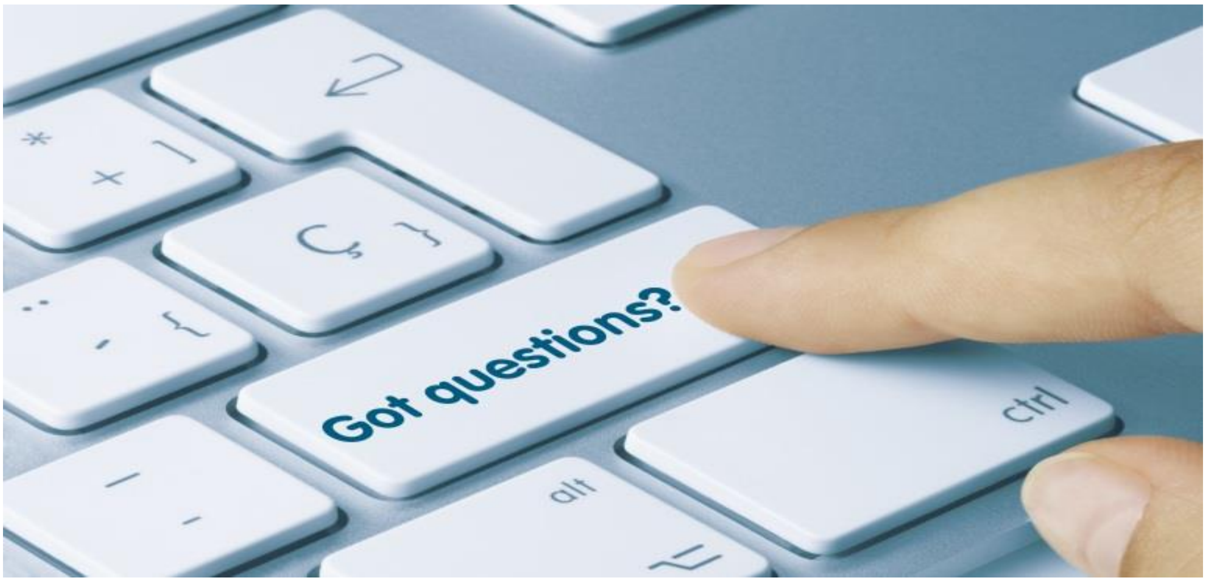

IFRS 16 & ASC 842 – LEASES

FREQUENTLY ASKED QUESTIONS (FAQs)

LEAZEON

Glossary

IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
ASC	Accounting Standard Codification
ASU	Accounting Standard Update
IASB	International Accounting Standards Board
FASB	Financial Accounting Standard Board
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBIT	Earnings before Interest and Tax
EPS	Earnings Per Share
ROCE	Return on Capital Employed
ROE	Return on Equity
USD	United States Dollars
NA	Not Applicable

Click on the question for an answer

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1. When was IFRS 16 and ASC 842 introduced and what is the date of applicability?

IFRS 16

'IFRS 16 - Leases' was issued by the International Accounting Standards Board (IASB) in January 2016 as a part of a joint project with the Financial Accounting Standards Board (FASB). It will replace 'IAS 17 - Leases' for reporting periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, 'IFRS 15 - Revenue from contracts with customers' has been applied, or is applied at the same date as IFRS 16.

ASC 842

'ASC 842 - Leases' was added by ASU 2016-02 on 25 February 2016. It is effective for public business entities for annual periods beginning after 15 December 2018 (i.e. calendar periods beginning on 1 January 2019), and interim periods therein. For all other entities, ASC 842 will be effective for annual periods beginning after 15 December 2019 (i.e. calendar periods beginning on 1 January 2020), and interim periods thereafter. Early adoption will be permitted for all entities.

2. Why was it necessary to change the way in which leases are accounted for?

Under existing standards (IAS 17 and ASC 840), lessee accounted for lease transactions either as operating or as finance/capital lease, depending on complex rules and tests of classification. These differing accounting treatments will result in all or nothing being recognised in the balance sheet for economically similar lease transactions. It can also lead to entities structuring lease arrangements to achieve a preferred accounting treatment.

