



**PASSFR.EU**

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Passport to IFRS®

## IFRS® Standard 16 Leases



# OBJECTIVE AND SCOPE

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Understanding of the Concept of Leasing

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Classification of Leases

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Lease Accounting by the Lessee

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Disclosures of Lessee and Lessor

# KEY DEFINITIONS



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## Lessee

- is the entity that obtains the right-of-use of an underlying asset for a period of time in exchange for a consideration.

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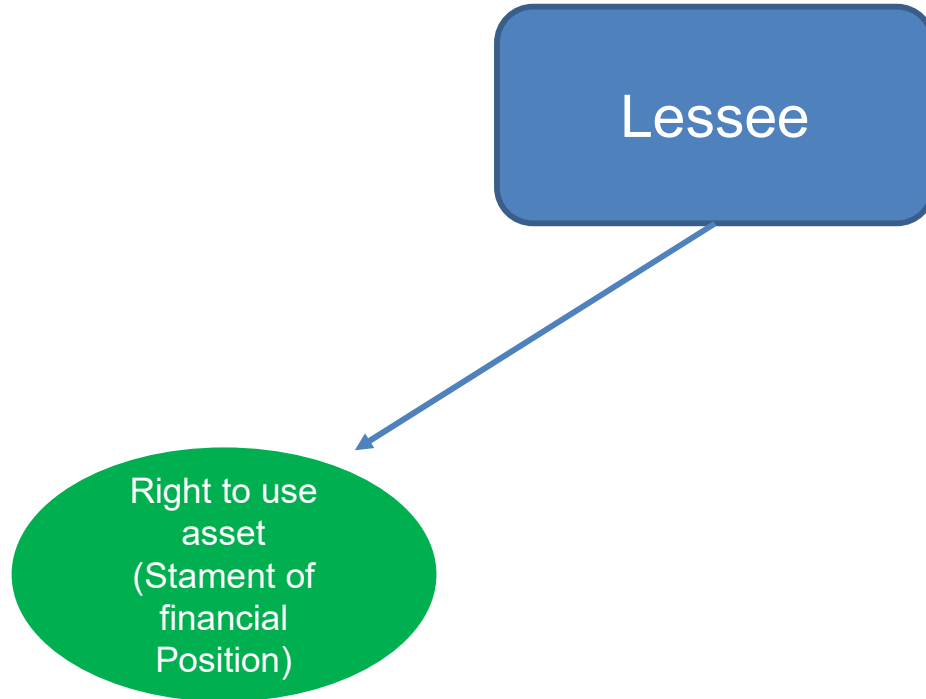
- is the entity that provides the right-of-use of an underlying asset for a period of time in exchange for a consideration.

# Lease Accounting by the Lessee

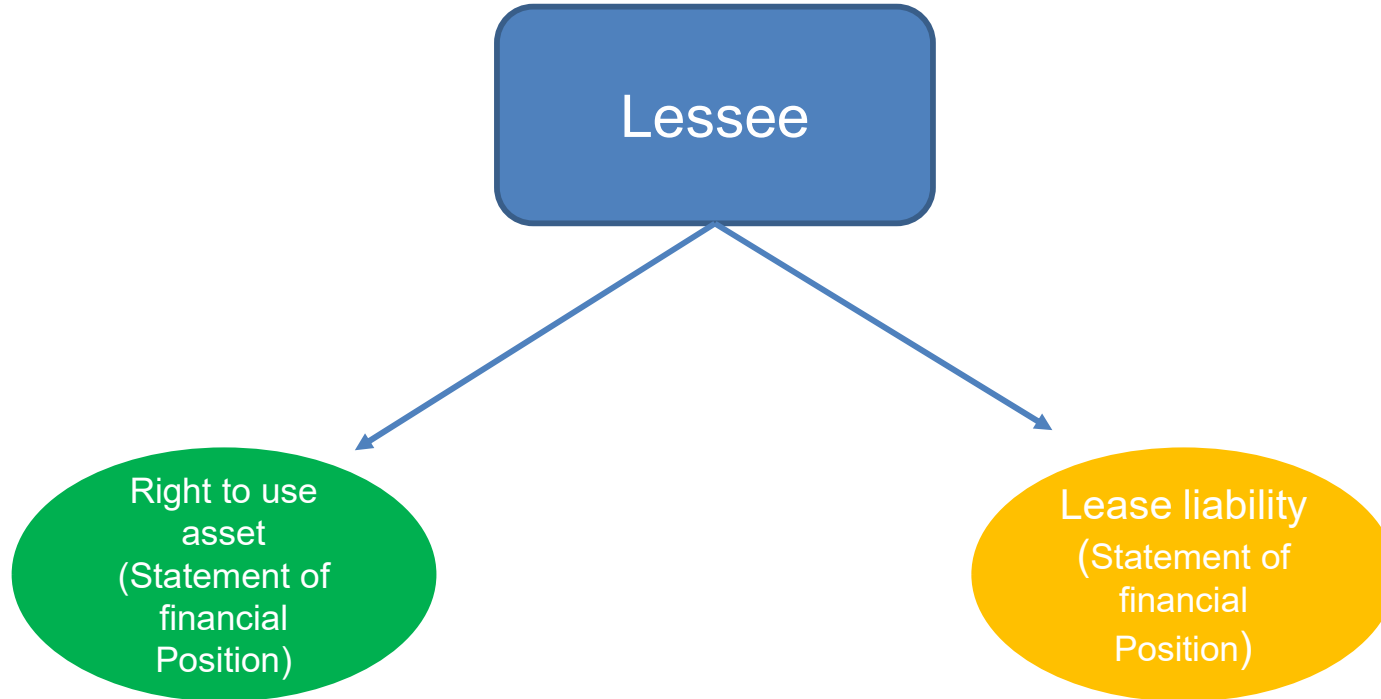


Lessee

# Lease Accounting by the Lessee



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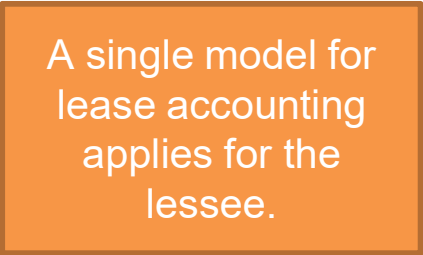
Accounting by  
the Lessee

# Lease Accounting by the Lessee

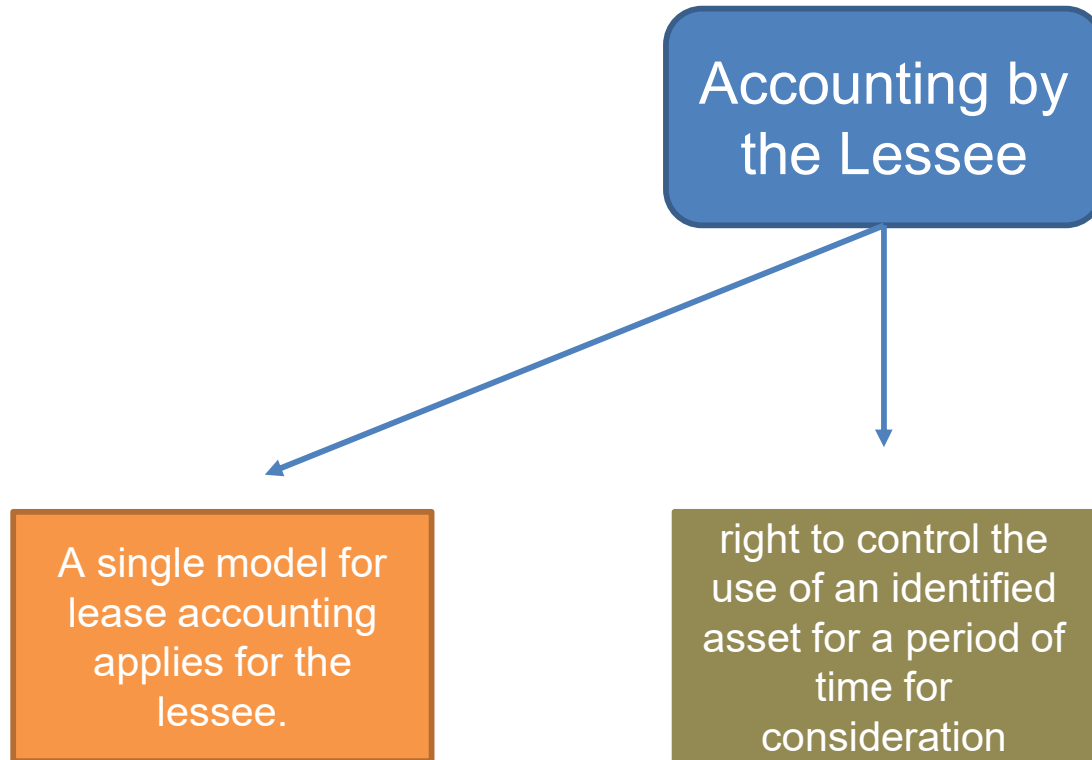
Accounting by  
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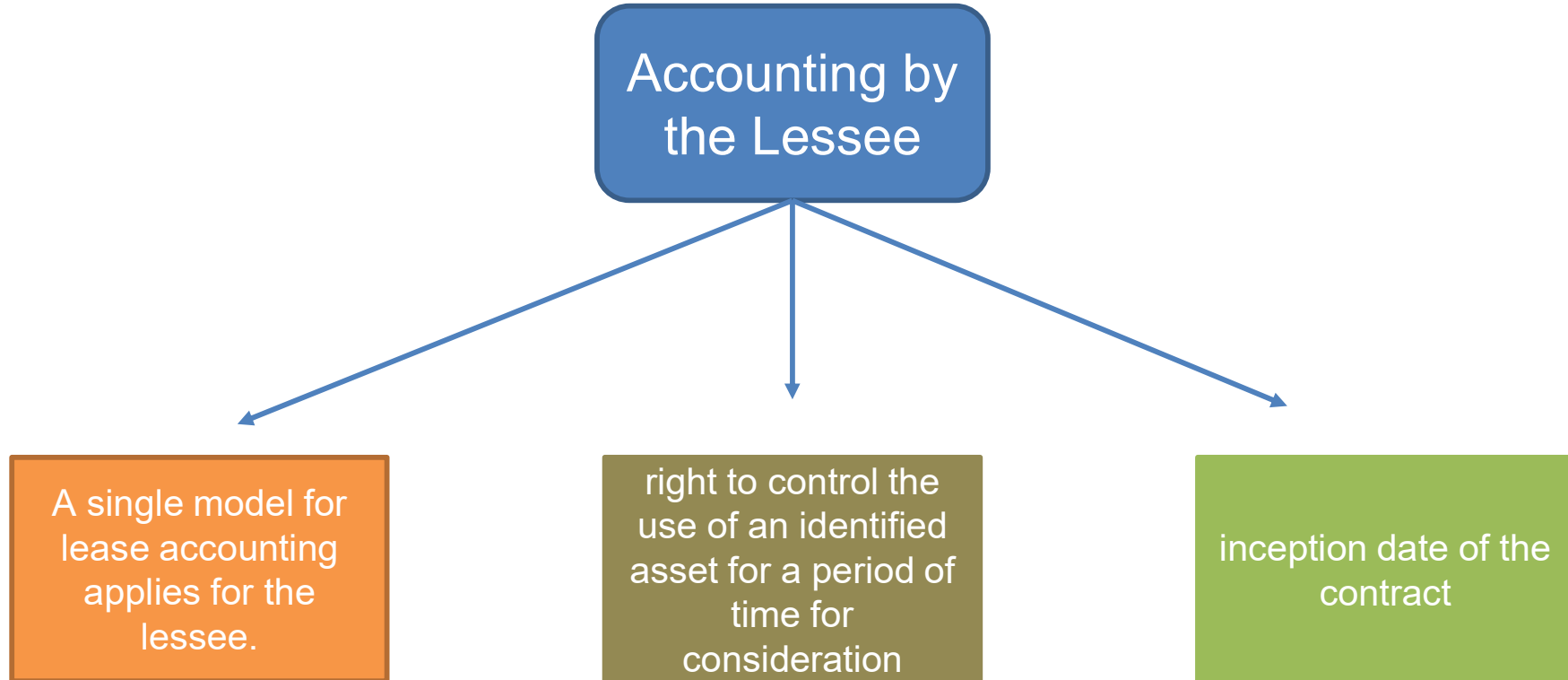
A single model for  
lease accounting  
applies for the  
lessee.



