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SLFRS 09: Financial Instruments

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Financial Instruments

1. Key Definitions

- A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- A 'contract' need not be in writing, but it must comprise an agreement that has 'clear economic consequences' and which the parties to it cannot avoid, usually because the agreement is enforceable in law
- A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

(i) to receive cash or another financial asset from another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity;

- A financial liability is any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity;

- An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Example 01 – identification

The following items have been shown in the statement of Financial Position as at 31st March 2016 of A Ltd.:

(1) Property, Plant and Equipment with a carrying value of Rs.8 million.
(2) Trade receivable balance of Rs.50,000/- due from Perera
(3) Cash balance of Rs.325, 000/-.
(4) Trading inventory of Rs.4 million.
(5) A fixed deposit of Rs.1 million in Bank of Ceylon.
(6) Prepaid expenses of Rs.1.2 million.
(7) Rs.5 million investment in a subsidiary company shares.

You are required to

(i) **Identify** financial assets from the above list.

(ii) **State** a reason for selecting each of the above items as a financial asset.

(07 marks)

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LKAS 32 makes it clear that the following items are not financial instruments.

(a) Physical assets, eg inventories, property, plant and equipment, leased assets and intangible assets (patents, trademarks etc)

(b) Prepaid expenses, deferred revenue and most warranty obligations

(c) Liabilities or assets that are not contractual in nature

2. Presentation

The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

Example 02 – Presentation of Financial Instruments

1. Ordinary Shares
2. Irredeemable Preference Shares
3. 2 /= Redeemable (in 5 Yrs) Preference Share

Example 03

Omega PLC had issued 300,000 irredeemable preference shares at Rs.10/- each on 01st April 2015. During the year ended 31st March 2016, the company has paid a dividend of Rs.1/-per preference share.

Explain how this share capital and dividends thereof will be shown in the financial statements of **Omega PLC** as at 31st March 2016.

(03 marks)

3. Compound financial instruments – not a significant section

The issuer of a financial instrument shall evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components shall be classified separately as financial liabilities, financial assets or equity instruments in accordance with LKAS 32.

Example 04 – Convertible

Alice issued one million 4% convertible debentures at the start of the accounting year at par value of LKR 100 million. Term 3 years

The effective rate of interest on the debt is 6.0%

Calculate the equity and debt values

If a convertible instrument is issued, the economic substance is a combination of equity and liability and is accounted for using split equity accounting.

The liability element is calculated by discounting back the maximum possible amount of cash that will be repaid assuming that the conversion doesn't take place. The discount rate to be used is that of the interest rate on similar debt without a conversion option.

The equity element is the difference between the proceeds on issue and the initial liability element. The liability element is subsequently measured at amortized cost,

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using the interest rate on similar debt without the conversion option as the effective rate. The equity element is not subsequently changed.

Issue costs associated with the issue are recognized by adjusting the effective rate of interest on the debenture.

4. Interest, dividends, losses and gains

Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognized as income or expense in profit or loss. Distributions to holders of an equity instrument shall be recognized by the entity directly in equity.

Transaction costs of an equity transaction shall be accounted for as a deduction from equity.

Description	Ordinary Share	Redeemable Pre. Share
Recorded	As Equity	As Liability
Return	As Dividends	As Finance Cost
Recorded Impact to Profit Gearing	SOCIE No Change Reduce Gearing	Finance Cost Reduce the Profit Increase Gearing

5. Classification of financial assets

Initial Measurement

Initially recognize at fair value plus transaction costs, unless classified as fair value through profit or loss where transaction costs are immediately recognized through profit or loss.