3. What will change under the new standard?

IFRS 16

IFRS 16 introduces a 'right-of-use' model which replaces 'risks and rewards' model. For lessees, the scenario will be fundamentally different and IFRS 16 can be expected to have a significant impact, particularly for entities that have previously kept a large proportion of their financing 'off-balance sheet' in the form of operating leases. The distinction between operating and finance lease is eliminated for lessees; a new leased asset representing the right-of-use for the lease term and lease liability representing the obligation to pay rentals are recognised for all the leases. Lessees are required to separately recognize the interest expense on the lease liability and the amortization expense on the right-of-use asset. This generally results in a front-loaded expense recognition pattern.

ASC 842

Under ASC 842, principles for recognition of right-of-use asset and lease liability is similar to IFRS 16. However, distinction between finance lease and operating leases is retained under ASC 842. For finance leases, lessees are required to separately recognize the interest expense on the lease liability and the amortization expense on the right-of-use asset resulting in higher expenditure in initial years. For operating leases, the periodic lease expense for operating leases is generally recognized on a straight-line basis.

4. What is the scope of the standard?

IFRS 16

IFRS 16 will apply to all lease contracts except for:
- leases of minerals, oil, natural gas or other similar non-regenerative assets;
- leases of biological assets;
- service concession arrangements;
- licences of intellectual property granted by lessor;
- rights held by a lessee under certain licensing agreements (e.g. films).

ASC 842

ASC 842 will apply to all lease contracts except for:
- leases of intangible assets;
- leases of minerals, oil, natural gas or other similar non-regenerative assets;
- leases of biological assets, including timber;
- leases of inventory;
- leases of assets under construction.

5. Whether there are any exemptions available in the standard?

IFRS 16

Lessee may elect not to apply recognition requirements of IFRS 16 to:
- short-term leases (lease term of 12 months or less);
- leases for which the underlying asset is of low value (USD 5,000 or less).

ASC 842

- Exemption for short-term leases is similar to IFRS 16.

- No equivalent exemption for leases of low value assets is available under ASC 842. However, FASB believes that an entity will be able to adopt a reasonable capitalisation policy under which the entity will not recognise lease assets and liabilities that are below a certain threshold.

6. What is the new 'right-of-use' accounting model?

IFRS 16

Under IFRS 16, both the asset and the liability is recognised in balance sheet at the commencement of the lease.

The right-of-use asset is computed as:
- the present value of the lease payments, discounted at the interest rate implicit in the lease or, if this cannot be readily determined, the lessee's incremental borrowing rate; plus
- any initial direct cost; plus
- any lease payments made to the lessor before the commencement date; less any lease incentives received; plus
- initial estimate of dismantling and restoration cost.

This asset is then amortised over the lease term and tested for impairment where appropriate. Interest expense on lease liability is recognised on effective interest rate basis.
The lease liability is subsequently measured by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made.

ASC 842

Lessee recognises a right-of-use asset and lease liability on principles similar to IFRS 16. For finance lease, interest expense is determined using the effective interest rate method. Amortization is recorded on the right-of-use asset (usually on a straight-line basis). For operating lease, lease expense is recorded on a straight-line basis over the lease term. Unlike finance lease, amortization of the right-of-use asset is calculated as the difference between the straight-line expense and the interest expense on the lease liability for a given period.

7. What will be the impact of the right-of-use model on the financial statements of the lessee?

IFRS 16

The following are broad level impacts on the financial statements of the lessee:
- an increase in recognised assets and liabilities.
- front-loaded expenses for each individual lease;
- a shift in lease expense classification from lease expenses to financing cost and amortisation;
- change in cash flows from operating and financing activities.

The new standard will affect virtually all commonly used financial ratios and performance metrics such as gearing, current, asset turnover, interest cover, EBITDA, EBIT, operating profit, net income, EPS, ROCE, ROE, operating cash flows etc.

ASC 842

Under ASC 842, there would be increase in recognised assets and liabilities. Hence, application of new standard will impact financial position related ratios. However, income statement of the lessee would not have any impact since expense recognition requirement has not undergone any change as compared to previous standard (ASC 840).

8. Is there any change in accounting model for lessors?

IFRS 16

There is virtually no change in the accounting model for lessors. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17. A lessor is required to classify each of its lease as either an operating lease or a finance lease. Under the new requirements, lessee and lessor accounting model are asymmetrical.

