What Is Lease Accounting Under IFRS 16?

Worksheet

Under IFRS 16, a lessee recognizes a right-of-use (ROU) asset and a lease liability at the present value of future lease payments for (almost) all leases, then amortizes the asset and accretes interest on the liability over the lease term.

Questions

1. Under IFRS 16, what does a lessee recognize for (almost) every lease?
A) A right-of-use asset and a lease liability
B) Only rental expense
C) Only a lease liability
D) Nothing until the lease ends

2. 5 annual payments of $24,000 at a 5% discount rate - what is the approximate lease liability?
A) $103,908
B) $120,000
C) $24,000
D) $60,000

3. Which lease may be exempt from ROU asset/liability recognition?
A) An 11-month copier lease
B) A 10-year building lease
C) A 5-year equipment lease
D) A lease with a purchase option

4. What happens to lessor accounting under IFRS 16?
A) It stays largely the same - operating vs. finance classification
B) It's abolished
C) Lessors must recognize a ROU asset
D) Lessors no longer classify leases

5. A company leases equipment for 5 years, paying $24,000 at the end of each year. The discount rate is 5%. What is the lease liability at commencement?

6. Using the $103,908 lease liability above, with a 5-year straight-line ROU amortization and 5% interest, what is the total year-1 lease expense (depreciation + interest)?

7. A company leases a photocopier for 11 months at $500/month. Can it skip recognizing a right-of-use asset and lease liability?

8. Define: What changed for lessees under IFRS 16?

9. Define: What discount rate is used to measure the lease liability?

10. Define: What are the IFRS 16 recognition exemptions?

Answer Key

1. A) A right-of-use asset and a lease liability - IFRS 16 requires a single on-balance-sheet model: a ROU asset paired with a lease liability.

2. A) $103,908 - PV = 24,000 [(1-(1.05)^-5)/0.05] $103,908.

3. A) An 11-month copier lease - Leases of 12 months or less (with no purchase option) qualify for the short-term lease exemption.

4. A) It stays largely the same - operating vs. finance classification - IFRS 16 overhauled lessee accounting; lessor accounting kept the dual operating/finance model.

5. Annuity PV factor = (1 (1.05)^-5) / 0.05 = 4.3295 Lease liability = 24,000 4.3295 $103,908

6. Depreciation = 103,908 / 5 = $20,782 per year Interest (year 1) = 103,908 5% = $5,195 Total year-1 expense = 20,782 + 5,195 = $25,977 (higher than the $24,000 cash payment - expense is front-loaded)

7. Lease term = 11 months 12 months qualifies for the short-term lease exemption No ROU asset or lease liability is recognized Instead, expense $500/month straight-line over the lease term

8. Nearly all leases now sit on the balance sheet as a right-of-use asset plus a lease liability - the old off-balance-sheet operating lease treatment was eliminated.

9. The rate implicit in the lease if readily determinable; otherwise the lessee's incremental borrowing rate.

10. Short-term leases (12 months, no purchase option) and leases of low-value underlying assets.