FOR LEASE

Ind AS

Introduction

Leasing is a way of gaining the right to use an asset usually without having to pay the full amount upfront.

Available guidance:

Ind AS 17 – Lease accounting;

Objective

The objective of Ind AS 17 is to ensure that leases are accounted for in the financial statements of both lessees and lessors in accordance with their commercial substance.

Scope

This Standard shall be applied in accounting for all leases other than:

a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and
b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.
c) Investment Property -Ind AS 40
d) Lease of biological assets – Ind AS 41

Determining whether an arrangement contains a lease

IFRIC 4 provides guidance on when such arrangements are, or contain, leases. If it is determined that an arrangement contains a lease, the lease should be accounted for in accordance with IAS 17. In addition, IFRIC 4 addresses when the assessment or reassessment should be made and how payments for the lease should be separated from payments for other elements of the arrangement.

Under IFRIC 4, determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement, which means assessing if:

- fulfilment of the arrangement is dependent on the use of a specified asset or assets; and
- the arrangement conveys a right to use the asset or assets.

Determining whether an arrangement contains a lease

Example – Evaluation of whether fulfilment of arrangement is dependent on use of a specific asset

Entity A enters into an agreement to sell electricity to a steel works. In order to fulfil this agreement, entity A builds a power station next to the steel works. Entity A does not have access to any other electricity generating assets.

In this case, it is clear that fulfilment of the agreement is dependent on the use of the power station built next to the steel works.

Determining whether an arrangement contains a lease

An arrangement conveys a right to use an asset if the purchaser (lessee) has the right to control the asset's use. A right to control is conveyed if any of the following conditions are met:

- ✓ The purchaser has the ability or right to operate the asset in a manner that gives more than insignificant control on the output or other utility of the asset
- ✓ The purchaser has the ability or right to control physical access to the asset
- ✓ There is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the asset's output and <u>the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.</u>

Determining whether an arrangement contains a lease

A production company (the purchaser) enters into an arrangement with a third party (the supplier) to supply a minimum quantity of gas needed in its production process for a specified period of time. The supplier designs and builds a facility adjacent to the purchaser's plant to produce the needed gas and maintains ownership and control over all significant aspects of operating the facility. The agreement provides for the following:

- The facility is explicitly identified in the arrangement, and the supplier has the contractual right to supply gas from other sources. However, supplying gas from other sources is not economically feasible or practicable.
- The supplier has the right to provide gas to other customers and to remove and replace the facility's equipment and modify or expand the facility to enable the supplier to do so. However, at inception of the arrangement, the supplier has no plans to modify or expand the facility. The facility is designed to meet only the purchaser's needs.
- The supplier is responsible for repairs, maintenance, and capital expenditures.
- The supplier must stand ready to deliver a minimum quantity of gas each month.
- Each month, the purchaser will pay a fixed capacity charge and a variable charge based on actual production taken. The purchaser must pay the fixed capacity charge irrespective of whether it takes any of the facility's production. The variable charge includes the facility's actual energy costs, which amount to about 90 per cent of the facility's total variable costs. The supplier is subject to increased costs resulting from the facility's inefficient operations.
- If the facility does not produce the stated minimum quantity, the supplier must return all or a portion of the fixed capacity charge.

Determining whether an arrangement contains a lease

The arrangement contains a lease within the scope of Ind AS 17 Leases. An asset (the facility) is explicitly identified in the arrangement and fulfilment of the arrangement is dependent on the facility. Although the supplier has the right to supply gas from other sources, its ability to do so is not substantive. The purchaser has obtained the right to use the facility because, on the facts presented—in particular, that the facility is designed to meet only the purchaser's needs and the supplier has no plans to expand or modify the facility—it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the facility's output and the price the purchaser will pay is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