ASC 842

Similarly, ASC 842 substantially carries forward the lessor accounting requirements of ASC 840. A lessor is required to classify each of its lease as sales-types lease or direct financing lease or operating lease.

9. How does the new standard define a lease?

IFRS 16

IFRS 16 defines a lease as a contract that conveys the right to use an asset for a period of time in exchange for consideration.
Key elements of the definition are:
- the asset that is the subject of a lease must be specifically identified;
- the lease must convey the right to control an identified asset;
- i.e. the lessee has right to obtain substantially all of the economic benefits from use of the identified asset; and
- the lessee has the right to direct the use of the identified asset.

Identifying a lease transaction will sometimes require significant amount of judgement based on the elements of the definition of a lease.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

10. Whether the standard can be applied to portfolio of leases?

IFRS 16

The standard specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply the standard to a portfolio of leases with similar characteristics if the entity reasonably expects that the effect on the financial statements of applying this standard to the portfolio would not differ materially from applying this standard to the individual leases within that portfolio.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

11. Does the standard apply to service contracts?

IFRS 16

IFRS 16 does not apply to service contracts. Rather, if a contract contains both lease and non-lease (service) components, an entity is required to account for each lease component within the contract as a lease separately from non-lease components of the contract based on relative stand-alone prices. The requirements addressing how to identify separate lease components and allocate consideration to identified components are similar to 'IFRS 15 - Revenue from contracts with customers'.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

12. How is lease term of the contract determined in accordance with the standard?

IFRS 16

An entity shall determine the lease term as the non-cancellable period of a lease, together with both:
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

13. What will be the impact on the lease term if only the lessor has termination option?

IFRS 16

If only a lessor has the right to terminate a lease, the non-cancellable period of the lease includes the period covered by the option to terminate the lease. A lessor's right to terminate a lease is ignored when determining the lease term because, in that case, the lessee has an unconditional obligation to pay for the right-to-use asset for the period of the lease, unless and until the lessor decides to terminate the lease.

For example, the lease term is for a period of 5 years where lessor has an option to terminate the lease after a period of 3 years. The non-cancellable period of the lease includes the period covered by the option to terminate the lease i.e. non-cancellable period is 5 years.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

14. When can the lease term be revised?

IFRS 16

An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. The lease term may also be revised following a reassessment as to whether an extension option is reasonably certain to be exercised, or a termination option is reasonably certain not to be exercised.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

15. What comprises of lease payments in accordance with the standard?

IFRS 16

Lease payments are payments made by a lessee to a lessor relating to the right-to-use an underlying asset during the lease term, comprising the following:
- fixed payments less any lease incentives;
- variable lease payments that depend on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

For the lessee, lease payments also include amounts expected to be payable by the lessee under residual value guarantees.

For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Excludes:
Lease payments excludes:
- variable lease payments linked to future performance or use of the underlying asset;
- payments allocated to non-lease components; and
- optional payments payable after the non-cancellable period if it is not considered reasonably certain that the lessee will extend the lease.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

16. How is the lease liability computed when the lease payments are variable and are linked to index or rate?

IFRS 16

When measuring a lessee's lease liability or lessor's net investment in a lease, such payments should initially be measured using the index or rate as at the commencement date (without estimating changes in the index or rate over the remainder of the lease term). At each reporting date, lease liability is recomputed based on lease payments remeasured at index existing at the reporting date.

ASC 842

The initial measurement of lease-related assets and liabilities is similar under ASC 842 and IFRS 16; however, subsequent changes in lease payments that vary with a rate or index are accounted for differently.

Under ASC 842, there is no requirement to reassess variable lease payments at each reporting date. Such changes are recognized when incurred, unless the lessee is otherwise required to remeasure the lease liability (e.g., as a result of reassessing the lease term).