# Lease Accounting by the Lessee



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an entity has  
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```
graph TD; A[Following elements are essential for the lessee] --> B[an entity has the right to control the use of]; A --> C[an identified asset];
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Following elements are essential for the lessee

```
graph TD; A[Following elements are essential for the lessee] --> B[an entity has the right to control the use of]; A --> C[an identified asset]; A --> D[for a period of time in exchange for];
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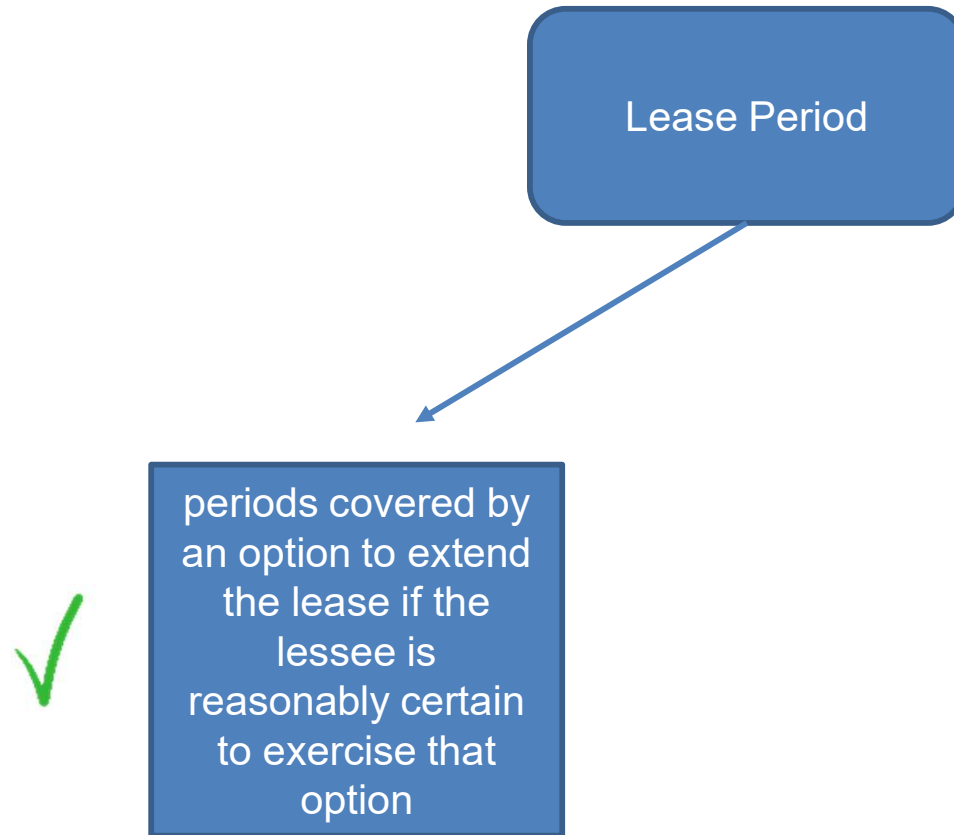
a consideration

# Lease Accounting by the Lessee

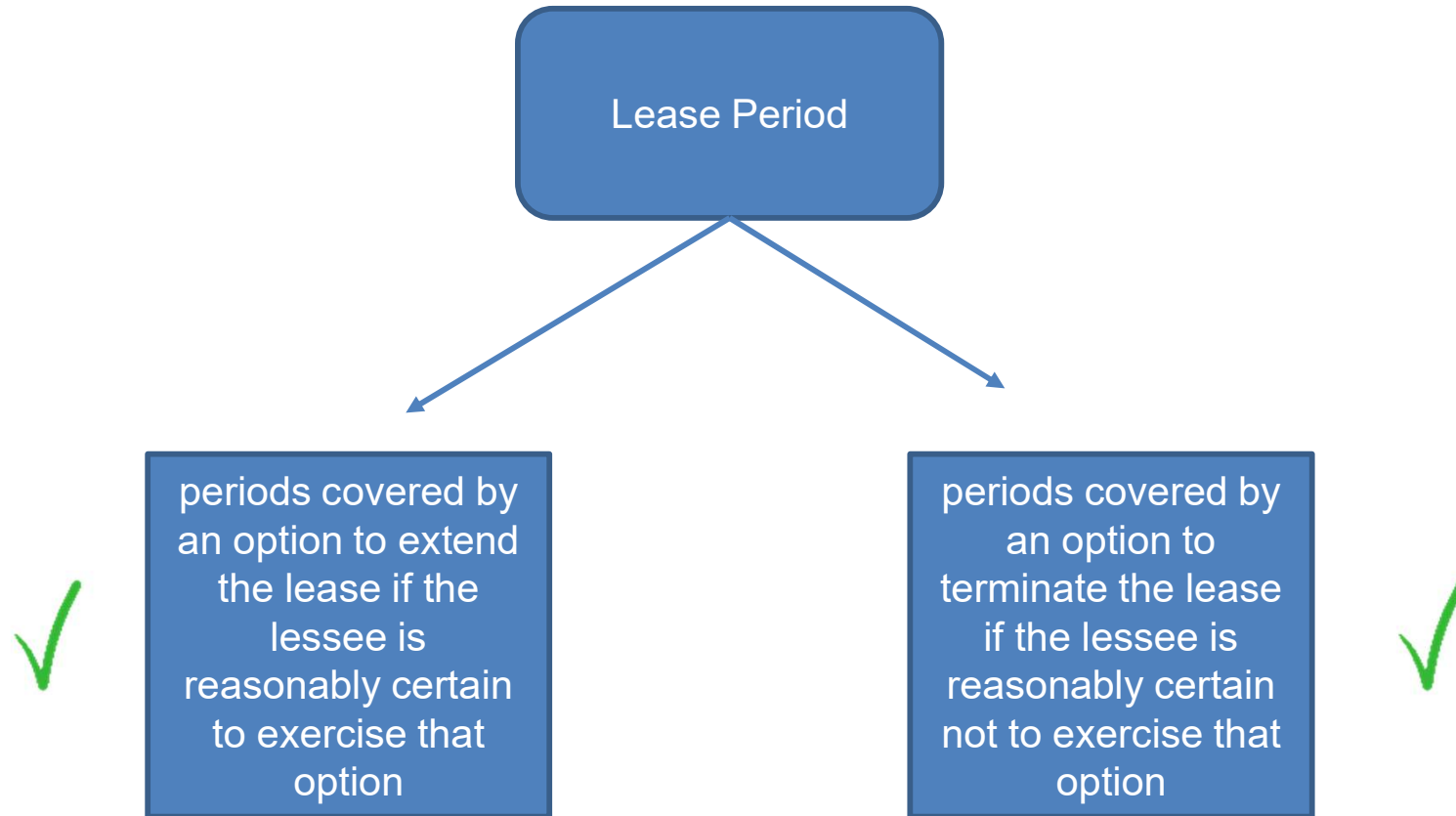


Lease Period

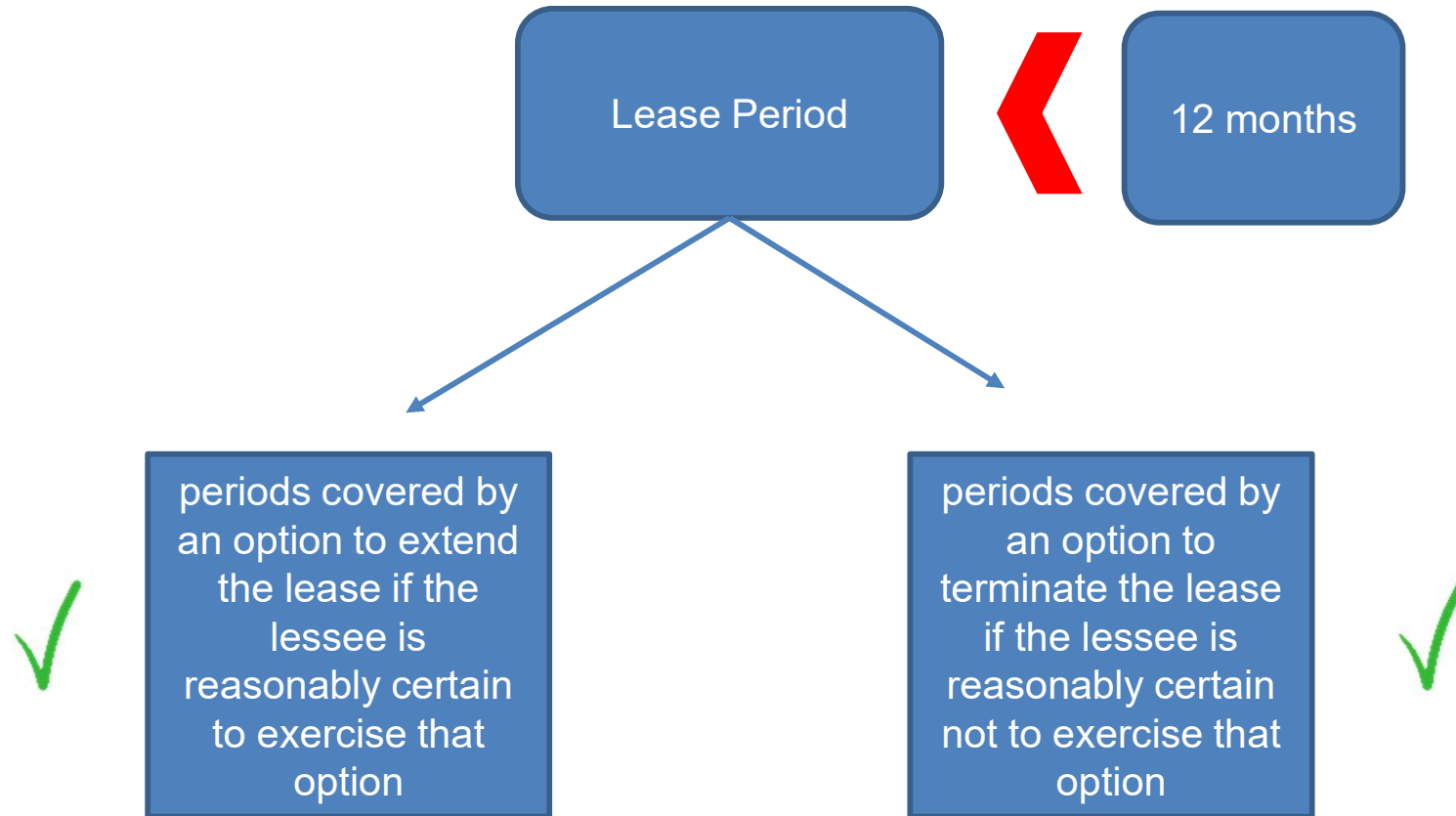
# Lease Accounting by the Lessee



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# Lease Accounting by the Lessee

Assets	Statement of Financial Position	Lia&OE
Right of Use Asset		Lease Liability