Determining whether an arrangement contains a lease

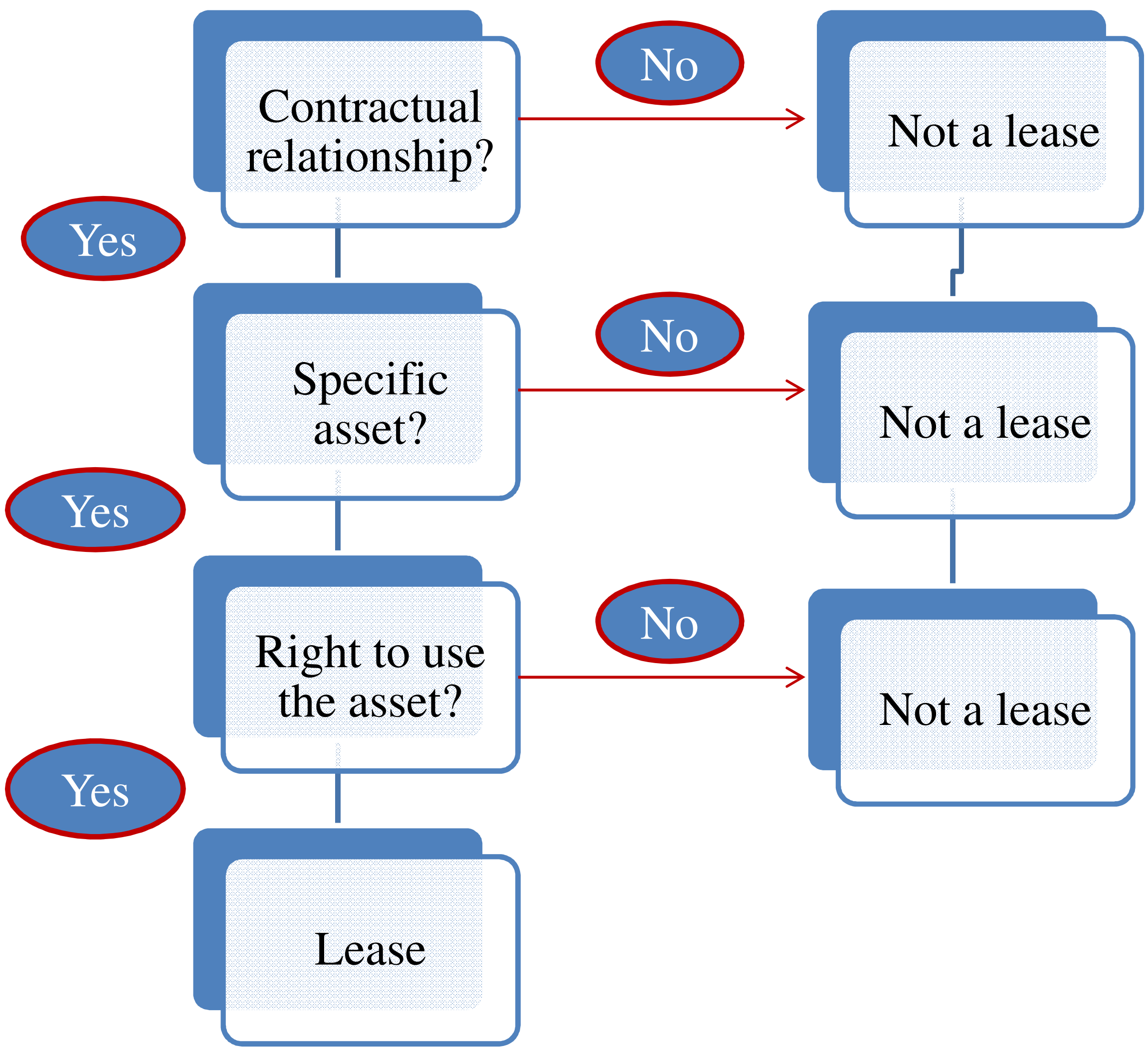
A manufacturing company (the purchaser) enters into an arrangement with a third party (the supplier) to supply a specific component part of its manufactured product for a specified period of time. The supplier designs and constructs a plant adjacent to the purchaser's factory to produce the component part. The designed capacity of the plant exceeds the purchaser's current needs, and the supplier maintains ownership and control over all significant aspects of operating the plant. The arrangement provides for the following:

- The supplier's plant is explicitly identified in the arrangement, but the supplier has the right to fulfil the arrangement by shipping the component parts from another plant owned by the supplier. However, to do so for any extended period of time would be uneconomic.
- The supplier is responsible for repairs, maintenance, and capital expenditures of the plant.
- The supplier must stand ready to deliver a minimum quantity. The purchaser is required to pay a fixed price per unit for the actual quantity taken. Even if the purchaser's needs are such that they do not need the stated minimum quantity, they still pay only for the actual quantity taken.
- The supplier has the right to sell the component parts to other customers and has a history of doing so (by selling in the replacement parts market), so it is expected that parties other than the purchaser will take more than an insignificant amount of the component parts produced at the supplier's plant.

Determining whether an arrangement contains a lease

The arrangement does not contain a lease within the scope of Ind AS 17. An asset (the plant) is explicitly identified in the arrangement and fulfilment of the arrangement is dependent on the facility. Although the supplier has the right to supply component parts from other sources, the supplier would not have the ability to do so because it would be uneconomic. However, the purchaser has not obtained the right to use the plant because the purchaser does not have the ability or right to operate or direct others to operate the plant or control physical access to the plant, and the likelihood that parties other than the purchaser will take more than an insignificant amount of the component parts produced at the plant is more than remote, on the basis of the facts presented. In addition, the price that the purchaser pays is fixed per unit of output taken.

Determining whether an arrangement contains a lease



Classification of lease

Ind AS 17 requires all leases to be classified as either finance leases or operating leases.

The classification of leases under Ind AS 17 is based on the extent to which **risks and rewards incidental to ownership** of a leased asset lie with the lessor or the lessee.

A finance lease is defined as *"...a lease that transfers substantially all the risks and rewards incidental to ownership of an asset"*. [Ind AS 17 paragraph 4].

An operating lease is simply *"...a lease other than a finance lease"*. [Ind AS 17 paragraph 4].

Lease term

*"...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"*. [Ind AS 17 paragraph 4].

A non-cancellable lease is defined by the standard as a lease that is cancellable only:

- ❖ upon the occurrence of some remote contingency;
- ❖ with the permission of the lessor;
- ❖ if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
- ❖ upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

Lease term – special points

If a lease contains a *clean break clause*, that is, where the lessee is free to walk away from the lease agreement after a certain time without penalty, then the lease term for accounting purposes will normally be the period between the **commencement of the lease and the earliest point at which the break option** is exercisable by the lessee.

If a lease contains an *early termination clause* that requires the lessee to make a termination payment to compensate the lessor (sometimes referred to as the 'stipulated loss value') such that the recovery of the lessor's remaining investment in the lease was assured, **then the termination clause would normally be disregarded** in determining the lease term.

Lease term – special points

Where the terms of renewal are set at what is anticipated to be significantly *below a fair market rental* then it is reasonable to assume that the lessee will act in his own commercial interests and extend the lease. In these situations, the lease term would include both the minimum period and **the renewal period**.

Where, however, the rentals in the secondary period are *based on a fair market basis*, such that **there is no compelling commercial reason why the lessee must extend the lease, then the lease term will normally exclude the secondary period**.