17. What are the initial measurement requirements for the lease liability?

IFRS 16

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

18. What discount rate is used for computing the lease liability?

IFRS 16

The lease payments shall be discounted using:
- the interest rate implicit in the lease, or
- if that rate cannot be readily determined, the lessee shall use the its incremental borrowing rate.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

19. What are the initial measurement requirements for the right-of-use asset?

IFRS 16

At the commencement date, a lessee shall measure the right-of-use asset at cost. Cost comprises of:
- the amount of the initial measurement of the lease liability; *(Refer FAQ no. 17)*
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- present value of the estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site, unless those costs are incurred to produce inventories.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

20. How is the right-of-use asset depreciated?

IFRS 16

A lessee shall apply the depreciation requirements in 'IAS 16 - Property, plant and equipment' for depreciating the right-of-use asset, subject to the following:
- if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset;
- otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

ASC 842

Requirement for amortising right-of-use asset differs under ASC 842. Operating lease expense is recorded as a single financial statement line item on a straight-line basis over the lease term. Lessee accretes the lease liability at effective interest rate. The amortization of the right-of-use asset is measured as the difference between the straight-line lease expense and the accretion of interest on the lease liability for each period.

21. Whether lease liability is subsequently measured using same principles as that of amortised cost?

IFRS 16

Yes. Lease liabilities are measured on an ongoing basis similarly to other financial liabilities, using an effective interest rate method, so that the carrying amount of the lease liability is measured on an amortised cost basis and interest expense is allocated over the lease term. The carrying amount of the lease liability may be remeasured to reflect any reassessment or lease modifications.

The interest expense on the lease liability will be front-loaded leading to an overall front-loading of the expenditure when combined with straight-line depreciation of the right-of-use asset.

ASC 842

Guidance under ASC 842 is similar to IFRS 16 except for the fact that lease expense is recognised in the income statement on the straight-line basis.

22. What are the remeasurement requirements provided by the standard for change in the lease term or reassessment of the purchase option?

IFRS 16

Where there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset; the lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

In most of the cases viz. change in index rate, change in guaranteed residual value; an entity should not reassess the discount rate during the lease term. However, in above mentioned circumstances i.e. purchase option or change in lease term, lessee is required to reassess the discount rate.

ASC 842

Measurement guidance under ASC 842 is similar to IFRS 16. Additionally, a lessee is required to reassess the lease classification when there is change in the lease term or on reassessment of purchase / renewal option.

23. What are remeasurement requirements for change in guaranteed residual value or change in future lease payments resulting from change in index or a rate?

IFRS 16

Where there is a change in guaranteed residual value or change in future lease payments resulting from change in index or a rate, the lessee shall remeasure the lease liability by discounting the revised lease payments. In above circumstances, the lessee shall use an unchanged discount rate.

ASC 842

Measurement guidance under ASC 842 for change in guaranteed residual value is similar to IFRS 16. However, there is no requirement to reassess variable lease payments at each reporting date. Such changes are recognized when incurred, unless the lessee is otherwise required to remeasure the lease liability (e.g., as a result of reassessing the lease term).

24. Whether the remeasurement of lease liability is recognised directly in the income statement?

IFRS 16

No. The amount of the remeasurement of the lease liability should be generally recognised as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is further reduction in the measurement of the lease liability, the remaining remeasurement should be recognised in the income statement.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

25. What if there is a significant modification in the lease contract; whether it is considered as a separate lease contract?

IFRS 16

A lessee shall account for a lease modification as a separate lease, if and only if both the following conditions are satisfied:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

If above conditions are met, the agreement for the right-to-use of one or more additional assets is accounted for as a separate lease to which requirements of IFRS 16 are applied independently of the original lease.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

26. How does the lessor recognise income from operating leases?

IFRS 16

Lease payments from operating leases should be recognised as income on a straight-line basis unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

ASC 842

Guidance under ASC 842 is similar to IFRS 16.

27. How is sublease classified in the books of intermediate lessor?

IFRS 16

IFRS 16 requires an intermediate lessor to account for a head lease and sublease as two separate contracts.

In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:
- if the head lease is a short-term lease (within 12 months) that the entity, as a lessee has accounted for, the sublease shall be classified as an operating lease.
- otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

For example, an intermediate lessor enters into a 5-year lease contract for 8,000 square metres of office space (the head lease) with entity A. Economic life of the building is 25 years. At the beginning of year 2, the intermediate lessor subleases the office space (the sublease) for the remaining 4 years of the head lease to a sublessee.

The intermediate lessor classifies the sublease by reference to the right-of-use asset arising from the head lease. The intermediate lease is for the major part of the economic life of the right-of-use asset (balance life of 4 years) and accordingly classifies the sublease as a finance lease.