Financial Assets

Financial Assets					
Description	Equity		Debt		
Termed	Equity FVTPL	Equity-FVTOCI	Debt FVTPL	Debt Amortized Cost	Debt-FVTOCI
Purpose	Trading	Holding/ Designated	Other/Trading	Collect CCF(SPPI) and Hold	Collect CCF (SPPI) and hold & sell
Price	FV	FV	FV	FV	FV
Transaction Cost	Exp	Capitalized /Added	Exp	Capitalized /Added	Capitalized /Added

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Subsequent Measurement

Financial Assets					
Description	Equity		Debt		
Purpose	Trading	Holding	Other/ Trading	Collect CCF(SPPI) and Hold	Collect CCF(SPPI) and hold & sell
Price	FV	FV	FV	FV	FV
Transaction Cost	Exp	Capitalized/ Added	Exp	Capitalized/ Added	Capitalized/ Added
Reporting Date	FV	FV	FV	Amortized Cost	FV
Changes Reported in	PL	OCI (No Reclassification)	PL		OCI (Reclassified)
Return	Dividends to PL	Dividends to PL	Interest to PL	Interest to PL @ EIR	Interest to PL

Example 05

Nor PLC has the following financial assets during the financial year.

Example 05.01

- Nor bought 100,000 shares in a listed entity on 1 November 2015. Each share cost LKR 50 to purchase and a fee of LKR 1.25 per share was paid as commission to a broker. The fair value of each share at 31 December 2015 was LKR 35.50 and at 31 December 2016 was LKR 57.00

Example 05.02

- Nor bought 200,000 shares in a listed entity on 1 March 2015 for LKR 500,000, incurring transaction costs of LKR 40,000. Norman acquired the shares as part of a long term strategy to realize the gains in the future. The fair value of the shares was LKR 620,000 at 31 December.

Example 05.03

- Nor bought 10,000 debentures at a 2% discount on the par value of LKR 100. The debentures are redeemable in four years' time at a premium of 5%. The coupon rate attached to the debentures is 4%. The effective rate of interest on the debenture is 5.71%. Explain how each of the above financial assets will be accounted for in the financial statements.

Example 05.04

- On 1 January 20X1 Nor purchases a debt instrument for its fair value of LKR 1,000. The debt instrument is due to mature on 31 December 20X5. The instrument has a principal amount of LKR 1,250 and the instrument carries fixed interest at 4.72% that is paid annually. (The effective interest rate is 10%.)

  How should Nor account for the debt instrument over its five year term?

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Example 06

Example 06.01

1.1.2001 Mike acquired note for 500,000 nominal value at a discount of 16%. Issue cost 2,000. Interest paid 5% on nominal value and EIR 9.5% and the bond will be redeemed 1.1.2006 at a premium of 13,213.

How it will be reported in FS

Example 06.02

Hela acquired loan notes on 1.1.2001 for 10,000 nominal value, Interest Paid 2% and EIR 10%. The loan note was issued at discount 5% and will be redeemed at a premium of 4,078 in 5 years

Example 06.03

What is Amortized Cost and How to Calculate?

What is EIR?

Example 06.04

Hela acquired zero coupon bond on 1.1.2004 for 10,000 nominal value, and EIR 7%. and will be redeemed at 1,449 in 2 years.

Example 06.05

Hela acquired loan notes on 1.1.2004 for 20,000 nominal value, Interest Paid 6% and EIR 12%. The loan note was issued at discount 10% and will be redeemed at 4,161 in 4 years. Issue cost was 1,000

6. Classification of financial liabilities

On recognition, SLFRS 9 requires that financial assets are classified as measured at either:

(a) At fair value through profit or loss, or

(b) Financial liabilities at amortized cost.

Initial Measurement

Financial Liability		
Description	FVTPL	Amortized Cost
Purpose	Trading	Other Liabilities
Price	FV	FV
Transaction Cost	Exp	Deducted from Proceeds

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Subsequent Measurement

Financial Liability		
Description	FVTPL	Other FL at Amortized Cost
Purpose Price Transaction Cost	Trading FV Exp	Other Liabilities, Bank Loan, Debentures FV Deducted from Proceeds
Reporting Date	FV	Amortized Cost

Example 08

Example 08.01

1.1.2001 James issued loan note for 500,000 nominal value at a discount of 16%. Issue cost 2,000. Interest paid 5% on nominal value and EIR 11% and the bond will be redeemed 1.1.2006 at a premium of 48,659.

