



GAP
Learning

IFRS 16 Leases- Measurement

Lessee



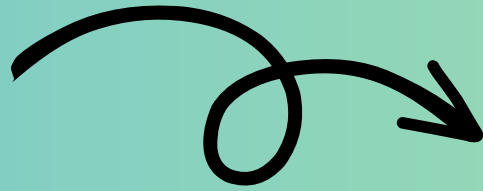
Quick terminology

Lessor: Person or company renting out the asset to generate income

Lessee: Person or company actually renting the asset for their own use

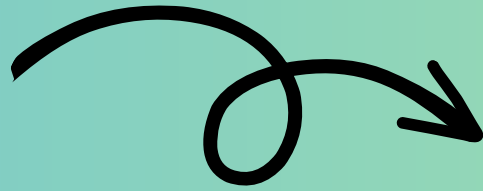


Lessee



Lessee is not required to classify a lease between a finance and operating lease. They are always required to raise a right of use asset and lease liability in their books!





Initial recognition

- At initial recognition we recognise a Right of use asset and a Lease liability in the books of the lessee

Dr Right of use asset

CR Lease liability

(The value of the right of use asset and the lease liability for the lessee is the fairvalue or cash cost of the asset being rented out)

Subsequent measurement

We then recognise the finance cost charge

Dr Lease liability

CR Finance cost

CR Bank

(To calculate this finance cost, you get the interest charge from the PV calculation that was calculated at initial recognition)



Subsequent measurement

Subsequently we recognise depreciation in the books of the lessee as the right of use asset is now carried in their books

Dr Depreciation

CR Accumulated depreciation

(The asset will be depreciated over the lower of the lease term and the asset's useful life)



Lessee

Measuring the Right of use asset and lease liability

Step 1. Calculate the interest rate implicit in the lease

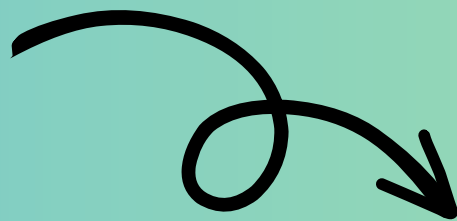
N- Period of the lease

FV- Any residual value

PMT- Lease payments

PV- Fairvalue or cash price of asset

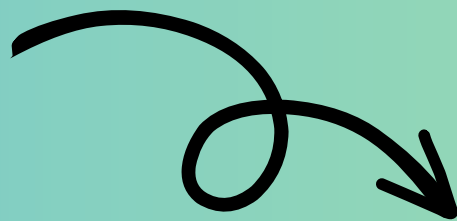
i- Solve for i



Lessee

Measuring the Right of use asset and lease liability

**Step 2. Either using your amortisation
calculator or table, calculate the finance
cost at each lease period**



Lessee

Measuring the Right of use asset and lease liability

Step 3. Calculate the finance component

(Lease liability PV (step 1) - Right of use asset gross investment (step 2) = Finance component





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Questions? Drop them in the comments!