

IFRS 16 - SOLUTION

Jalal Leasing Limited (JLL) gave a plant under finance lease on 1 January 2011 to a customer. The lease term is 4 years. The fair value of the asset is \$ 11,000 and JL incurred initial direct costs of \$ 420. The interest rate implicit in lease is 15%. Rentals of \$ 4,000 are receivable on 31 December (also financial year end) each year. Assume that contingent rent of \$ 600, \$ nil, \$ 800, \$ 750 was received in year 2011, 2012, 2013 and 2014 respectively.

Q-1

You are required to give financial statements extracts along with reconciliation disclosure and workings.

Poonam Limited (PL) entered into a four-year lease on 1 January 2011 for a machine with a fair value of \$ 69,738. Rentals are \$ 20,000 per annum payable in advance. PL is responsible for insurance and maintenance costs. The rate of interest implicit in the lease is 10%.

Q-2

You are required to give financial statements extracts and workings.

IFRS 16 - SOLUTION

Q-1

Statement of comprehensive Income extracts	2011	2012	2013	2014
	\$	\$	\$	\$
Interest Income	1,713	1,370	975	522
Contingent rent income	600	-	800	750
Statement of financial position (extracts)	2011	2012	2013	2014
Non-current assets	\$	\$	\$	\$
Gross Investment in lease	8,000	4,000	-	-
Unearned finance income	- 1,497	- 522	-	-
Net Investment in lease	<u>6,503</u>	<u>3,478</u>	-	-
Current assets				
Gross Investment in lease	4,000	4,000	4,000	-
Unearned finance income	- 1,370	- 975	- 522	
Net Investment in lease	<u>2,630</u>	<u>3,025</u>	<u>3,478</u>	-

Working 1 Finance Lease (Receipt in arrears) Schedule

Receipt time	Receivable at beginning	Interest @ 15%	Rental	Principal Element	Receivable after receipt
T	\$	\$	\$	\$	\$
31.12.2011	11,420	1,713	4,000	- 2,287	9,133
31.12.2012	9,133	1,370	4,000	- 2,630	6,503
31.12.2013	6,503	975	4,000	- 3,025	3,478
31.12.2014	3,478	522	4,000	- 3,478	0

Q-2

Statement of comprehensive Income extracts	2011	2012	2013	2014
	\$	\$	\$	\$
Depreciation expense	- 17,434.5	- 17,434.5	- 17,434.5	- 17,434.5
Interest expense	4,974	3,471	1,818	-
Statement of financial position (extracts)	2011	2012	2013	2014
	\$	\$	\$	\$
<u>Non-current assets</u>				
Right of use asset	69,738	69,738	69,738	-
Accumulated depreciation	- 17,435	- 34,869	- 52,304	-
	52,303.5	34,869	17,434.5	-
<u>Non-current liabilities</u>				
Lease liability	34,712	18,183		
<u>Current liabilities</u>				
Lease liability	15,026	16,529	18,183	-
Interest payable	4,974	3,471	1,817	
	20,000	20,000	20,000	-

Working 1 Lease (Payments in advance) Schedule

Payment time	Liability at beginning	Rental	Principal Element	Liability after payment	Interest @ 10%
T	\$	\$	\$	\$	\$
2011	69,738	- 20,000	- 20,000	49,738	4,974
2012	49,738	- 20,000	- 15,026	34,712	3,471
2013	34,712	- 20,000	- 16,529	18,183	1,818
2014	18,183	- 20,000	- 18,183	- 0	- 0