How it will be reported in FS

Example 08.02

Hoy issued loan notes on 1.1.2001 for 10,000 nominal value, Interest Paid 2% and EIR 10%. The loan note was issued at discount 5% and will be redeemed at 1,075 in 2 years

Example 08.03

Hoy issued loan notes on 1.1.2004 for 20,000 nominal value, Interest Paid 6% and EIR 12%. The loan note was issued at discount 10% and will be redeemed at 1,015 in 4 years. Issue cost was 1,000

Example 08.04

Hoy issued zero coupon bond on 1.1.2004 for 10,000 nominal value, and EIR 7%. and will be redeemed at 1,449 in 2 years.

7. Derecognition

- Financial assets are derecognized when sold, with gains or losses on disposal through profit or loss or OCI.
- However, note that, if equity investments are held at fair value, with gains or losses going through OCI, then gains and losses are NOT recycled to profit or loss on disposal of the investment.
- Financial liabilities are derecognized when they have been paid in full or transferred to another party.

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8. Disclosure (SLFRS 7)

Financial instruments, particularly derivatives, often require little initial investment, though may result in substantial losses or gains and as such stakeholders need to be informed of their existence. The objective of SLFRS7 is to allow users of the accounts to evaluate:

- The significance of the financial instruments for the entity's financial position and performance
- The nature and extent of risks arising from financial instruments
- The management of the risks arising from financial instruments

Nature and extent of financial risks

Financial risk arising from the use of financial instruments can be defined as:

- Credit risk
- Liquidity risk
- Market risk

Disclosures with regards to these risks need to be both qualitative and quantitative.

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SLFRS 16 – LEASES

1. Objective

This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

2. Key Definitions

1. Lease, A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.
2. Contract, an agreement between two or more parties that creates enforceable rights and obligations.
3. Underlying asset, an asset that is the subject of a lease, for which the right to use that asset has been provided by a lessor to a lessee.
4. Right-of-use asset, an asset that represents a lessee's right to use an underlying asset for the lease term.
5. Lessor, an entity that provides the right to use an underlying asset for a period of time in exchange for consideration.
6. Lessee, an entity that obtains the right to use an underlying asset for a period of time in exchange for consideration.
7. Commencement date of the lease (commencement date) The date on which a lessor makes an underlying asset available for use by a lessee.
8. Useful life, the period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from an asset by an entity.
9. Economic life Either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.
10. Lessee's incremental borrowing rate The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of use asset in a similar economic environment.

3. Recognition exemptions

A lessee should account all the lease similar to finance lease other than followings (the lease may elect not to apply the requirements in SLFRS 16 to):

(a) short-term leases;

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A lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease. This is applied for class of assets.

(b) leases for which the underlying asset is of low value. Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones, this is applied on an item by item.

Example 01 – Low value

LMS is a large, multi-national company with approximately 10 billion in its annual operating budget. It enters into a contract to lease one floor of an office building in a WTC for total lease cost of 50,000 per annum for five years. The operations of the facility and the lease cost are immaterial to LMS.