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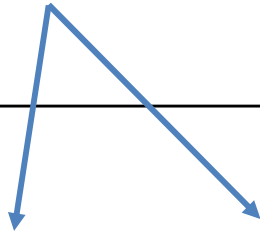
Assets	Statement of Financial Position	Lia&OE
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The amount of the initial measurement of the lease liability

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Assets	Statement of Financial Position		Lia&OE
Right of Use Asset		Lease Liability	



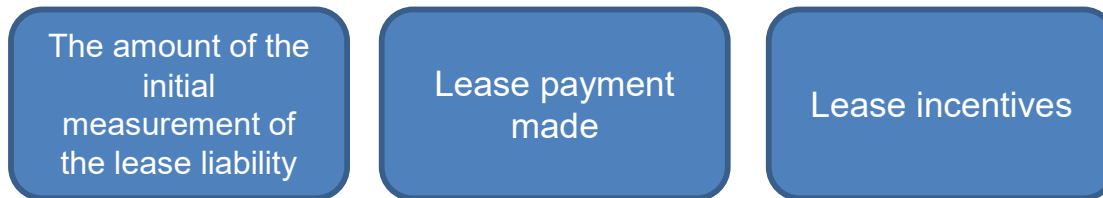
The amount of the initial measurement of the lease liability

Lease payment made

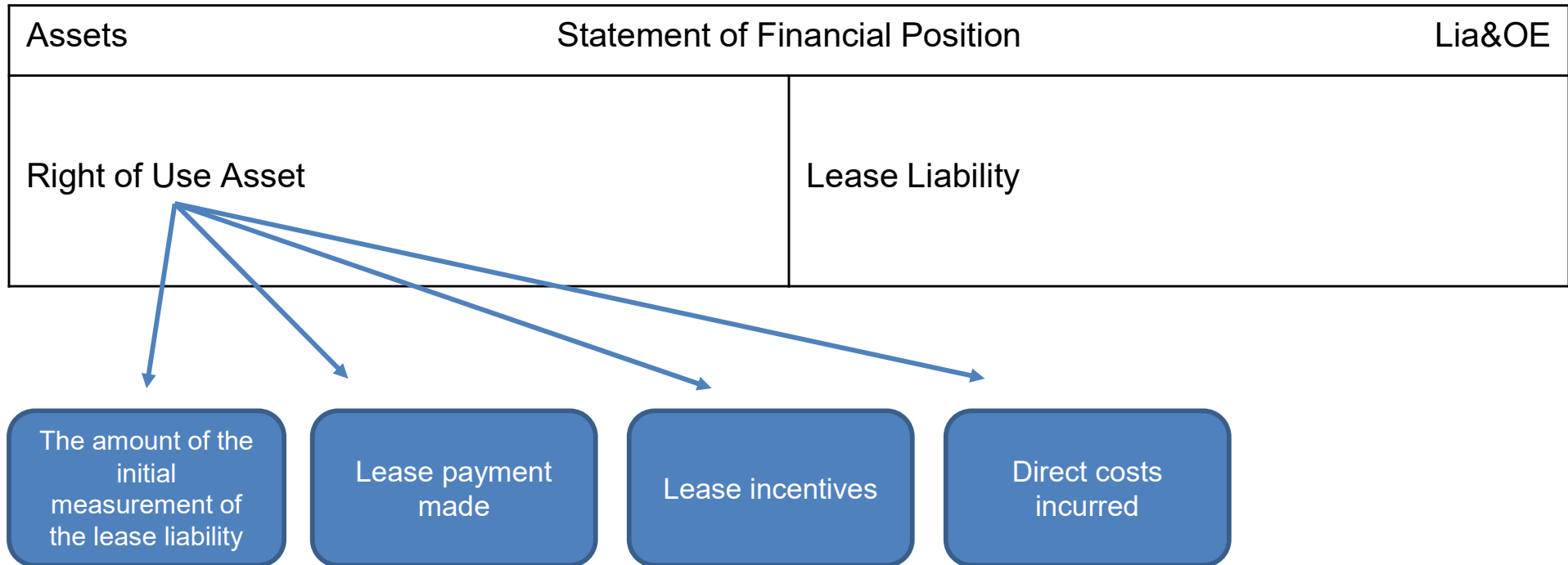


# Lease Accounting by the Lessee

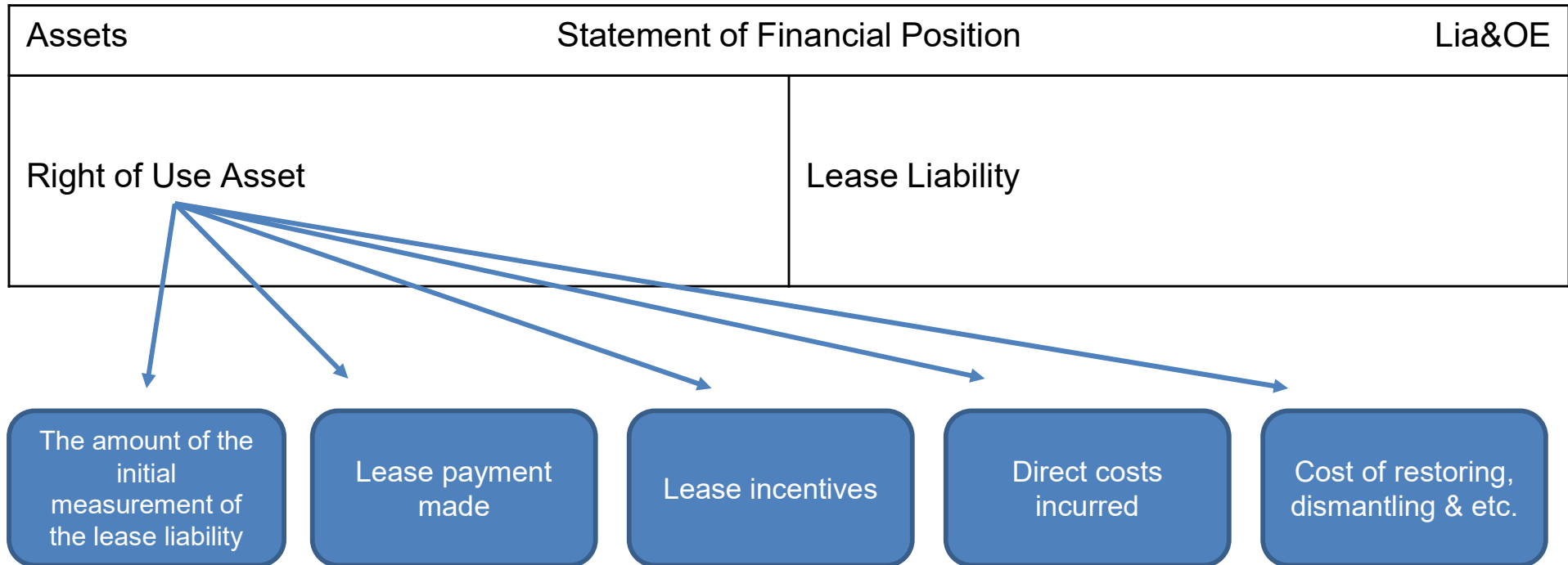
Assets	Statement of Financial Position		Lia&OE
Right of Use Asset	Lease Liability		



# Lease Accounting by the Lessee



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## **Example 1**

Assume that a sales representative for STI Inc. leases a car from Luxury Car Rental at the Istanbul airport and that Luxury Car Rental charges a total of CU 350. STI Inc., the lessee, records the rental as follows:

