1)

Sale price above fair value (paragraph .71)			
Gain	defer and amortise gain	defer and amortise gain (note 2)	defer and amortise gain (note 3)
Loss	no loss	no loss	(note 1)

Note 1 These parts of the table represent circumstances that would have been dealt with under paragraph .73. Paragraph .73 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 If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used (paragraph .71).

Note 3 The gain would be the difference between fair value and sale price as the carrying amount would have been written down to fair value in accordance with paragraph .71.

Comparison with International Public Sector Accounting Standard on *Leases* (December 2006)

This Standard is drawn primarily from the International Public Sector Accounting Standard on *Leases* (IPSAS 13). The main differences between this Standard and IPSAS 13 are as follows:

- An additional paragraph has been included in this Standard that deals with the contravention of legislative requirements which is not included in IPSAS 13.
- Principles for recognising operating lease incentives has been included in this Standard.
- IPSAS 13 includes an explanatory paragraph on the recognition of assets where entities enter into arrangements with private sector entities on a limited scale. This paragraph is not included in GRAP 13.
- An additional disclosure requirement that requires the disclosure of the depreciation and finance charge relating to the leased assets has been included for the finance lease of a lessee.
- Transitional provisions to this Standard are dealt with differently than in IPSAS 13.