ASC 842

When classifying a sublease, an entity shall classify the sublease with reference to the underlying asset rather than with reference to the right-of-use asset.

In the above example, the sublease is for a period of 4 years which does not cover the major part of the economic life of the underlying asset (building - balance life of 24 years). Accordingly, the intermediate lessor would classify the sublease as operating lease.

28. At transition date, whether an entity is required to reassess whether a contract is, or contains, a lease?

IFRS 16

As a practical expedient, an entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

- to apply this standard to contracts that were previously identified as leases applying 'IAS 17 - Leases' and 'IFRIC 4 - Determining whether an arrangement contains a lease'.
- an entity shall not to apply this standard to contracts that were not previously identified as containing a lease applying 'IAS 17 - Leases' and 'IFRIC 4 - Determining whether an arrangement contains a lease'.

The relief permits an entity to retain its existing assessment as to whether a contract contains a lease for all ongoing contracts entered into before the date of transition. The entity assumes that existing leases continue to be leases under IFRS 16 and existing service contracts continue to be service contracts.

ASC 842

Guidance under ASC 842 is similar to IFRS 16. Additionally, an entity need not reassess the lease classification for any expired or existing leases (that is, all existing leases that were classified as operating leases in accordance with ASC 840 will be classified as operating leases, and all existing leases that were classified as capital leases in accordance with ASC 840 will be classified as finance leases).

29. How should the new requirements under right-of-use model be applied as at the date of transition?

IFRS 16

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying 'IAS 8 - Accounting policies, changes in accounting estimates and errors'; or
- retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The following is the summary of the options available as at the date of transition:

Option 1: Retrospective application

- Measure right-of-use asset and liability as at the inception of the lease term as if IFRS 16 has always been applied;
- consider rate of return implicit in the lease; or incremental borrowing rate of the lessee as at commencement date;
- restate the comparative amounts; and
- recognise the difference in retained earnings of earliest period presented.

Option 2A: Cumulative catch-up (Method A)

- Right-of-use asset is calculated as if IFRS 16 had always been applied, but using incremental borrowing rate at the date of transition;
- lease liability is computed as at the date of transition at present value of balance lease rentals using incremental borrowing rate at the date of transition;
- comparative amounts are not restated; and
- difference is recognised in retained earnings as at the date of transition.

Option 2B: Cumulative catch-up (Method B)

- Lease liability is computed as at the date of transition at present value of balance lease rentals using incremental borrowing rate at the date of transition;
- Right-of-use asset is then set equal to the lease liability;
- Comparative amounts are not restated.

Refer FAQ 31 for illustrative example.

ASC 842

Modified retrospective application

- The lessee should recognize a right-of-use asset and lease liability at the later of the:
  -- earliest period presented or
  -- the lease commencement date.
- The lease liability should be calculated as the present value of the sum of:
  -- the remaining minimum rental payments (as defined under ASC 840) and
  -- any amounts probable of being owed by the lessee under a residual value guarantee.
- The discount rate used to calculate the present value should be determined at the later of:
  -- the earliest period presented or
  -- the commencement date of the lease.

30. Under the cumulative catch-up approach, whether the entity is required to apply IFRS 16 or ASC 842 for leases with balance lease term ending within 12 months?

IFRS 16

As a practical expedient, available on a lease-by-lease basis, lessees applying the cumulative catch-up approach are permitted not to recognise right-of-use assets or lease liabilities in respect of leases previously classified as operating lease for which lease term ends within 12 months of the date of application.

ASC 842

No such practical expedient specifically mentioned in the transitional provisions of ASC 842.

31. Illustrative example for accounting treatment under IFRS 16 and ASC 842.

ABC Inc. enters into 4-year leasing arrangement of its administrative building on 1 January 2017. Lease rentals payable annually at the end of the period is USD 10,000. Incremental borrowing rate at the lease commencement date is 5%. Incremental borrowing rate at the date of transition is 8%. Straight-line method of depreciation for the right-of-use asset is appropriate.