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Dr. Car Rental Expense CU 350

Cr. Cash CU 350

(To record payment of lease rental charge)

## Example 2

Rea Incorporated needs equipment for its factory. Instead of purchasing the asset, the company chooses to enter into a 5-year finance lease with annual payments of CU 8,000 at January 1st, 2020. Assume each lease payment is made on December 31. Present value of payments is CU 35,000. First year's (2020) interest expense is CU 1,100.

**Required :** Prepare the journal entry to record the first annual lease payment.

# Example 2

January 1st, 2020

Dr.	Right-of-use Asset	CU 35,000	
	Cr.	Lease Liability	CU 35,000

# Example 2

January 1st, 2020

Dr. Right-of-use Asset	CU 35,000	
Cr. Lease Liability		CU 35,000

December 31st, 2020

Dr. Interest Expense	CU 1,100	
Cr. Lease Liability		CU 1,100



## Example 2

January 1st, 2020

Dr. Right-of-use Asset	CU 35,000		
Cr. Lease Liability		CU 35,000	

December 31st, 2020

Dr. Interest Expense	CU 1,100		
Cr. Lease Liability		CU 1,100	

December 31st, 2020

Dr. Lease Liability	CU 8,000		
Cr. Cash		CU 8,000	

## Example 2

January 1st, 2020

Dr. Right-of-use Asset	CU 35,000	
Cr. Lease Liability		CU 35,000

December 31st, 2020

Dr. Interest Expense	CU 1,100	
Cr. Lease Liability		CU 1,100

December 31st, 2020

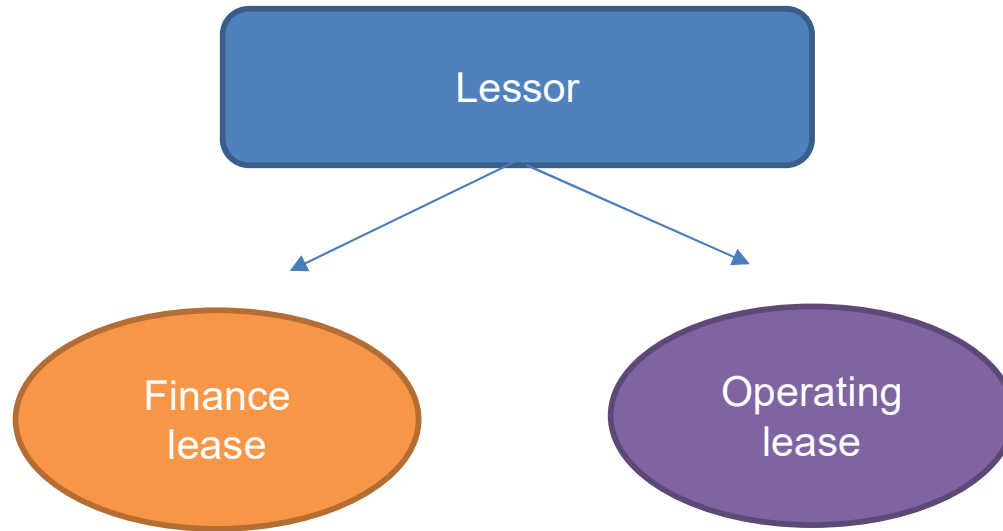
Dr. Lease Liability	CU 8,000	
Cr. Cash		CU 8,000

December 31st, 2020

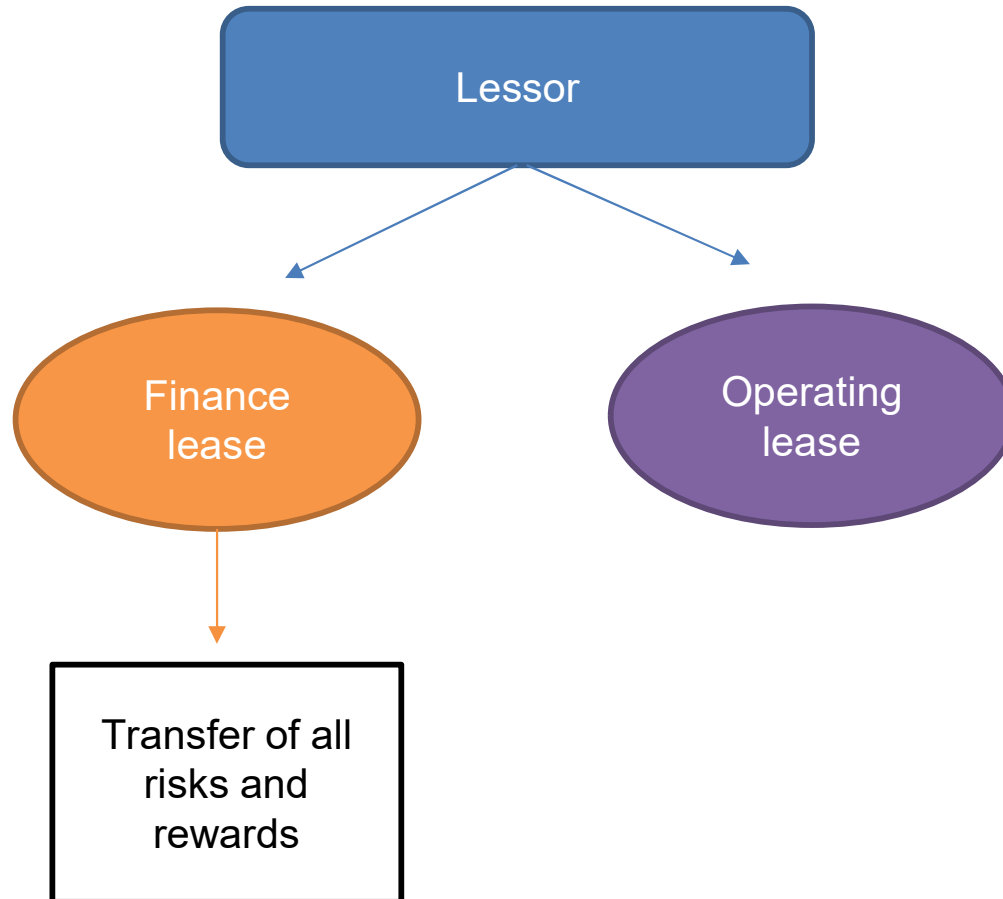
Dr. Depreciation Expense	CU 7,000	
Cr. Accumulated Depreciation		CU 7,000

(CU 35,000 / 5 years = CU 7,000)

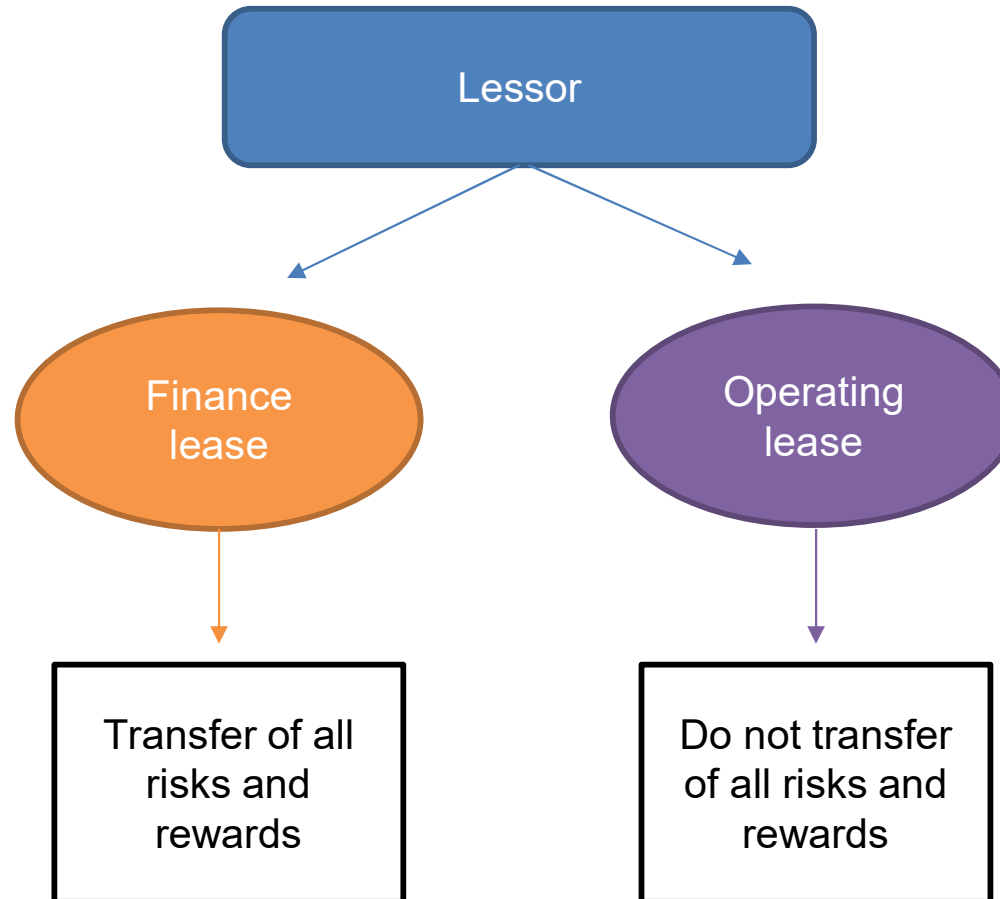
# Lease Accounting by the Lessor



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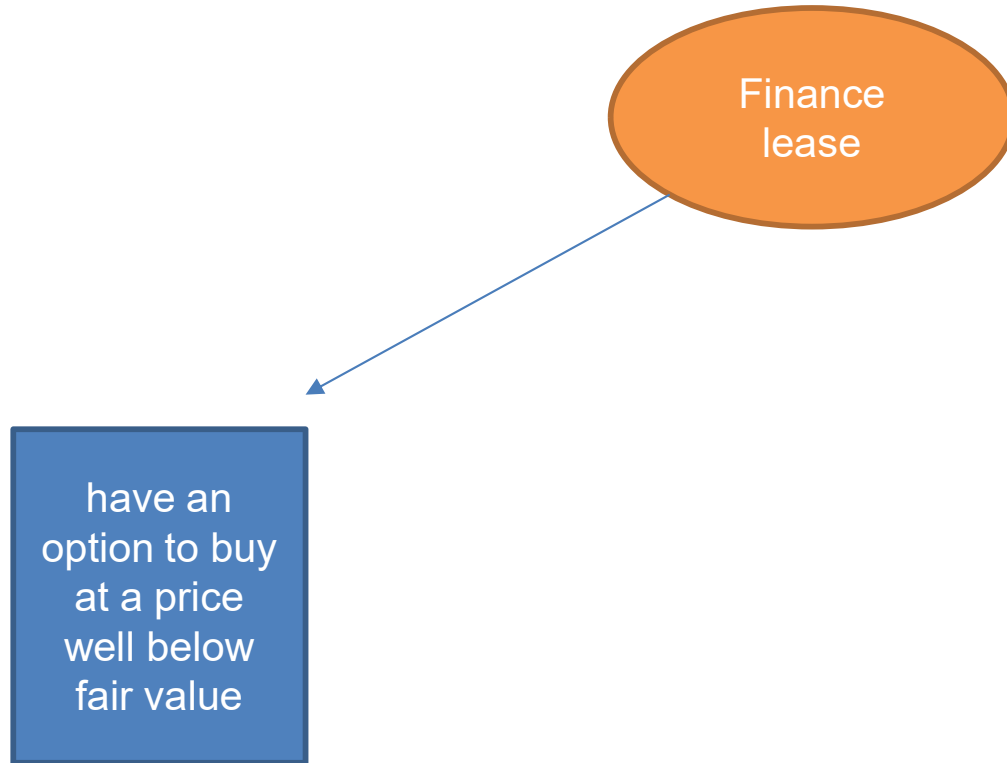
# Lease Accounting by the Lessor



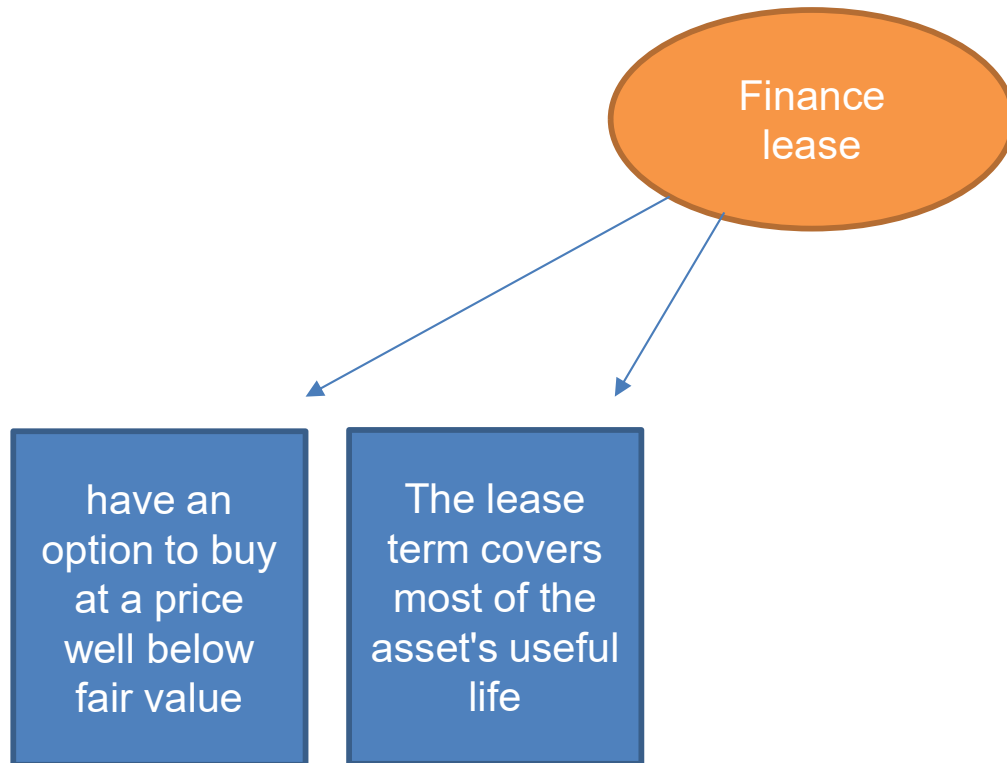
# Accounting and Reporting by Lessors: Finance Leases



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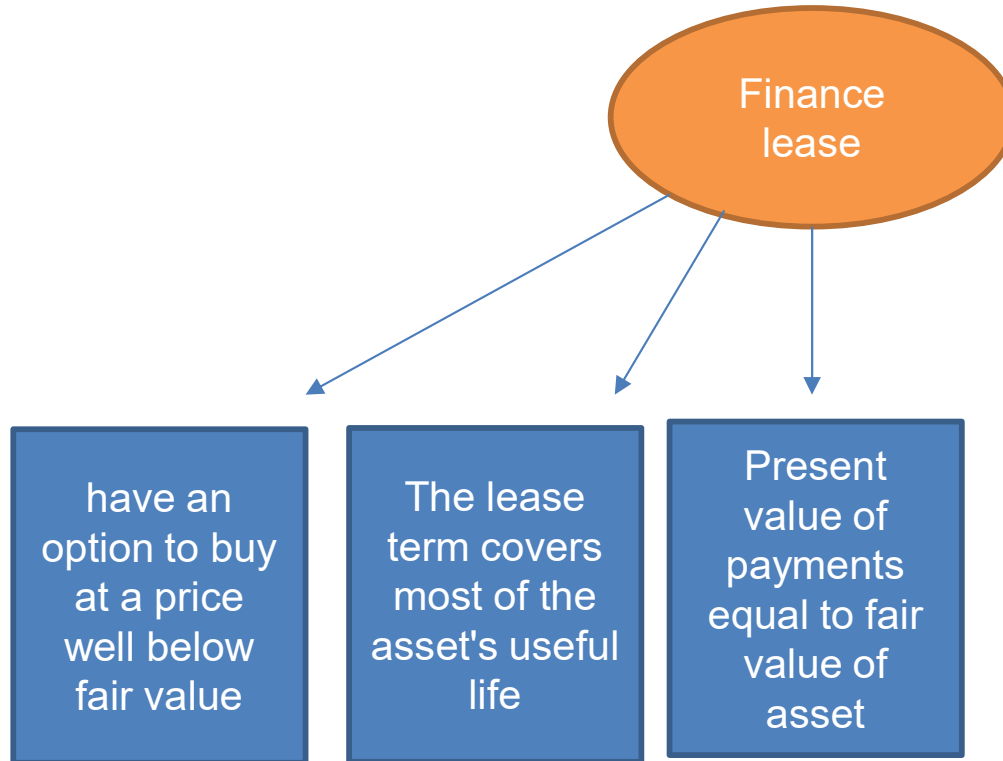


# Accounting and Reporting by Lessors: Finance Leases

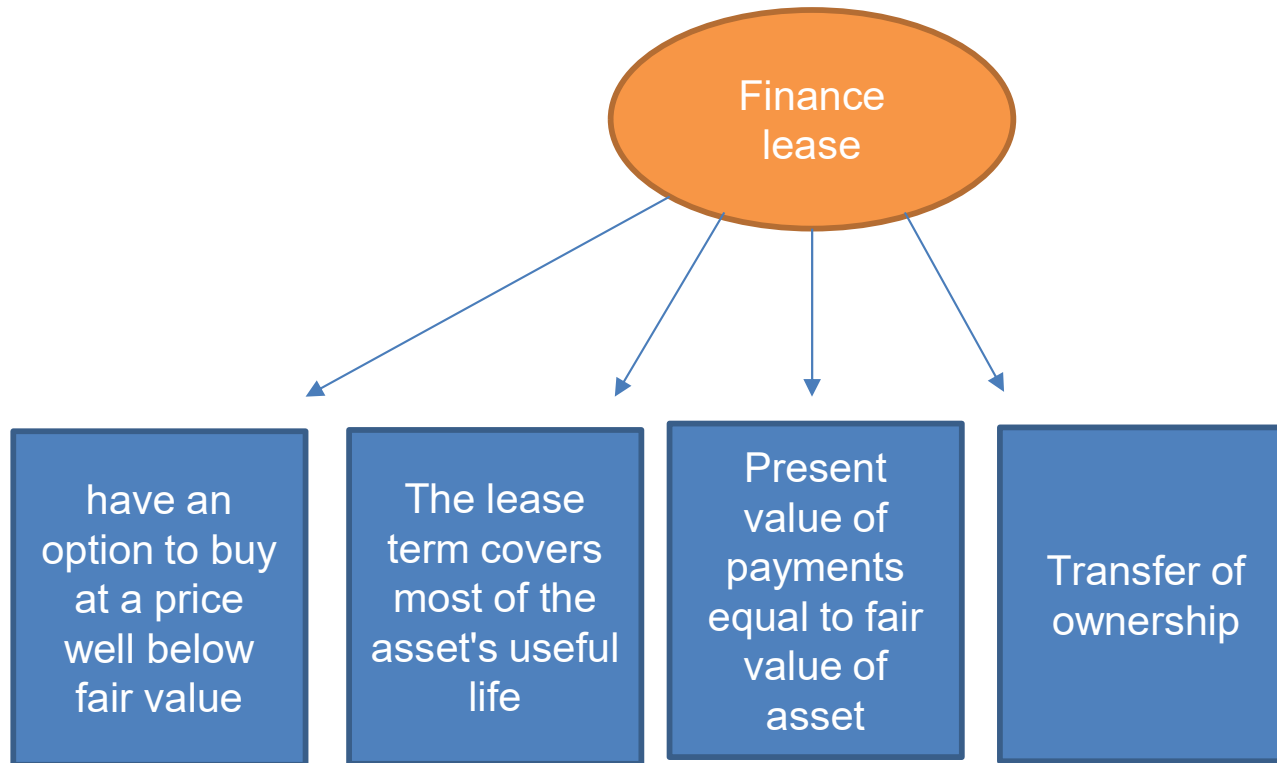




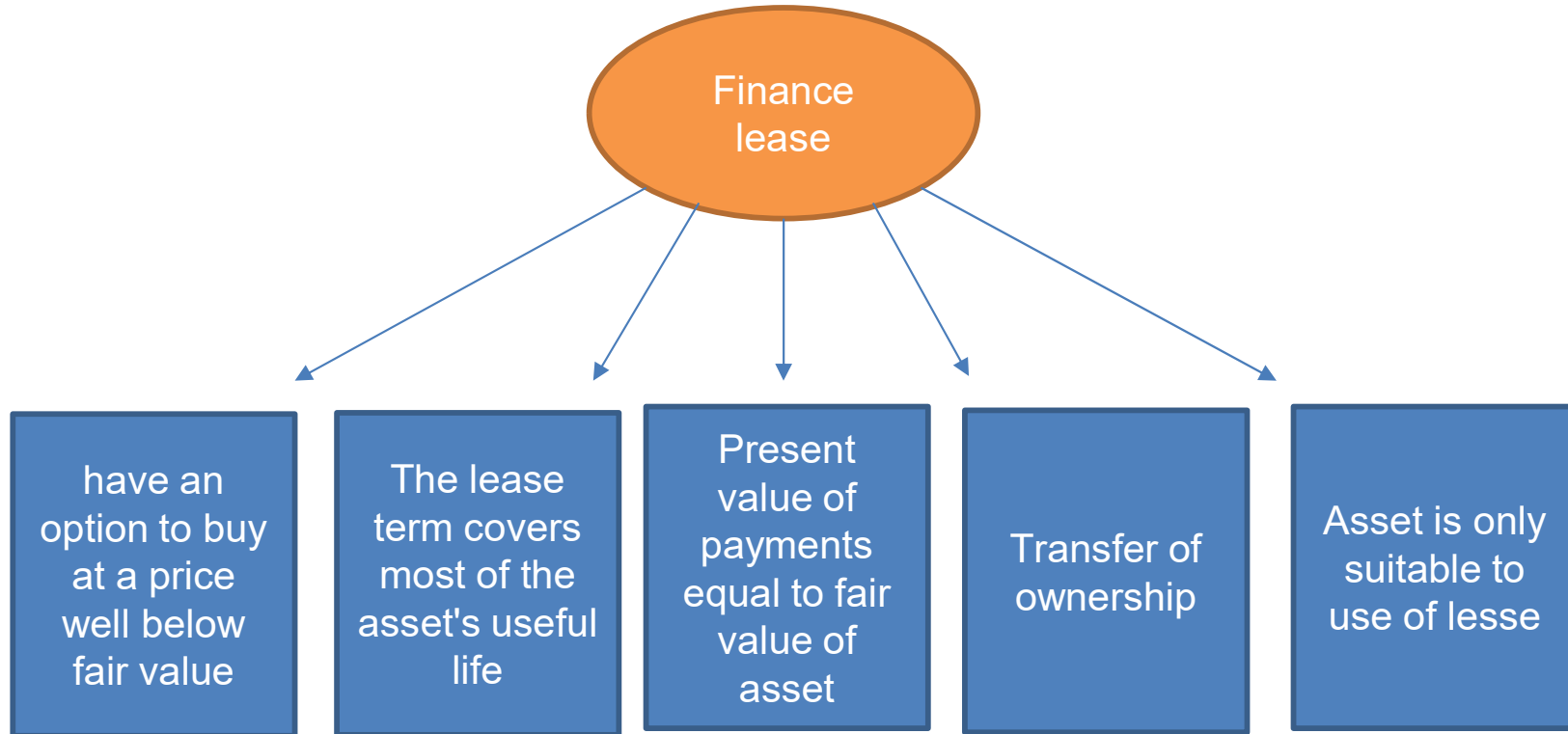