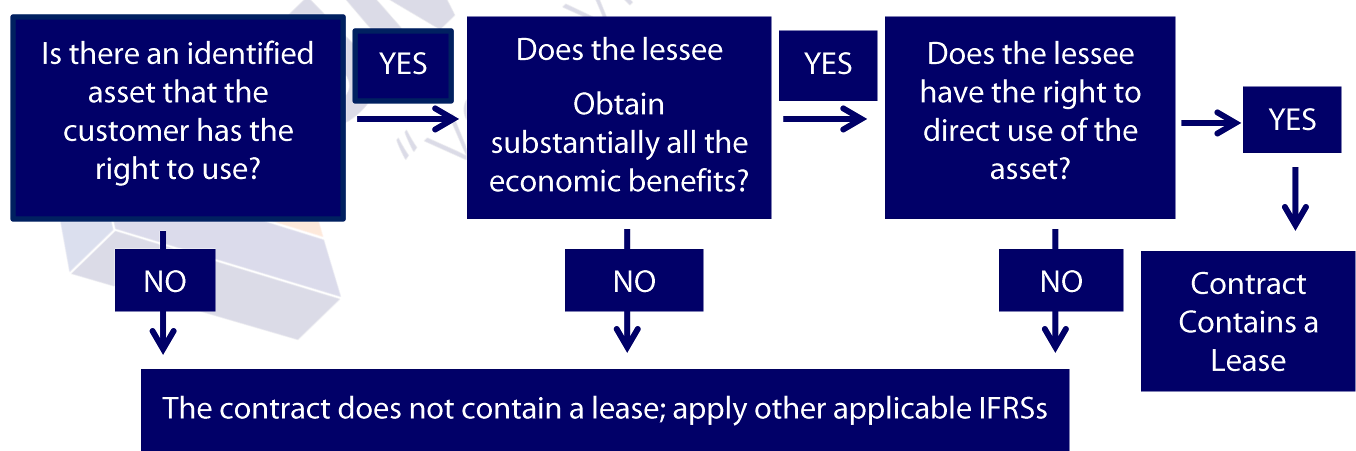
Explain LMS can get the low value exemption?

Answer

1. Even though it is immaterial to LMS, it might not meet the exact meaning of the word "Low Value", it is very important to note this is not matched to examples given in the standards. Therefore, the lease does not meet the exception criteria. Leases of low-value assets qualify for the exemption regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee.

4. Identifying a lease

- inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.



An asset is typically identified by being explicitly specified in a contract.

- Even if an asset is specified, a customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.

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- To assess whether a contract conveys the right to control the use of an identified asset for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:
  - (a) the right to obtain substantially all of the economic benefits from use of the identified asset.
  - (b) the right to direct the use of the identified asset.
- To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use

Additional Knowledge Example 02 - Substitution

A contract between Alex PLC and Kumar PLC requires Alex PLC to transport a quantity of goods by using a specified type of trucks in accordance with a stated timetable for a period of 5 years. The timetable and quantity of goods specified are equivalent to Kumar PLC having the use of 10 rail cars for 5 years.

Alex PLC provides the truck, driver and accessories as part of the contract. The contract states the nature and quantity of the goods to be transported (and the type of truck to be used to transport the goods).

Alex PLC has a large pool of similar trucks that can be used to fulfil the requirements of the contract. Similarly, Alex PLC can choose to use any one of a number of trucks to fulfil each of Kumar PLC's requests, and a truck could be used to transport not only Kumar PLC's goods, but also the goods of other customers. The trucks are stored at Alex PLC's premises when not being used to transport goods.

Can we consider this contract as a lease?

Answer

1.Although the contract makes use of identified assets (the rail cars), the contract does not contain a lease of those rail cars because Supplier has substantive substitution rights.

Additional Knowledge Example 03 – customer direct use

Customer enters into a 5-year contract with a supplier where the customer will purchase up to 100% of the energy produced by a bio-mass facility. The energy must be produced from this particular facility and the supplier does not have substantive substitution rights to provide energy from a separate facility.

Alternative arrangements can only be made in extraordinary circumstances (for example, emergency situations rendering the facility inoperative). Under the contract the customer tells the supplier how much energy to produce and when to produce it and the supplier must stand ready to operate the facility to meet the customer's needs. To the extent there is spare capacity, the supplier is not allowed to generate energy for sale to other customers. The supplier must therefore stand ready to provide all of the power output to the customer if needed. The supplier designed the facility when it was constructed some years before entering into the contract with the customer, who had no involvement in that original design.

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Answer

It is clear that the bio-mass facility is identified in the contract and the customer obtains substantially all of the economic output. The contract contains a lease for the bio mass facility because the customer also has the right to direct its use. That is, the customer makes the relevant decisions as to how and for what purpose the facility is used because it decides when and how much power is produced.