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Impact on financial position and income statement under IAS 17 and ASC 840 (previous standards)

Amounts in USD

Particulars	Jan 2017	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Total
Impact on financial position						
Asset	-	-	-	-	-	-
Lease liability	-	-	-	-	-	-
Impact on income statement						
Operating expense – lease payment	-	10,000	10,000	10,000	10,000	40,000
Net income	**-**	**(10,000)**	**(10,000)**	**(10,000)**	**(10,000)**	**(40,000)**

IFRS 16

Option 1: Retrospective application

Impact on financial position and income statement under IFRS 16

Amounts in USD

Particulars	Jan 2017	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Total
Impact on financial position						
Right-of-use asset	35,460*	26,595	17,730	8,865	-	NA
Lease liability	(35,460)*	(27,233)	(18,594)	(9,523)	-	NA
Impact on income statement						
Operating expense – lease payment	-	-	-	-	-	-
Depreciation	-	8,865	8,865	8,865	8,865	35,460
Interest expense	-	1,773	1,361	929	477	4,540
Net income	**-**	**(10,638)**	**(10,226)**	**(9,794)**	**(9,342)**	**(40,000)**

*computed as present value of the future lease rentals as at the inception of the lease discounted at 5%.

Amounts recognised at transition date (1 January 2019)

Amounts in USD

Particulars	Debit / (Credit)
Right-of-use asset	17,730
Lease liability	(18,594)
Retained earnings	864

Option 2A: Cumulative catch-up (Method A)

Impact on financial position and income statement under IFRS 16

Amounts in USD

Particulars	Jan 2017	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Total
Impact on financial position						
Right-of-use asset	33,121*	24,841	16,561	8,281	-	NA
Lease liability	NA	NA	(17,833)**	(9,260)	-	NA
Impact on income statement						
Operating expense – lease payment	-	-	-	-	-	-
Depreciation	-	8,280	8,280	8,280	8,281	33,121
Interest expense	-	NA	NA	1,427	740	2,167
Net income	**-**	**(8,280)**	**(8,280)**	**(9,707)**	**(9,021)**	**(35,288)**

*computed as present value of the future lease rentals as at the inception of the lease discounted at 8%.

**computed as present value of the two outstanding lease rentals as at the transition date discounted at 8%.

Amounts recognised at transition date (1 January 2019)

Amounts in USD

Particulars	Debit / (Credit)
Right-of-use asset	16,561
Lease liability	(17,833)
Retained earnings	1,272

Option 2B: Cumulative catch-up (Method B)

Impact on financial position and income statement under IFRS 16

Amounts in USD

Particulars	Jan 2017	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Total
Impact on financial position						
Right-of-use asset	NA	NA	17,833*	8,281	-	NA
Lease liability	NA	NA	(17,833)*	(9,260)	-	NA
Impact on income statement						
Operating expense – lease payment	-	-	-	-	-	-
Depreciation	-	NA	NA	8,917	8,916	17,833
Interest expense	-	NA	NA	1,427	740	2,167
Net income	**-**	**NA**	**NA**	**(10,344)**	**(9,656)**	**(20,000)**

*computed as present value of the two outstanding lease rentals as at the transition date discounted at 8%.

Amounts recognised at transition date (1 January 2019)

Amounts in USD

Particulars	Debit / (Credit)
Right-of-use asset	17,833
Lease liability	(17,833)

There is no impact on retained earnings as on the date of transition.

ASC 842

- Date of transition is 1 January 2019
- Earliest period presented is 1 January 2018
- Incremental borrowing rate as at earliest period presented is 7%

Impact on financial position and income statement under ASC 842

Amounts in USD

Particulars	Jan 2017	Dec 2017	Dec 2018	Dec 2019	Dec 2020	Total
Impact on financial position						
Right-of-use asset	NA	26,243*	18,080**	9,346	-	NA
Lease liability	NA	(26,243)*	(18,080)	(9,346)	-	NA
Impact on income statement						
Operating expense – lease payment	-	10,000	10,000	10,000	10,000	40,000
Net income	**-**	**(10,000)**	**(10,000)**	**(10,000)**	**(10,000)**	**(40,000)**

*computed as present value of the three outstanding lease rentals as at the earliest period presented discounted at 7%.

******depreciation amount = Straight-lined lease rentals (-) interest expense i.e. 10,000 (-) 1837 = 8,163.

Amounts recognised at transition date (1 January 2019)

Amounts in USD

Particulars	Debit / (Credit)
Right-of-use asset	18,080
Lease liability	(18,080)

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