



Leases

GALGOTIAS
UNIVERSITY



Lecture - 1

GALGOTIAS
UNIVERSITY

Topics covered

Leases : Introduction

Leases : Concept

Leases : Major Consideration

Accounting Treatment : Initial Measurement

Accounting Treatment : Subsequent Measurement

**GALGOTIAS
UNIVERSITY**

Leases : Introduction

IFRS 16 covers provisions related to Leases

replaced IAS 17

is a complicated area and under IAS 17, depending on the type of lease.

it was possible to have beneficial use of an asset without recording either the asset or corresponding liability.

Leases : Introduction

IFRS 16 removed that flexibility, so that if an entity has beneficial use of an asset under a leasing arrangement then both the asset and the liability must be recorded.

only exceptions to this principle are leases of 12 months or less, or low-value assets.

GALGOTIAS
UNIVERSITY

Leases : Concept

‘A **lease** is a contract, or part of a contract, that conveys the rights to use an asset (the underlying asset) for a period of time in exchange for consideration’ **(IFRS 16, Appendix A)**.

A **lessor** is the entity that provides the right-of-use asset and, in exchange, receives consideration.

A **lessee** is the entity that obtains use of the right-of-use asset and, in exchange, transfers consideration.

A **right-of-use** asset represents the lessee’s rights to use an underlying asset over the lease term.

Leases : Concept

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

Finance lease

Operating lease

GALGOTIAS
UNIVERSITY

Leases : Major Consideration

Substance over form

The treatment required by IFRS 16 effectively accounts for the economic substance of leases rather than their legal form. The economic substance is that the lessee has the beneficial use of an asset and has an obligation to pay for that use. The fact that the lessee may never become the legal owner of the asset is irrelevant. We need to recognise both the asset and the liability.

Finance Lease

A lease is a finance lease if it **transfers** substantially all the risks and rewards incident to ownership

Operating Lease

A lease is an operating lease if it **does not transfer** substantially all the risks and rewards incident to ownership



Substance over Form

UNIVERSITY

Accounting Treatment : Initial Measurement

At the commencement of the lease, the lessee should recognise a lease liability and a right-of-use asset.

The lease liability is initially measured at the present value of the lease payments that have not yet been paid. The discount rate should be the rate implicit in the lease.

GALGOTIAS
UNIVERSITY

Accounting Treatment : Initial Measurement

The right-of-use asset is initially recognised at cost, which comprises:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date
- Any initial direct costs
- The estimated costs of removing or dismantling the underlying asset in accordance with the terms of the lease.

Accounting Treatment : Subsequent Measurement

Asset

- The right-of-use asset is measured using the cost model (unless another measurement model is chosen).
- measured at its initial cost less accumulated depreciation and impairment losses.
- Asset is depreciated over the shorter of the asset's useful life and the lease term, unless ownership of the asset transfers to the lessee at the end of the lease, in which case depreciation should be charged over the asset's useful life.

Accounting Treatment : Subsequent Measurement

Liability :

The liability is measured using amortised cost, which is the initial value plus any interest charged minus any payments made.

GALGOTIAS
UNIVERSITY

References

Financial Reporting (Fr) - Study Text, The Association Of Chartered Certified Accountants (ACCA). Kaplan Publishing

<https://www.iasplus.com/en/standards/ias/ias16>

<https://www.ifrsbox.com/ifrs-16-leases-summary/>

<ftp.jrc.es> › pub › IPSAS course › Leases slides final

GALGOTIAS
UNIVERSITY

The logo of Galgotias University is a stylized 'G' composed of several curved, overlapping bands in shades of yellow, orange, and blue, set against a light pink circular background.

Thank You

GALGOTIAS
UNIVERSITY