As a practical expedient, the customer can treat the entire contract as a lease, recognizing an asset and liability for the present value of all payments to be made under the contract.

5. Lessee

5.1 Recognition

At the commencement date, a lessee shall recognize a right-of-use asset and a lease liability.

Dr. Right to Use

Cr. Lease Obligation

Initially the right-of-use asset should be measured at its cost at the commencement date,

Initial measurement of the lease liability	XXX
Any lease payments made at or before the commencement date	XXX
Any initial direct cost	XXX
An estimate of cost to be incurred by the lessee in dismantling	XXX
And removing	
Right of Use	XXX

The lease liability shall comprise:

Fixed payment from commencement date	XXX
Certain variable payments	XXX
Residual value guarantee	XXX
Exercise price of purchase option	XXX
Termination penalties	XXX
Lease Liability	XXX

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Example 04.01

Trump PLC enters into a 5-year lease of machineries. Lease payments are LKR 100,000 at the end of the year and the incremental borrowing rate is 10%

Calculate the

1. Right of use assets
2. Initial Lease Liability

Example 04.02

Obama PLC enters into a 5-year lease of machineries. Lease payments are LKR 50,000 at the beginning of the year, initial direct cost 15,000 and the incremental borrowing rate is 10%.

Calculate the

1. Right of use assets
2. Initial Lease Liability

5.2 Subsequent measurement of the right-of-use asset

After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, revaluation model or fair value model (investment properties)

Cost Model

to apply a cost model, a lessee shall measure the right of use asset at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and

(b) adjusted for any remeasurement of the lease liability

(c) A lessee shall apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset,

The lease liability will be accounted as follows,

Initial value	XXX
Interest on carrying amount	XXX
Lease rental payment	(XXX)
Closing balance	XXX

Example 05.01

Obama PLC enters into a 5-year lease of machineries. Lease payments are LKR 100,000 at the end of the year, initial direct cost 15,000 and the incremental borrowing rate is 10%.

Calculate the

1. Right of use assets

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2. Initial Lease Liability

Example 05.02 Advance Calculation

Zimba PLC (the lessee) enters into a 3-year lease of a floor of a building, with an option to extend the lease for a further 3 years. Lease payments are LKR 50,000 per annum during

the initial term and LKR 55,000 per annum during the optional period, all payable at the beginning of each year.

To obtain the lease, Zimba incurs initial direct costs of LKR 20,000. The lessor agrees to reimburse the lessee the real estate commission of LKR 5,000.

At the commencement date, Zimbra PLC concludes that it is reasonably certain to exercise the option to extend the lease. Therefore, the lease term is 6 years. Zimba's incremental borrowing rate is 5% per annum (based on similar facility and term).

Calculate the

1.Right of use asset 2. Initial Lease Liability

Example 05.03 Advance Calculation

Darley PLC (the lessee) enters into a 5-year lease of a floor of a building. Lease payments are LKR 100,000 per annum, all payable at the end of the year.

To obtain the lease, Darley incurs initial direct costs of LKR 15,000. The lessor agrees to reimburse the lessee the real estate commission of LKR 3,000. Darley paid a upfront amount of LKR 50,000.

At the commencement date, Darley PLC concludes that it is reasonably certain to exercise the option to extend the lease. Therefore, the lease term is 5 years. Darley's incremental borrowing rate is 8% per annum (based on similar facility and term).

1. Calculate the
   a. Right of use asset
   b. Initial Lease Liability
1. Show the movement in the ROU and Lease Liability over 5 years

Example 05.04 Advance Calculation

Darley PLC (the lessee) enters into a 5-year lease of a floor of a building, with an option to extend the lease for a further 5 years. Lease payments are LKR 40,000 per annum during the initial term and LKR 45,000 per annum during the optional period, all payable at the beginning of the year.