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# Accounting and Reporting: Finance Leases

## EXAMPLE 1

Accounting for a finance lease is like accounting for a purchase. The lessee records an asset and a lease liability even though the lessee may never actually own the property.

On January 1, 2019, Migros, the grocery chain, leases buildings for its stores. Suppose Migros leases a store building for a 20-year period. At the end of the lease term, ownership of the building will be transferred to Migros. This lease is similar to purchasing the building on an installment plan.

Suppose Migros's total lease payments are CU 4,500,000 and the present value of lease payments is CU 4,000,000. The cost of the right-of-use asset is the present value of lease payments. Make the necessary journal entries for both lessee and lessor at the beginning of the lease.

# Accounting and Reporting: Finance Leases

## EXAMPLE 1

### Solution:

Migros makes the following entry at the beginning of the lease.

Jan. 1, 2019

Dr. Right of Use Asset	CU 4,000,000
Cr. Lease Liability	CU 4,000,000

# Accounting and Reporting: Finance Leases

## EXAMPLE 1

### Solution:

Lessor makes the following entry at the beginning of the lease.

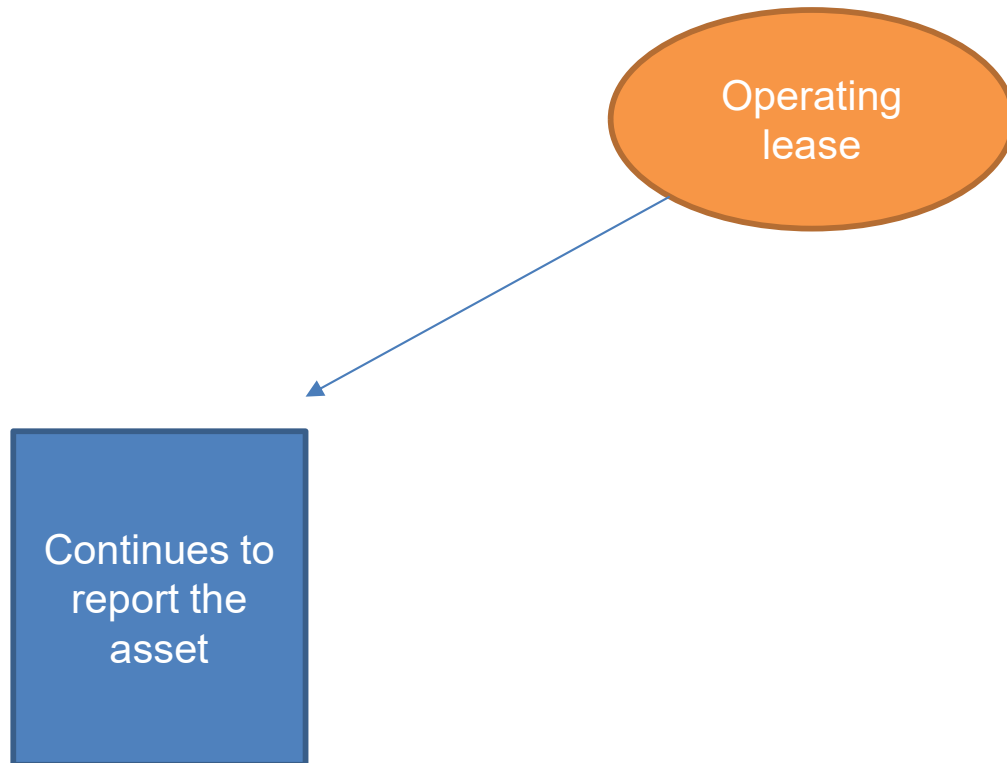
Jan. 1, 2019

Dr. Lease Receivables	CU 4,000,000
Cr. Building	CU 4,000,000

# Accounting and Reporting by Lessors: Operating Leases

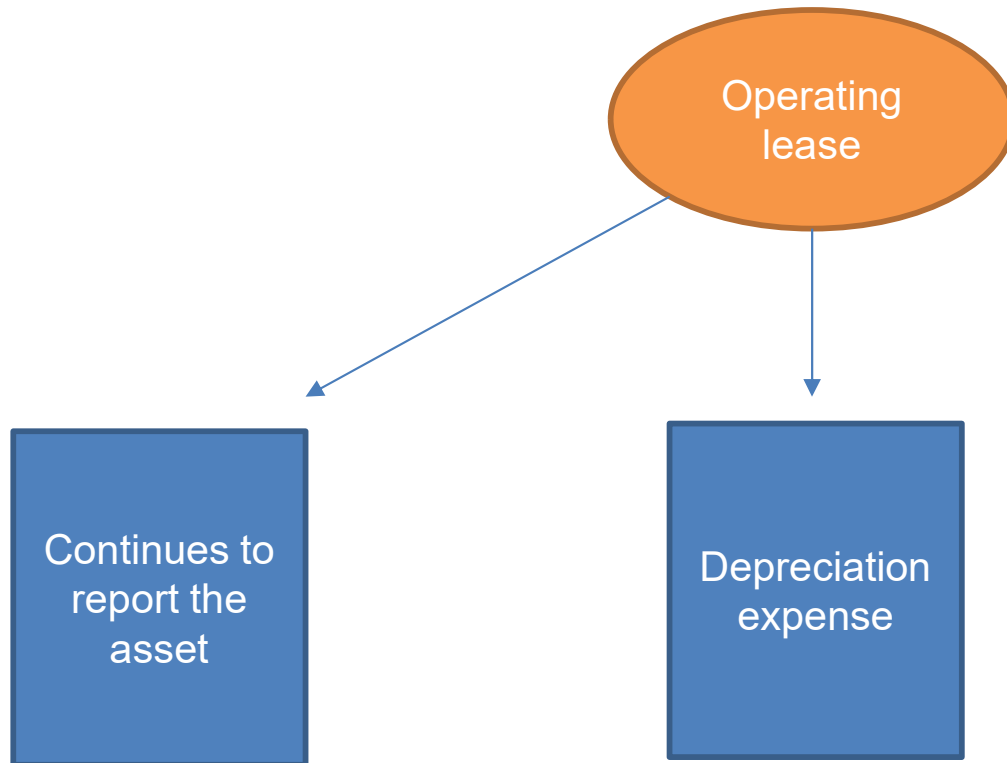


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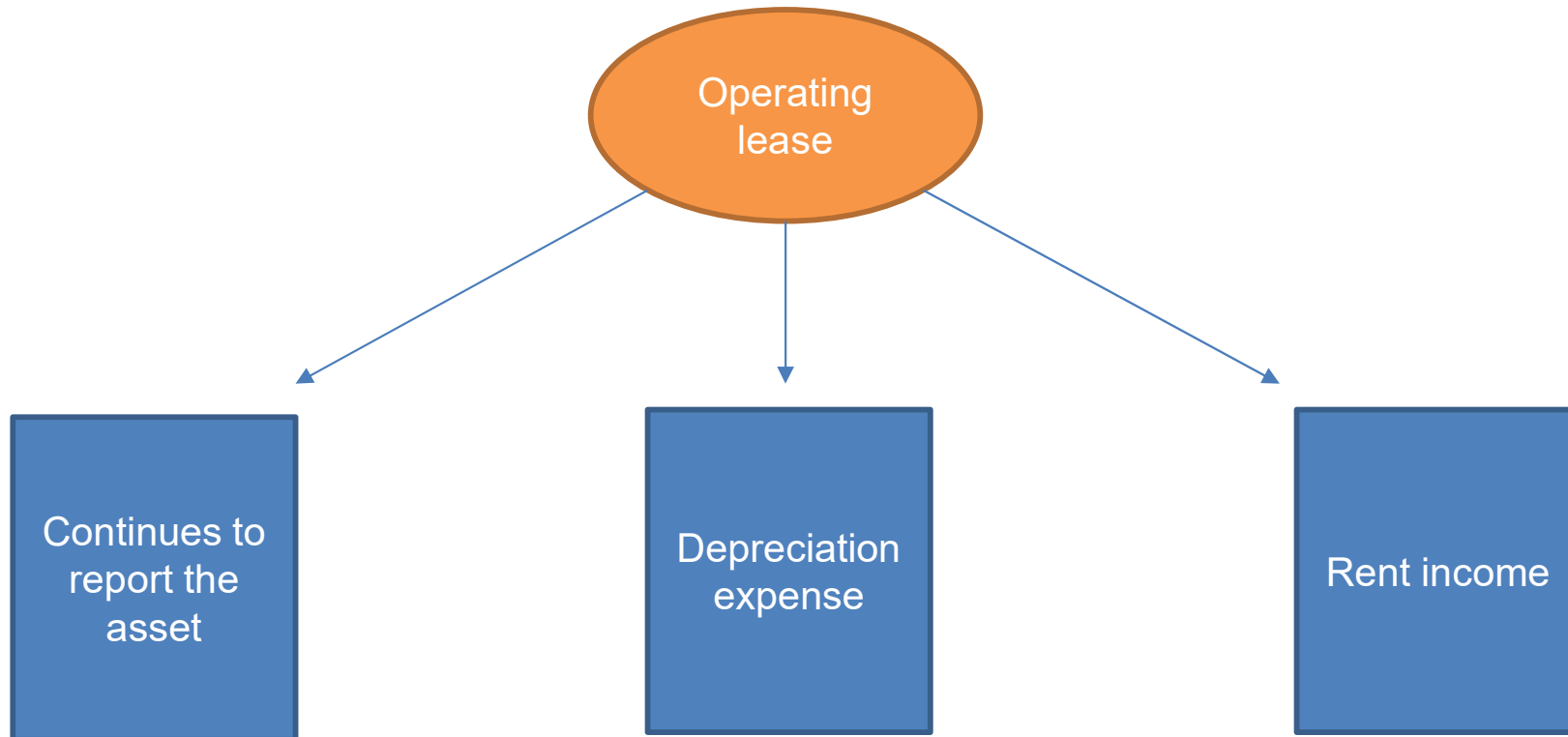




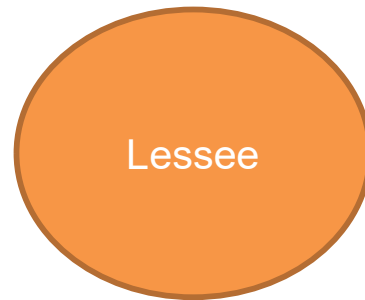
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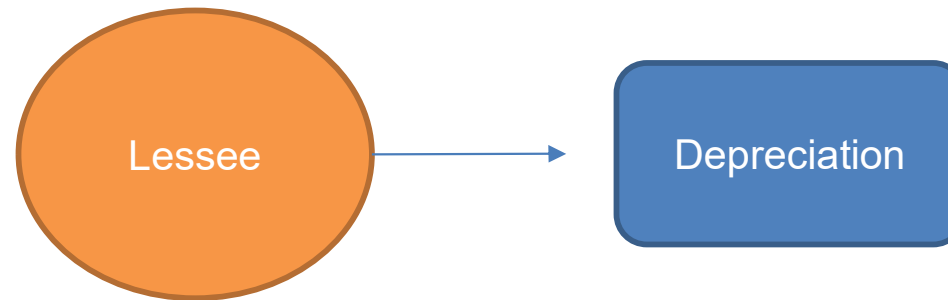
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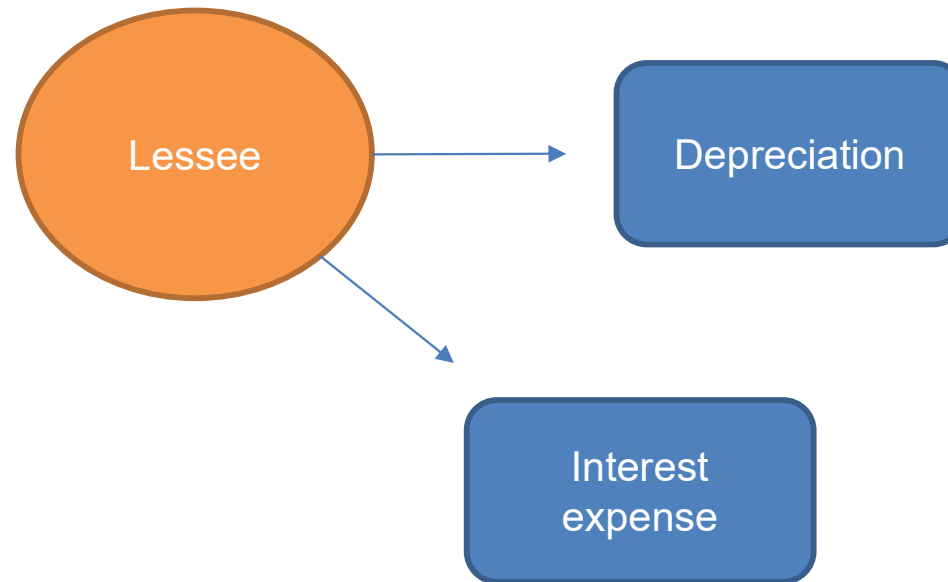
# DISCLOSURES OF LESSEE



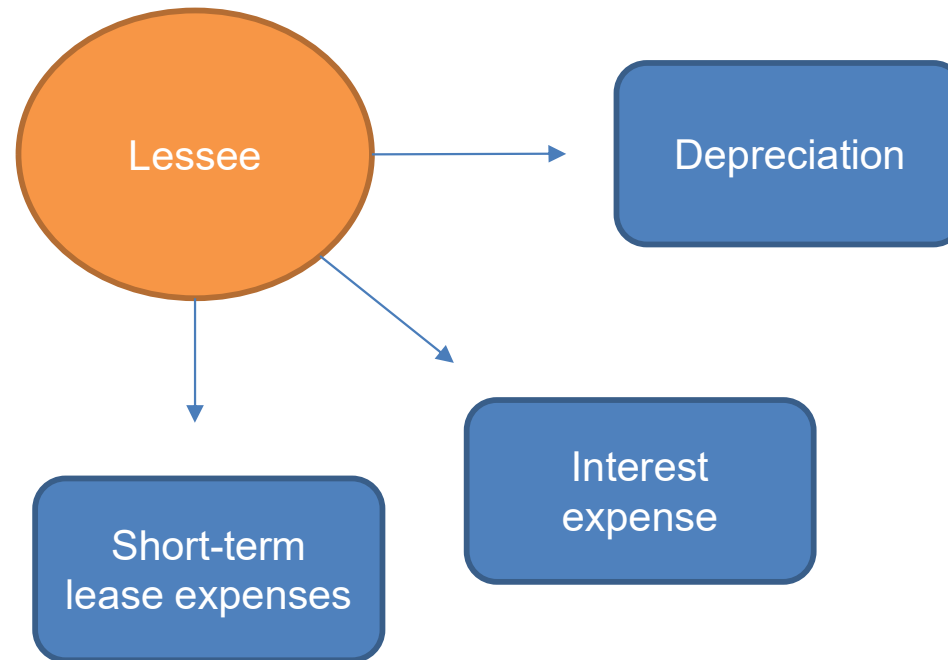
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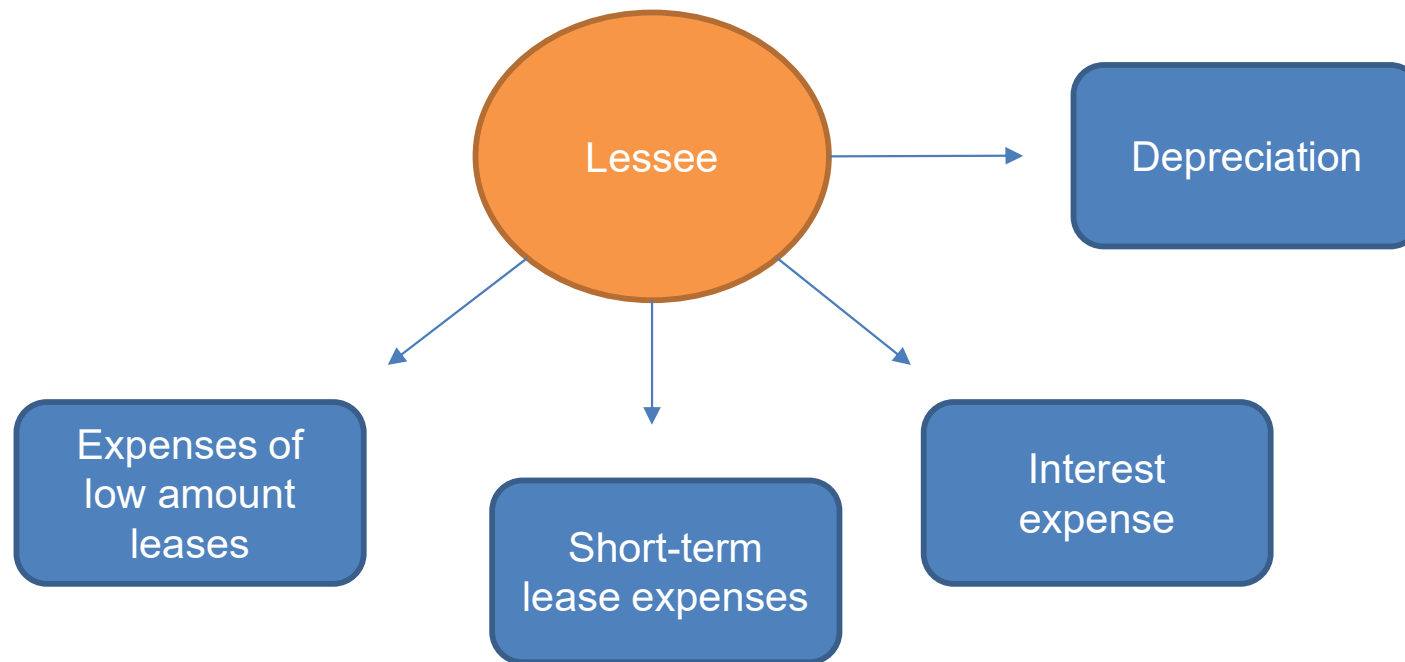
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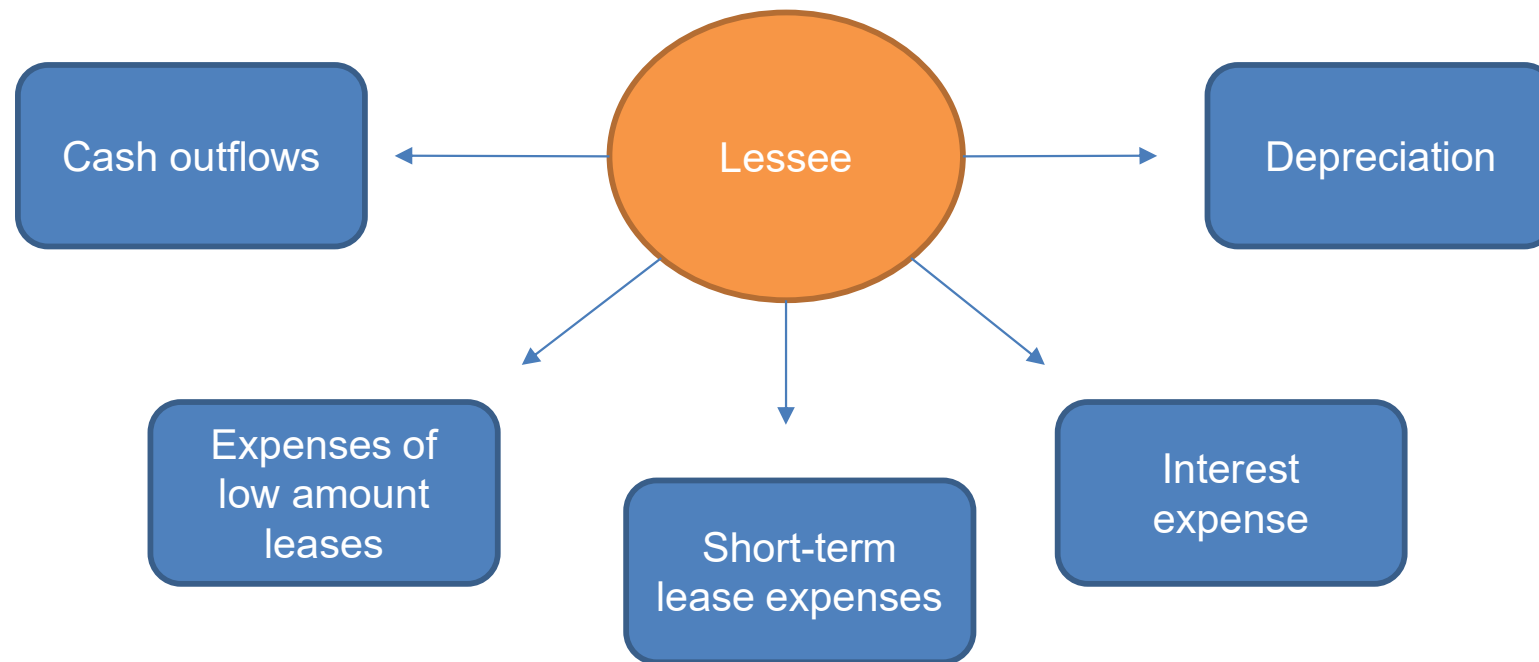
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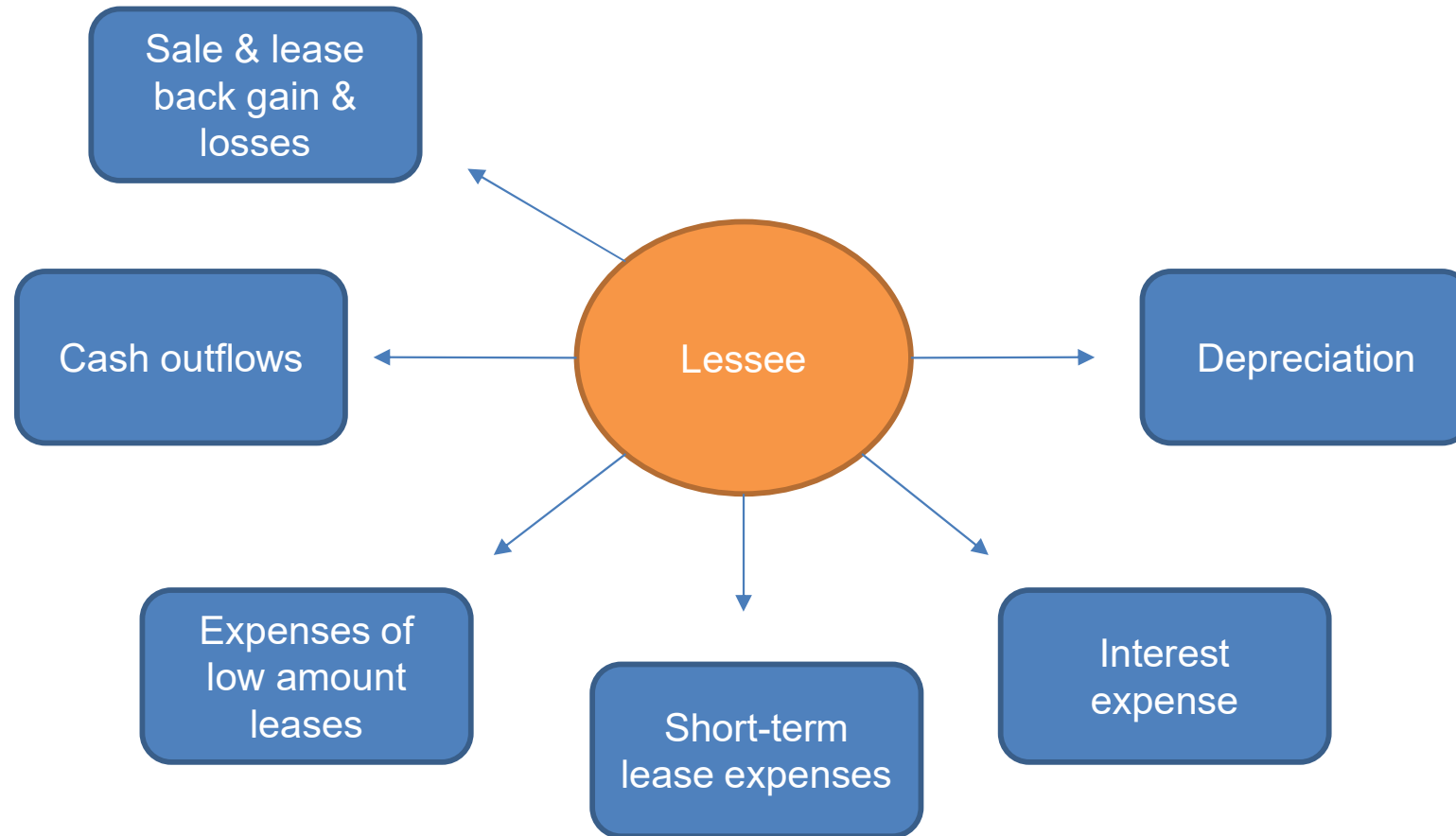