Classification indicators

Ind AS 17 provides the following ***examples of situations*** that individually or in combination would normally lead to a lease being classified as a finance lease:

- The lease transfers ownership of the asset to the lessee by the end of the lease term.
- The lessee has the option to purchase the 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 of the lease, that the option will be exercised.
- The lease term is for the major part of the economic life of the asset even if title is not transferred. ***(Example of IT assets)***
- 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.
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

Classification indicators

Where the lease transfers ownership of the asset at the end of the lease term or the lessee has an option to purchase, which is priced in such a way as to make exercise reasonably certain, it can be presumed that the lessor will look to recover his investment in the leased asset over the term of the lease. That is, the arrangement will be, in substance, akin to a financing. *However, where an option is at market price, as determined at the end of the lease term, then the residual value risk remains with the lessor and such an option would not indicate finance lease treatment.*

Ind AS 17 does not define what is meant by a major part of the economic life.

Ind AS 17 does not provide a *numerical definition* of what is meant by "*substantially all*“ (US GAAP -90% of Fair value).

Classification indicators

Whether or not a lease passes substantially all the risks and rewards of ownership to the lessee will normally be self-evident from the terms of the lease contract and an understanding of the commercial risks taken by each party.

Where the lessor takes little or no asset-related risk, other than a credit risk on the lessee, the agreement will obviously be a finance lease.

Similarly, where the lessor is exposed to significant levels of risks relating to movements in the asset's market value, utilisation, or performance, such as on a short-term hire agreement, the agreement will be easily classified as an operating lease.

The difficulty, therefore, tends to emerge on classifying leases where the lessor recovers most of his investment through the terms of the lease, but retains some element of risk relating to the asset's residual value at the end of the lease term.

Classification indicators - Examples

Entity A (the lessor) leases a truck to entity B (the lessee) for a period of 3 years. Lease rentals are set by the lessor assuming a residual value for the truck of C4,000 at the end of the lease term. Market data suggests that the likely range of residual values at the end of 3 years is C4,000 to C5,000. The lessee will guarantee any fall in the residual value of the truck below C4,000 down to C2,500 of the original cost. The lessor will bear the cost of any fall in the residual value below C2,500. How should this lease be classified?

Entity A borrows C1.5m from a bank to acquire property. Entity A leases the property to entity C for a 10 year period. Entity C provides a guarantee to the bank in respect of the loan to entity A. The terms of the loan require repayment over 40 years, the property's estimated useful life. Title of the property will pass from entity A to entity C in the event of entity C being called on to meet its guarantee. How is the lease classified?

Inception Vs Commencement of lease

The inception of the lease is the earlier of the date of the lease agreement and the date of the parties' commitment to the lease's principal provisions.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset and it is the date of initial recognition of the lease assets and liabilities.

Lease classification is made at the inception of the lease.

For example, a lessee may sign an agreement to lease a car on 31 March, but does not take delivery of the car until 30 June. The classification of the lease and the measurement of the related assets and liabilities will take place on 31 March, but the recognition in the financial statements of the lease assets and liabilities will not take place until 30 June.

Contingent rentals

Sometimes a lease contract may contain a clause that requires the lessee to pay contingent rent. Contingent rent is defined by Ind AS 17 as "...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 (eg percentage of future sales, amount of future use, future price indices, future market rates of interest)".

These contingent rentals are excluded from the calculation of minimum lease payments and are simply charged as expenses in the periods in which they are incurred. However, contingent rents must be carefully assessed as to whether they lack economic substance and whether they are in fact disguised minimum lease payments. For example, a lessor may charge fixed rents that are significantly below market rents plus an element that is contingent on the happening of a specific event. If it is assessed that the contingent event is likely to occur, one would be sceptical and question why the fixed rents are set at a level below market rents.

Contingent rentals - examples

Example 1 – Contingent rental payments

A car is leased under a three year contract. The lease rentals during the three years are fixed provided the mileage does not exceed a maximum amount during that period. Any mileage incurred above the maximum is subject to an additional charge. How should the minimum lease rentals be calculated?

The minimum lease payments should include only the fixed rent. The charges for excess mileage are contingent and should not be included in the minimum lease payments.

