

# A closer look at the new leases standard

# Appendices A–D — Illustrative examples

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## **Appendix A — Lessee examples**

Appendix B — Lessor examples

Appendix C — Lessee transition examples

Appendix D — Cancelable lease examples

# Appendix A

## Lessee examples — Illustration A-1

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### Illustration A-1: Lessee accounting for a finance lease\*

Lessee makes a payment of \$5,000 to an existing tenant to obtain a lease and enters into a three-year lease of the same equipment that it concludes is a finance lease because the lease term is for a major part of the remaining economic life of the underlying asset (also three years). The lease commences at the beginning of Year 1, and lessee makes the following payments at the end of each year:

Lease term	Three years
Annual payments	Year 1 — \$10,000 Year 2 — \$12,000 Year 3 — \$14,000
Discount rate	4.235%
Present value of lease payments	\$33,000

\* Refer to section 4.3.5 in the FRD for more details on the fact pattern and calculations.

# Appendix A

## Lessee examples — Illustration A-1 (cont.)

Illustration A-1: Lessee accounting for a finance lease	Debit	Credit
<b>Initial measurement</b>		
ROU asset	\$ 38,000	
Lease liability		\$ 33,000
Cash		5,000
<i>To initially recognize the ROU asset, lease liability and the payment that qualifies as an IDC</i>		
<b>Subsequent measurement</b>		
Interest expense	\$ 1,398	
Lease liability		\$ 1,398
<i>To record interest expense and accrete the lease liability using the interest method (\$33,000 x 4.235%)</i>		
Amortization expense	\$ 11,000	
ROU asset		\$ 11,000
<i>To record amortization expense on the ROU asset (\$33,000 ÷ 3 years)</i>		

# Appendix A

## Lessee examples — Illustration A-1 (cont.)

Illustration A-1: Lessee accounting for a finance lease	Debit	Credit
<b>Subsequent measurement (continued)</b>		
Amortization expense for IDC	\$ 1,667	
ROU asset		\$ 1,667
<i>To record the amortization of the IDC (\$5,000 ÷ 3 years)</i>		
Lease liability	\$ 10,000	
Cash		\$ 10,000
<i>To record the lease payment</i>		

# Appendix A

## Lessee examples — Illustration A-1 (cont.)

Illustration A-1: Lessee accounting for a finance lease	Initial	Year 1	Year 2	Year 3
Cash lease payments		\$ 10,000	\$ 12,000	\$ 14,000
<b>Income statement:</b>				
Interest expense		\$ 1,398	\$ 1,033	\$ 569
Amortization expense		12,667	12,667	12,666
<b>Total periodic expense</b>		<b>\$ 14,065</b>	<b>\$ 13,700</b>	<b>\$ 13,235</b>
<b>Balance sheet:</b>				
ROU asset	\$ 38,000	\$ 25,333	\$ 12,666	\$ —
Lease liability	\$ (33,000)	\$ (24,398)	\$ (13,431)	\$ —

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