To obtain the lease, Darley incurs initial direct costs of LKR 15,000. The lessor agrees to reimburse the lessee the real estate commission of LKR 3,000.

At the commencement date, Darley PLC concludes that it is reasonably certain to exercise the option to extend the lease. Therefore, the lease term is 10 years. Darley's incremental borrowing rate is 10% per annum (based on similar facility and term).

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Calculate the

2. Right of use asset
3. Initial Lease Liability

6. Lessor

- Classification of leases, the lessor should separate the leases into:
- Finance lease A lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.
- Operating lease A lease that does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

We may use following questions to bifurcate the leases

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

(b) the lessee has the option to purchase the underlying asset at a price that 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 date, that the option will be exercised;

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

(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) the underlying asset is of such a specialized nature that only the lessee can use it without major modifications

Finance Leases

A lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease

Example 6 – Finance Lease

Cherry leases out an item of property, plant and equipment under a 5-year finance lease. The lease commenced on 1 January 2015 and the rate implicit in the lease is 4%. The annual lease rentals of $5,000 are paid at the start of the lease period.

Calculate Cherry's

Gross investment in lease, net investment in the lease & unearned finance income.

- Gross investment in the lease the sum of:

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

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

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- Net investment in the lease the gross investment in the lease discounted at the interest rate implicit in the lease.
- unearned finance income the difference between:

  (a) the gross investment in the lease; and (b) the net investment in the lease.
- Operating leases

  A lessor shall recognize lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall apply another systematic basis if that basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

Example 7 – operating lease

Banana leases out a machine to Mango under a four year operating lease. The terms of the lease are that the annual lease rentals are $2,000 payable in arrears. As an incentive, Banana grants Mango a rent free period in the first year.

Explain how both Banana would account for the lease in the financial statements.

7. Sale and leaseback transactions

If an entity (the seller-lessee) transfers an asset to another entity (the buyer lessor) and leases that asset back from the buyer-lessor, both the seller-lessee and the buyer-lessor shall account for the transfer contract and the lease applying SLFRS 16.

Assessing whether the transfer of the asset is a sale

An entity shall apply the requirements for determining when a performance obligation is satisfied in SLFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

1. Transfer of the asset is a sale If the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset:

   (a) the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

   (b) the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.

If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:

(a) any below-market terms shall be accounted for as a prepayment of lease payments; and

(b) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

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Example 08 - Basic

Apple required funds to finance a new ambitious rebranding exercise. It's only possible way of raising finance is through the sale and leaseback of its head office building for a period of 10 years. The lease payments of $1 million are to be made at the end of the lease period

The current fair value of the building is $10 million and the carrying value is $8.4 million. The interest rate implicit in the lease is 5%.

Advise Apple on how to account for the sale and leaseback in its financial statements if the office building were to be sold at the fair value of $10 million and:

i) Performance obligations are satisfied.

Example 09 Advance

A enters into a sale-and-leaseback transaction whereby it sells a property to a B for LKR 2,000,000. Simultaneously, the A leases the property back from the B.

Lease term 18 year

Annual lease payments at the end of each year of LKR 120,000.

The property has a carrying value of LKR 1,000,000. (Assume SLFRS 15 is met)

The fair value of the property at the time of sale is LKR 2,000,000.

The discount rate is 4.5% per

The present value of the annual leaseback payments (18 payments of LKR 120,000, 4.5% discount per annum) is LKR 1,459,200.

2. Transfer of the asset is not a sale If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset:

   (a) the seller-lessee shall continue to recognised the transferred asset and shall recognize a financial liability equal to the transfer proceeds. It shall account for the financial liability applying IFRS 9.

   (b) the buyer-lessor shall not recognised the transferred asset and shall recognize a financial asset equal to the transfer proceeds. It shall account for the financial asset applying IFRS 9.

8. Presentation

A lessee shall either present in the statement of financial position, or disclose in the notes:

(a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

   (i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

   (ii) disclose which line items in the statement of financial position include those right-of-use assets.

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(b) lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

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