Example 2 – Contingent rental payments

Entity T is a telecom company and has entered into a lease contract with entity S for exclusive use of a submarine cable for overseas communication. The contract is for 10 years, which corresponds to the economic life of the cable. Ownership transfers at the end of the arrangement for no additional consideration. The lease payments are dependent on the usage of the cable. The ceiling amount is C10 million per year at 100% usage and the minimum amount (floor) is C6 million per year, which corresponds to a usage of 60% or lower. Management of entity T estimates that the average usage of the cable will be approximately 85% and the average annual lease payments are expected to be C8.5 million. How should the minimum lease payments be calculated?

Change in classification

Entity A leases a building. The original term of the lease was for 30 years and the estimated useful and economic life of the building at the start of the lease was 45 years. At inception the lease was classified as an operating lease. Now, nearing the end of the 30 years, the lease has been renegotiated. The new lease term is 20 years, which is equal to the revised expected remaining economic life of the building.

Should the classification be reassessed?

Accounting for finance leases – by lessees

Ind AS 17 requires that a finance lease should be recorded in a lessee's balance sheet both as an asset and as an obligation to pay future rentals.

Fair value of the leased asset or, if lower, the present value of the minimum lease payments each determined at the inception of the lease.

In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease.

The interest rate implicit in the lease is defined by the standard as "*...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*".

In more simple terms, the interest rate implicit in the lease is the lessor's internal rate of return from the lease taking into account the normal cash price of the leased asset, rentals and the amount the lessor expects to recover from the residual value.

Accounting for finance leases – by lessees

Where it is not possible to obtain the lessor's **implicit rate of return**, the standard requires the lessee to use his incremental borrowing rate of the lessee to determine the present value of the minimum lease payments.

The lessee's **incremental borrowing rate** is the rate the lessee would have to pay on a similar lease or, if that is not determinable, the rate at the inception of the lease that the lessee would incur on borrowings over a similar term with a similar security.

An asset leased under a finance lease should be depreciated over the ***shorter*** of the lease term and its useful life, unless there is a reasonable certainty the lessee will obtain ownership of the asset by the end of the lease term in which case it should be depreciated over its useful life.

Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability.

Accounting for operating leases – by lessees

Operating leases should not be capitalised. Lease payments made under operating leases should be recognised as an expense 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.

The start of the lease term is the commencement of the lease, rather than the inception of the lease, that is, when the lessee is entitled to exercise its right to use the leased asset. It should be noted that lease payments exclude costs for services such as insurance and maintenance.

Accounting for operating leases – by lessees

Where the lease contains a predetermined rate od increase in the lease payments, the lease payments over the life of the operating lease should be recognized on a straight-line basis even if the rate of increase in lease rentals is designed to approximate or be the best estimate of expected inflation.

Accounting for lease back – by lessees

Entity A sells a building to bank B for the market value of C10m (book value of the building is C8m). For the purpose of this example disregard the lease of land. The entity then leases the building back from bank B and, over the next seven years, entity A pays bank B a rental, which is equivalent to a lender's return, being LIBOR +2%, calculated on C10m. At year seven, entity A has the option to purchase back the building for C10m plus 25% of any increase in the market value since year one. If the market value has gone down, and entity A is not willing to exercise the purchase option, the lease will continue for another 13 years, with bank B continuing to earn a lender's return of LIBOR +2%. Entity A has operating rights of the building for 20 years and must maintain it. What is the correct classification of the leaseback?

What happens if the entity A leases back the asset at C 11 Million

Accounting for lease back – by lessees

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 income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term. *(Ind AS 17, paragraph 59)*

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. If the sale price is below fair value, any profit 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. *(Ind AS 17, paragraph 61)*

Disclosures – by lessees

Finance leases:

(a) for each class of asset, the net carrying amount at the end of the reporting period.

(b) a reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the end of the reporting period, 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;

iii. later than five years.

Disclosures – by lessees

Operating leases:

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.

iii. Later than five years.