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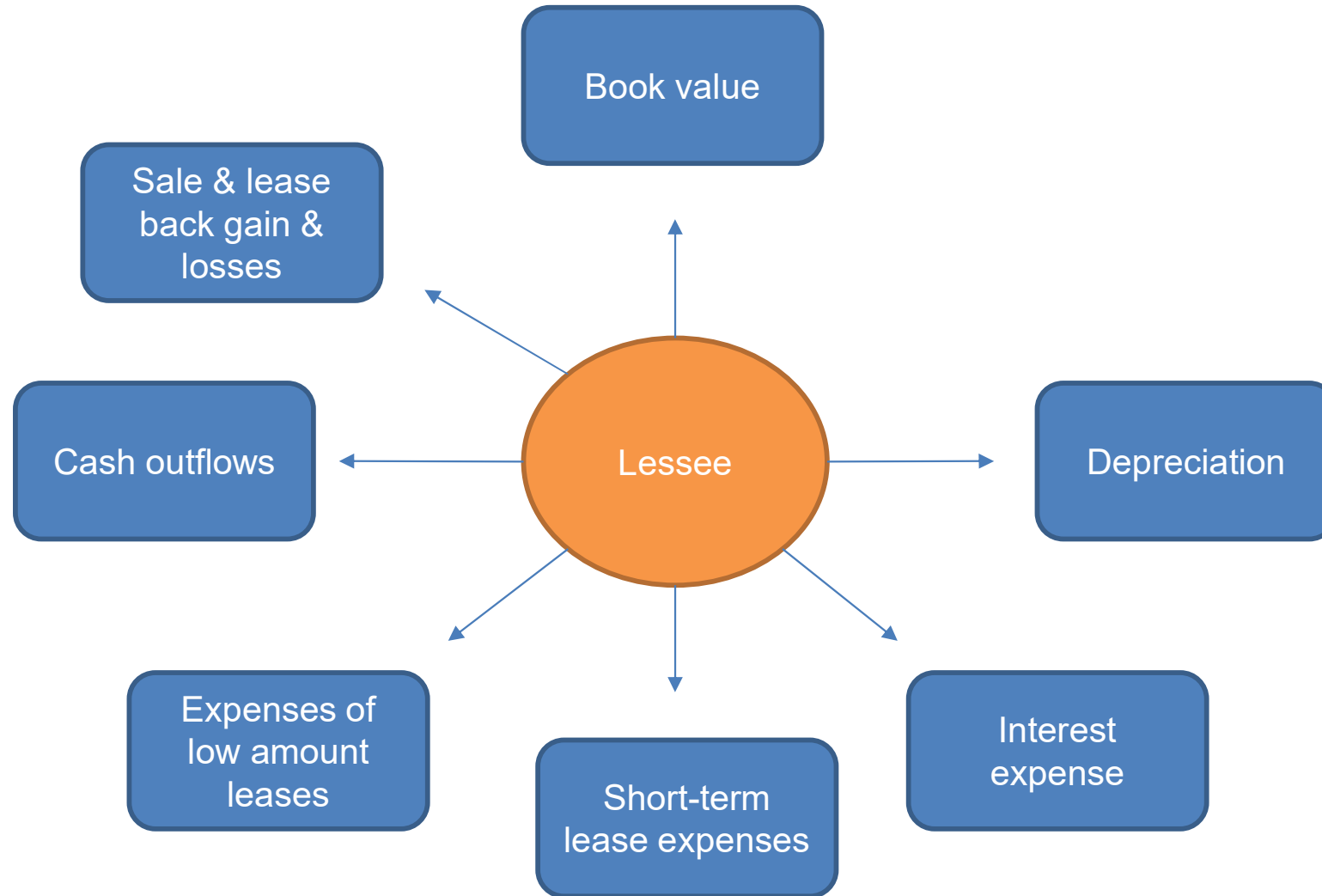




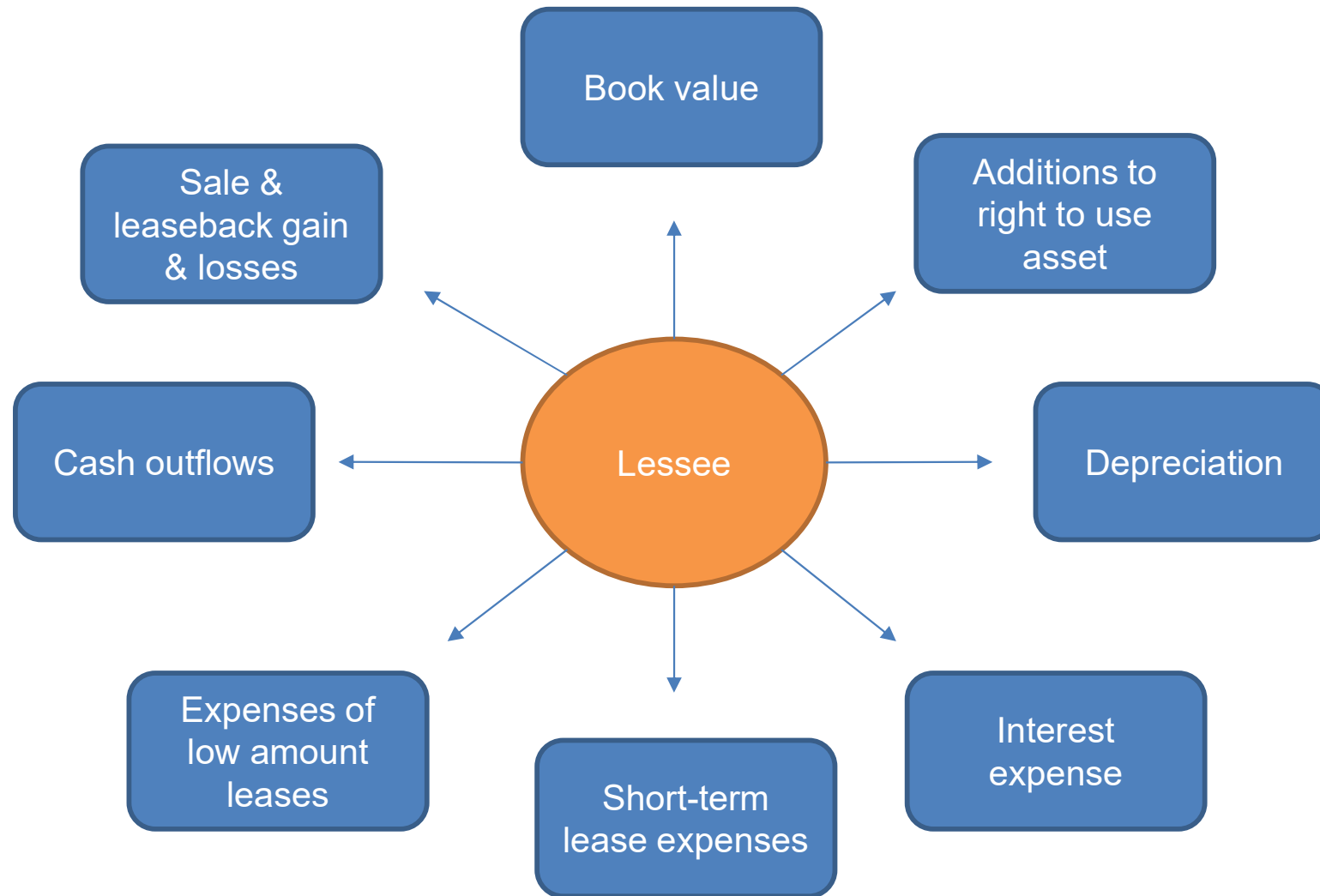
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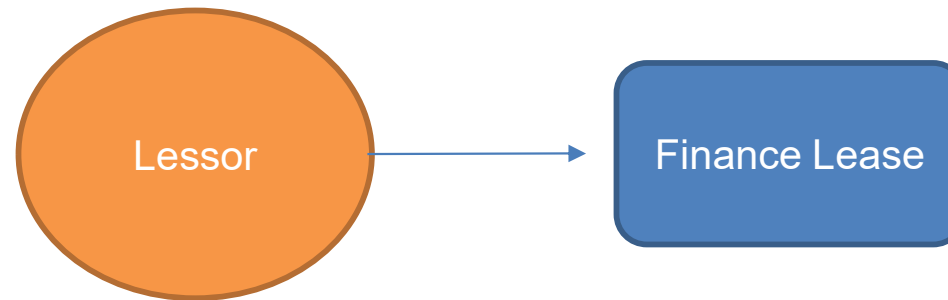
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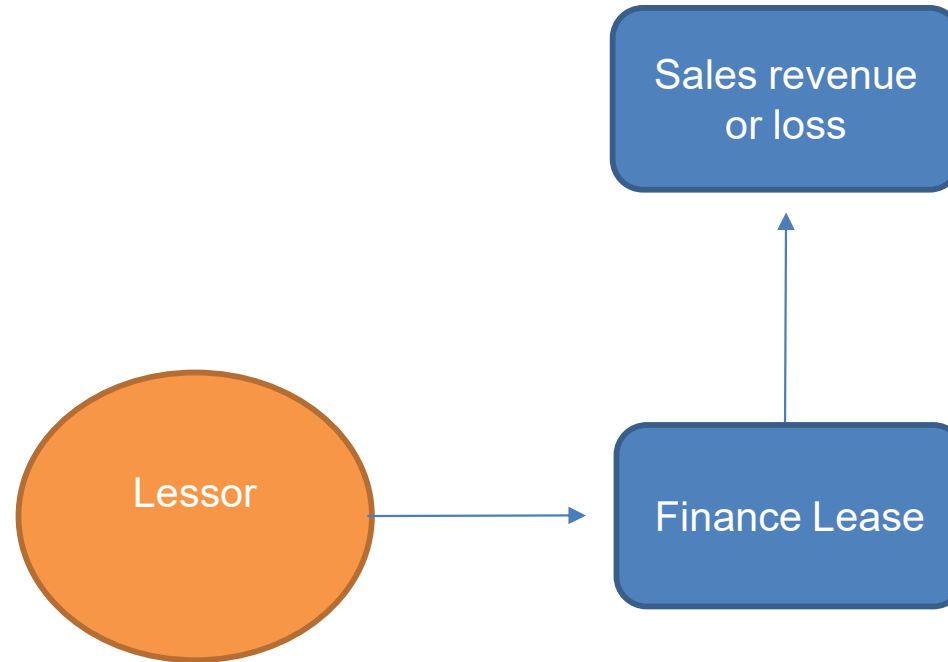
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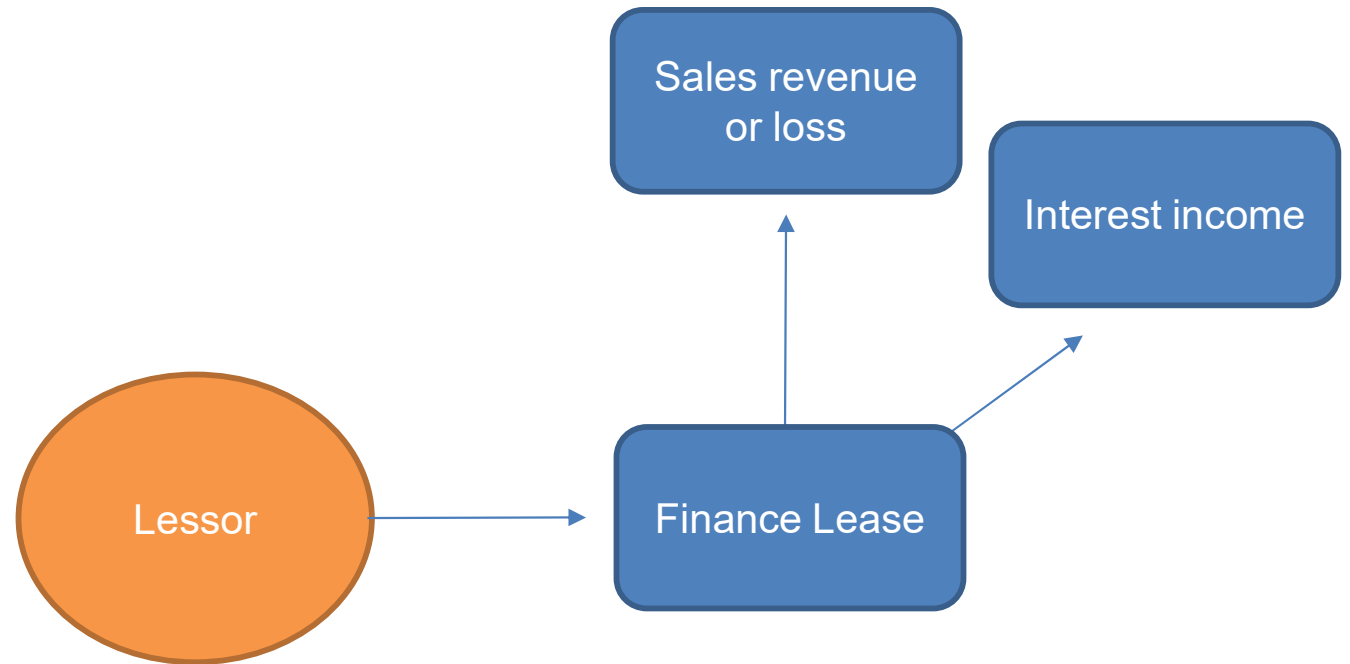
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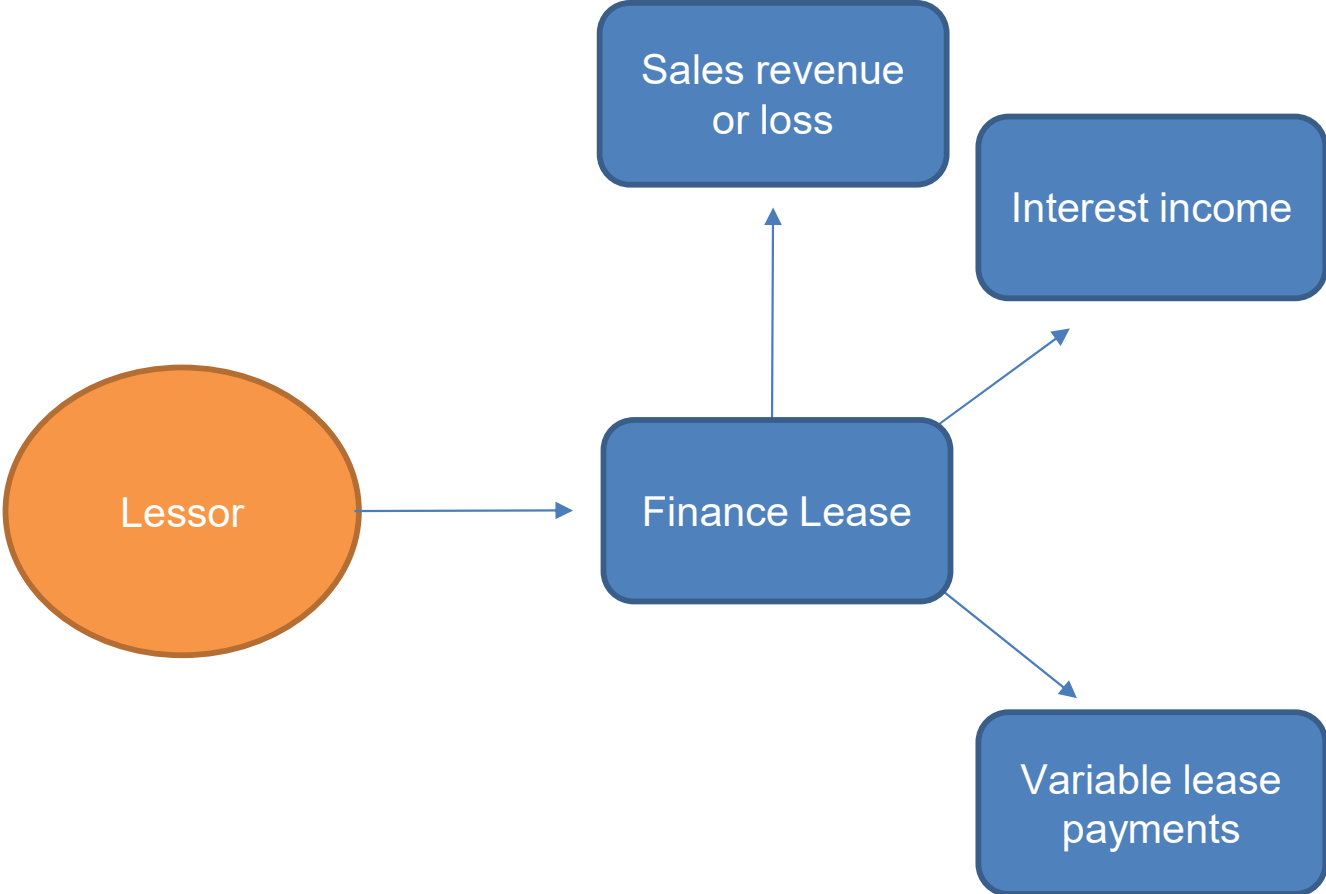
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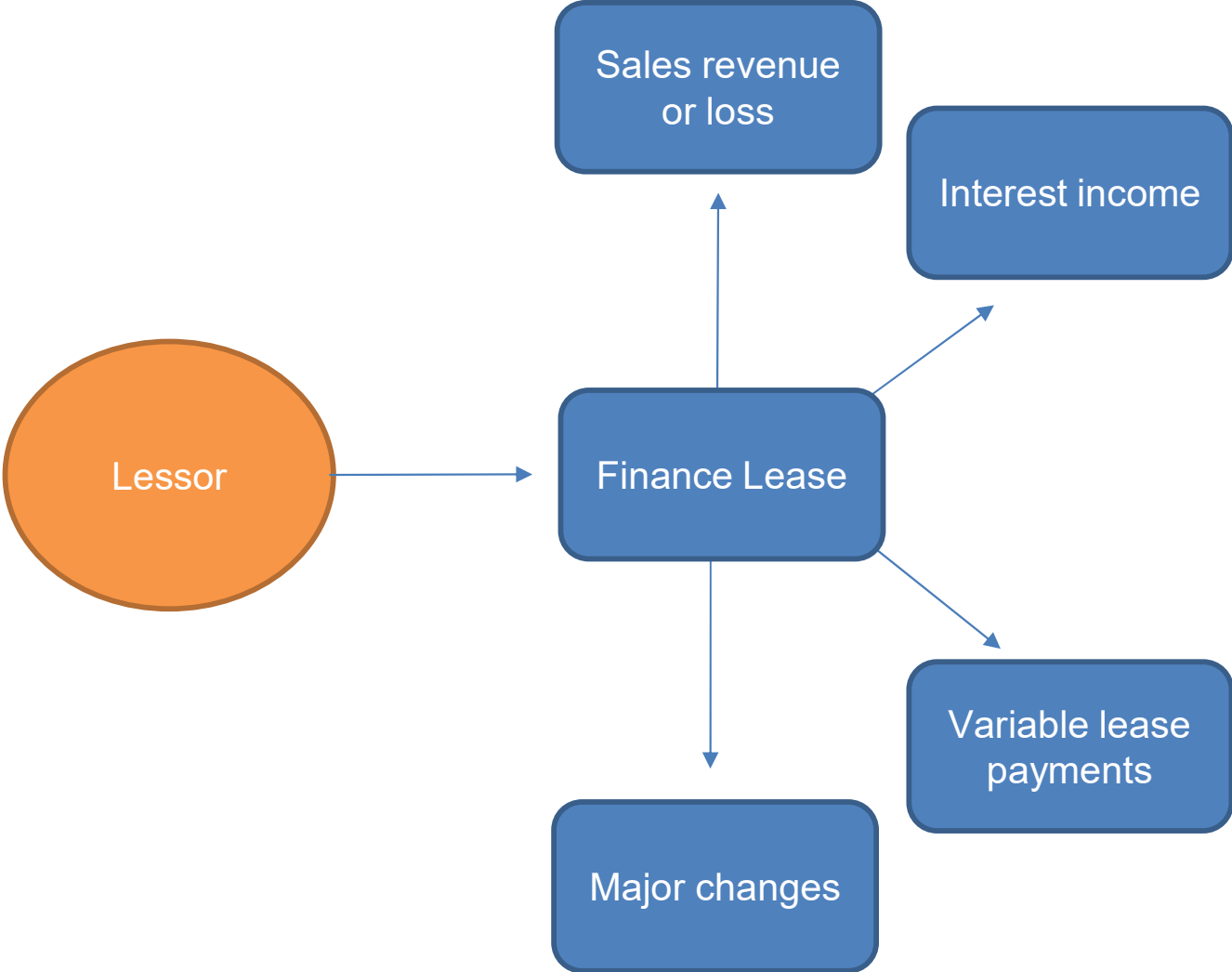
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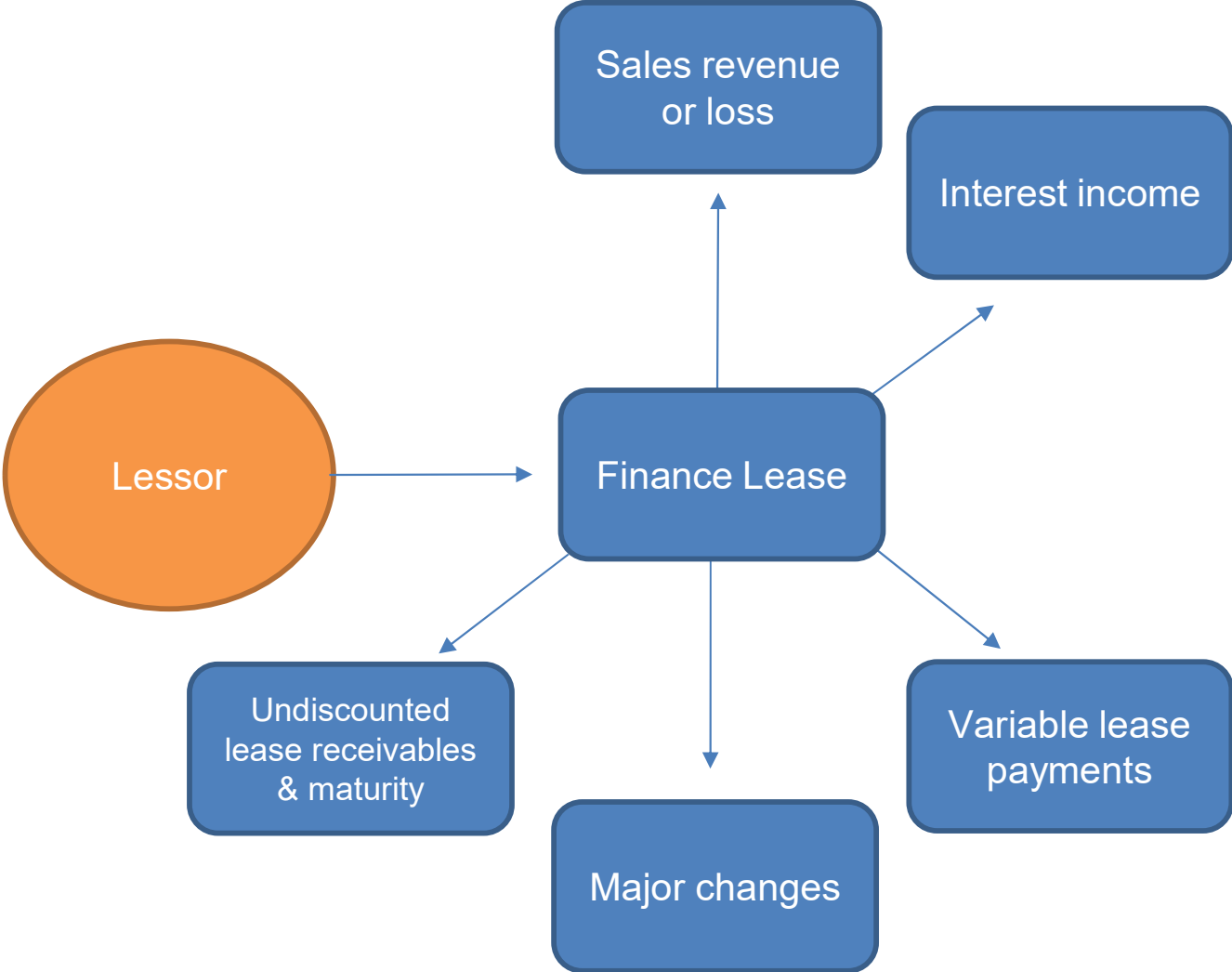


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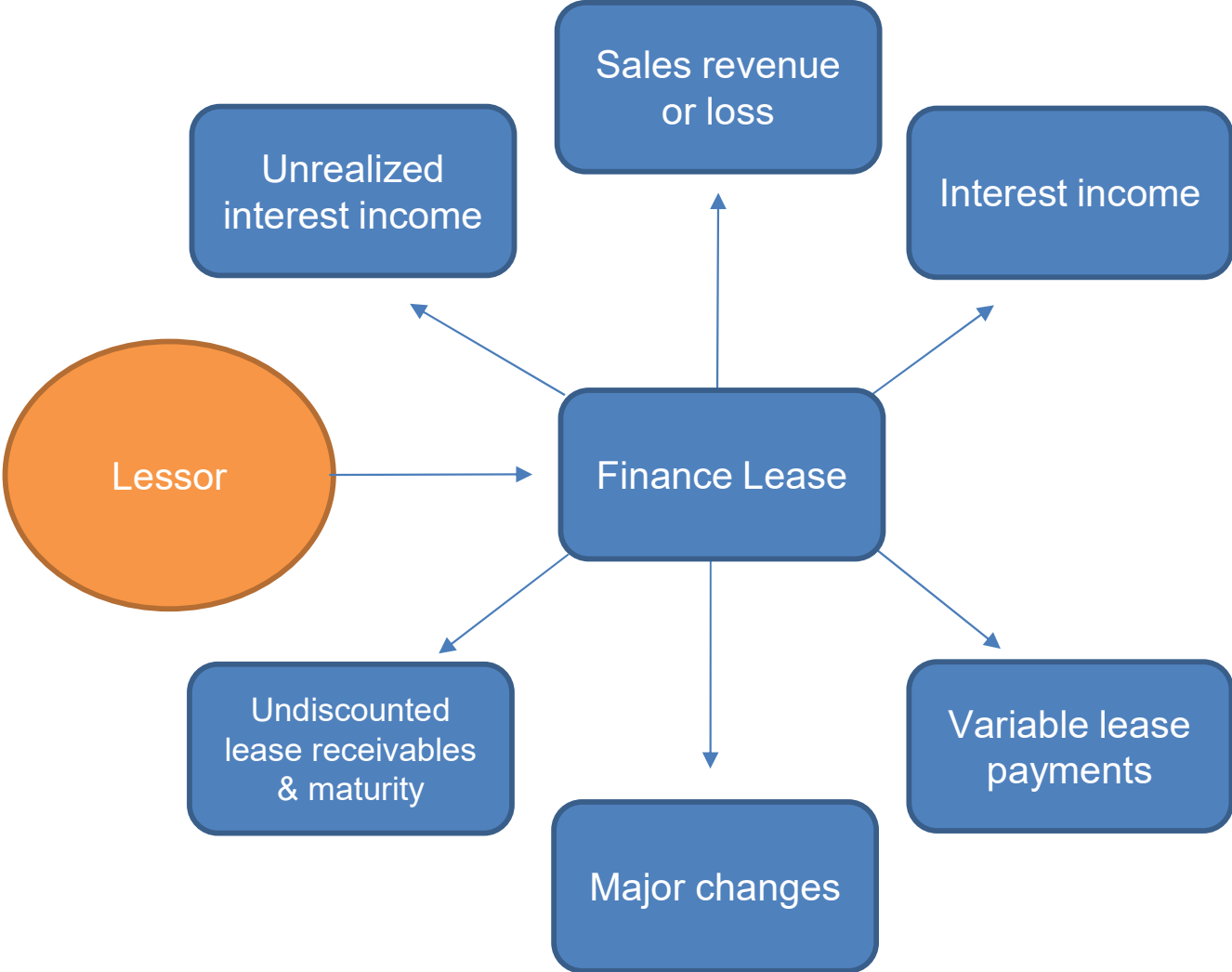




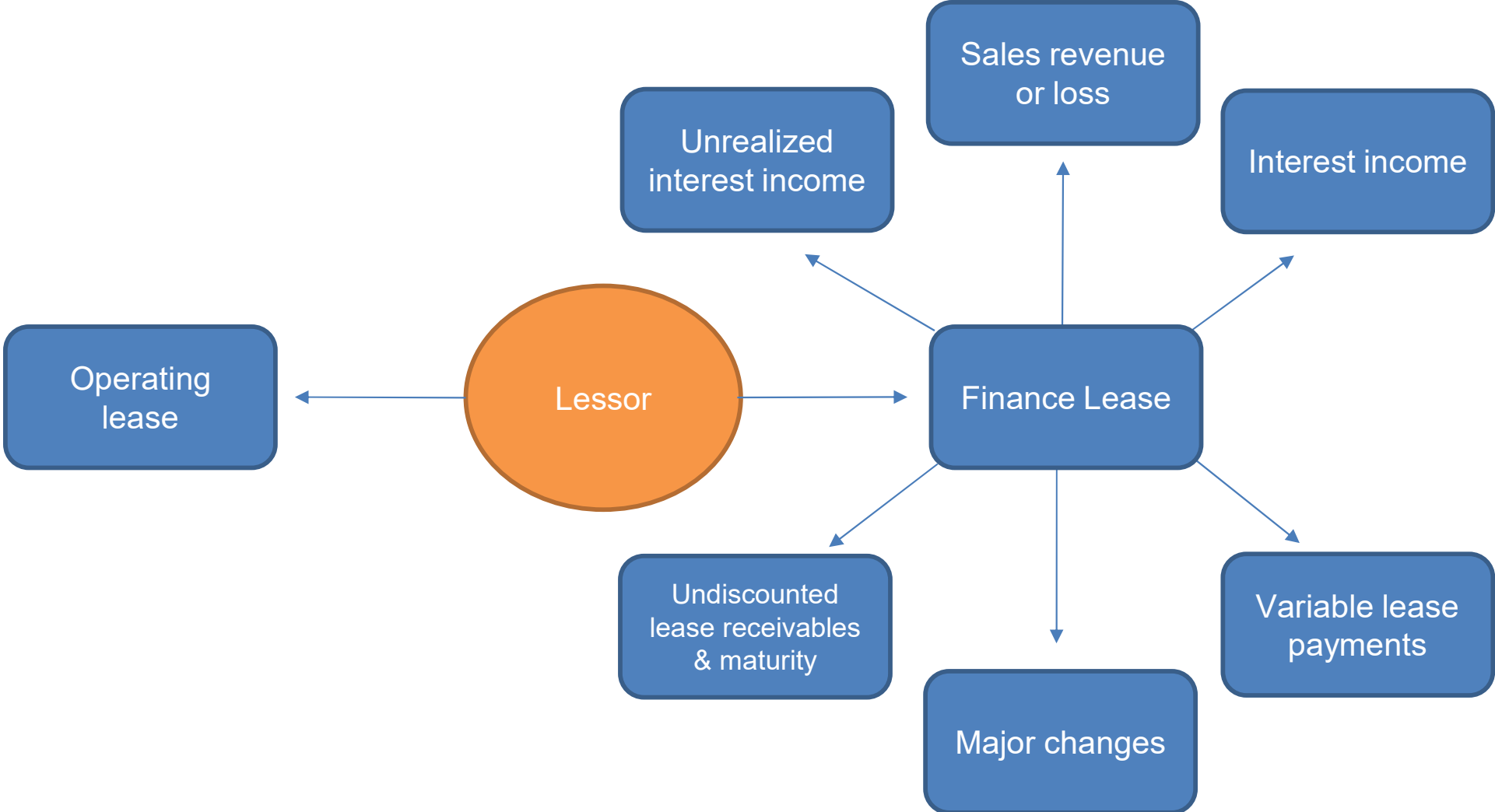
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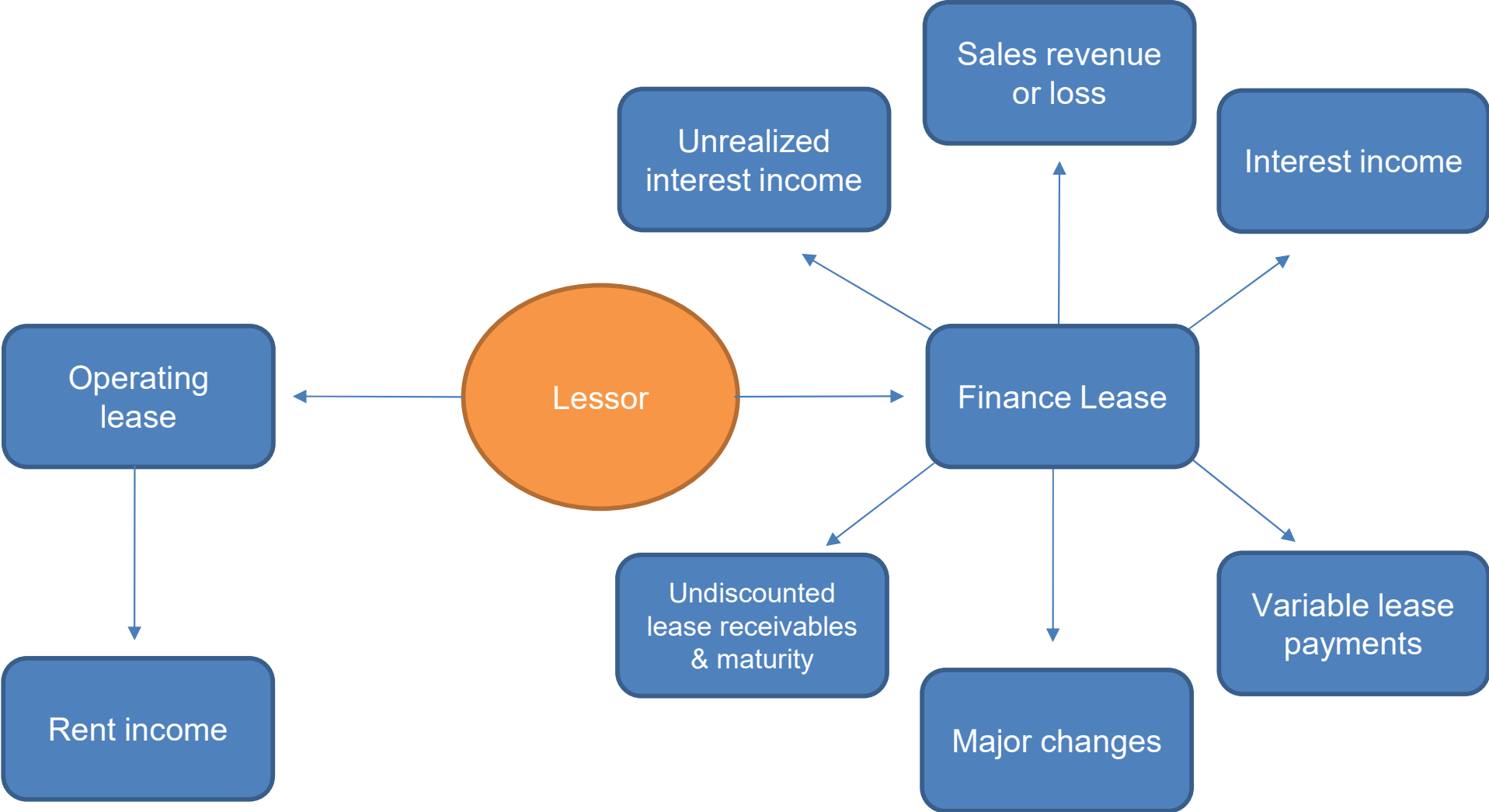
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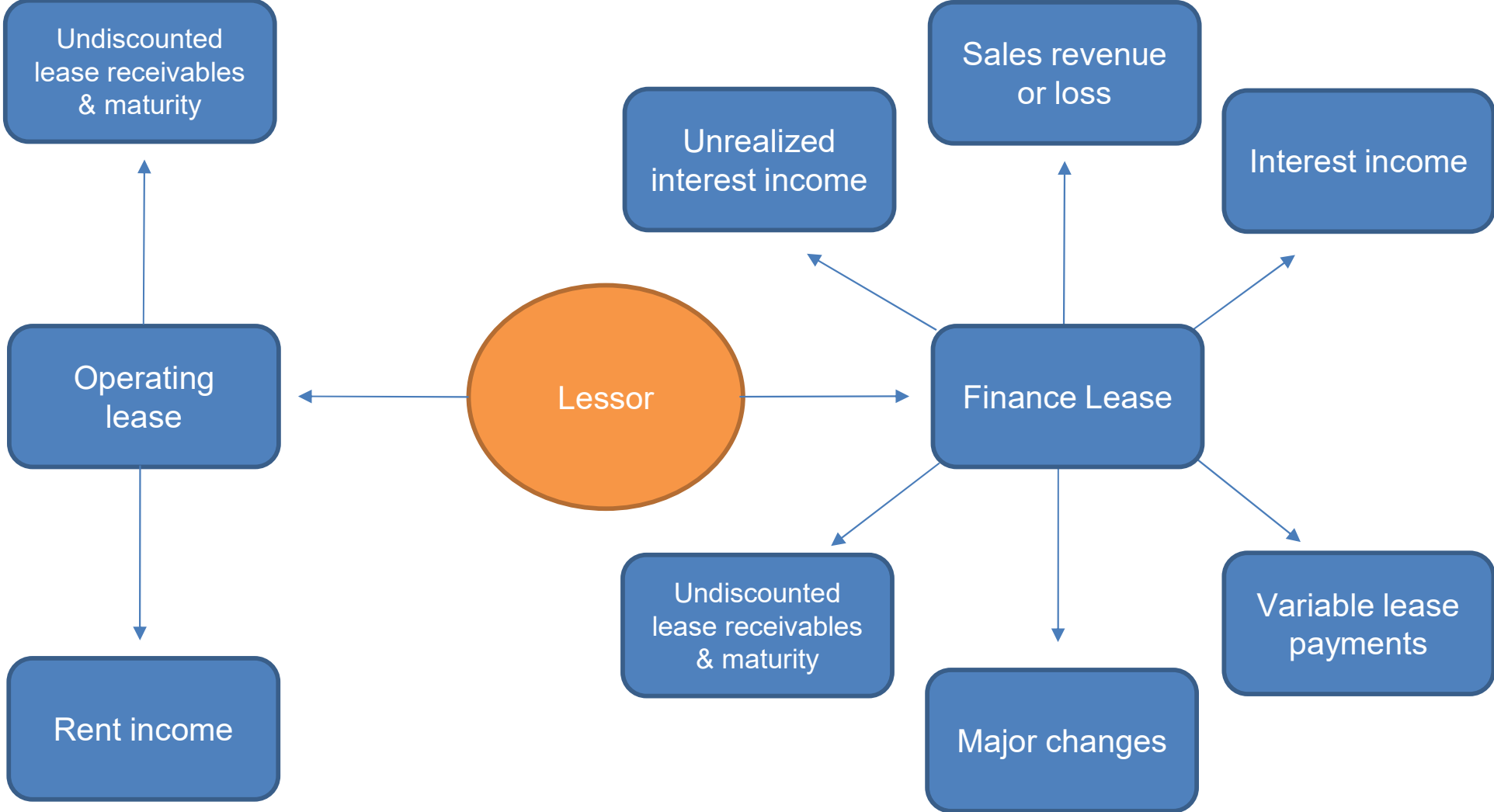
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