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date.

Lease and sublease payments recognised as an expense for the period, with separate amounts for minimum lease payments, contingent rents and sublease payments.

Property leases

Ind AS 17 requires that the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. There are two exceptions to this requirement:

If the amount that would initially be recognised for the land element is immaterial, the land and the building elements can be treated together for the purpose of lease classification. In such a case, the economic life of the buildings is regarded as the economic life of the whole.

Separate measurement of the land and buildings element is not required when the lessee's interest in both the land and the building is classified as an investment property under Ind AS 40 as long as the property interest is accounted for as a finance lease and the fair value model is adopted. This would happen where, for example, the property becomes owner-occupied or the lessee grants a sublease that transfers substantially all the risks and rewards incidental to ownership of the property to a third party.

Property leases

The land and building elements of leases should be classified as finance leases or operating leases in the same way as leases of other assets, using the criteria in Ind AS 17.

An important consideration in determining whether a lease of land is an operating or finance lease is that land normally has an *indefinite economic life*.

Basis for conclusion under IFRS

The amendment is particularly significant in jurisdictions where property rights are often obtained under long-term leases. *The Basis for Conclusions section of the standard considers an example of a 999-year lease of land and buildings. In this situation, significant risks and rewards associated with the land during the lease term have been transferred to the lessee despite there being no transfer of title*.

Classifying the buildings element is often more difficult than the land element. However, in many cases it is possible to determine the classification of the lease of the building without performing a detailed split of the rentals between the land element and the building element of the lease. With the exception of the present value test, the criteria for lease classification in paragraphs 10 and 11 of Ind AS 17 can be considered without obtaining a split of the rentals.

Property leases – Splitting the rentals

If it is determined that the classification of the land and building elements of the lease are different, the rentals payable under the lease must be split between the two elements.

The minimum lease payments (including any up-front lump um payments) under the lease are allocated between the land and the buildings element in proportion to the relative fair values of the leasehold interests at inception of the lease.

Fair value of leasehold interest	=	Fair value of freehold interest	−	Present value of the residual interest at inception of the lease

Freehold value of property	C100m
Value of land at inception	C40m
Lease term	25 years
Initial annual rental	C6.25m
Expected residual value of property	C65m (today's prices)
Expected real return on property	6.0%

Property leases – Splitting the rentals

1	Freehold value	40	60	100
2	Residual value	40	25	65
3	Present value of residual value	9	6	15
4	Lease hold value (1-3)	31 (36%)	54 (64%)	85
5	Rent (%*6.5)	2.25	4.00	6.25

Back to back leases

For convenience, the three parties to a lease agreement are referred to as: the head lessor; the intermediate party (who may be either a lessor under a sub-lease to the lessee or merely an agent for the head lessor); and the lessee.

The head lessor's accounting is straightforward. Unless the original lease agreement between the head lessor and the intermediate party is replaced by a new agreement, the head lessor's accounting should not be affected if the intermediate party enters into a sub-lease.

The lessee's accounting is straightforward. It will account for the lease as an operating lease or finance lease in the normal way.

The intermediate party's accounting, however, is more complex.

Where the head lease is an operating lease, the sub-lease must also be an operating lease. Where the head lease is a finance lease, the sub-lease could be either a finance lease or an operating lease.

Accounting for leases - Lessor

Finance leases:

The amount due from the lessee under a finance lease should be recognised in the lessor's balance sheet as a receivable at an amount equal to the lessor's ***net investment*** in the lease.

Over the lease term, rentals are apportioned between a reduction in the net investment in the lease and finance income.

A lessor's net investment in a lease is its gross investment in the lease discounted at the interest rate implicit in the lease.

The gross investment in the lease is equal to the minimum lease payments plus any *unguaranteed* residual accruing to the lessor.

Operating leases:

Ind AS 17 requires that a lessor should present assets subject to operating leases in their balance sheets according to the nature of the asset. In most cases, this means that the asset will be recorded as property plant and equipment or investment property.

Lease income from operating leases should be recognised in income on a straight-line basis over the lease term, irrespective of when the payments are due.

Operating lease incentives

Operating lease incentives may take many different forms. Examples of such incentives include: contributions to relocation or start-up costs; the assumption of liabilities, such as the rentals under an old lease which would otherwise fall to be a vacant property; or the gift of an asset such as the **lessor bearing directly all the costs of fitting out the property to the lessee's specifications** or giving **rent-free** or **reduced rental periods** for an initial period of the lease. However, **the Standard requires the same treatment for all incentives** for the agreement of a new or renewed operating lease, regardless of their form or cash flow effect.

The aggregate benefit of incentives should be recognised by the lessee as a reduction of the rental expense over the lease term on a straight-line basis, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset. <u>This requirement seeks to ensure that the profit and loss account reflects the true effective rental charge for the property irrespective of the particular cash flow arrangements agreed between the two parties</u>.

Operating lease incentives

Example 1 – Operating lease incentive – rent free period

Under a ten year lease agreement, the lessor may give a one year rent-free period followed by a fixed rent of C1.1m per annum for 9 years. This is equivalent to 10 years rent of C0.99m per annum. The cost of the incentive should be spread over the lease term. Therefore, each year C0.99m of rental income will be recognised in the profit and loss account. At the end of the first year, the lessor will recognise accrued rent receivable of C0.99m, which will be reduced by C0.11m each year for the next 9 years.

Example 2 – Operating lease incentive – lessor contribution to lessee fit-out costs

Alternatively, the lessor may have agreed with the lessee to make an upfront cash payment of C1m to contribute towards the lessee's own fit-out costs, with a fixed annual rental of C1.1m per annum for the ten year lease. This is also equivalent to an annual rent of C1m per annum without the incentive. Therefore, C1m will be recognised as net rental income each year of the lease. The C1m incentive will initially be recognised as a debtor (accrued rent receivable), which will be amortised by C0.1m each year to the profit and loss account.

Accounting for leases – Converged standard

Features a ***right-to-use model*** that requires lessees to recognise most of the leases on the balance sheet;

There is a possibility that lease of intangible assets can be covered under the proposed standard;

IFRIC 4 has been incorporated in the standard itself. The standard now defines what is lease;

Short-term leases

Lessees and lessors could make an accounting policy election, by asset class, to apply a method similar to current operating lease accounting to leases with a maximum possible contractual lease term, including any options to extend, **of 12 months or less**. Any lease that contains a purchase option would not be a short-term lease.

Classification of lease

Lease classification would be based on the lessee's expected consumption of the underlying asset.

Type A leases (leases of assets other than property) and Type B leases (property leases)

If a lessee has a significant economic incentive to exercise an option to purchase the underlying asset, the lease would be classified as Type A.

Accounting for leases – Converged standard

Lessee accounting

The ED would require lessees to recognise all leases, except short-term leases, on the balance sheet. At the commencement date of the lease, lessees would recognise a liability to make lease payments (the lease liability) and an asset representing the right to use the underlying asset during the lease period (the right-of-use asset). The initial recognition of the right-of-use asset and the lease liability would be the same for Type A and Type B leases, as would the subsequent measurement of the lease liability. However, subsequent measurement of the right-of-use asset for Type A and Type B leases would differ.

Subsequent measurement

Lease liability – (both for Type A and Type B leases) - using the effective interest method.

Right to use the asset: *Present the example*

Lease classification would not be re-measured after the initial classification unless there is significant modification of terms

Accounting for leases – Converged standard

Lease incentives

lease incentives that are receivable from the lessor at the commencement date would be deducted from the fixed lease payments.

Separately, lease incentives that a lessee receives from the lessor at or before commencement would reduce the initial measurement of the right-of-use asset.