

IFRS 16, Leases – amendments (rent concessions)

Illustration



Lease of office premises for 30 months (10 quarters)



\$100,000 per quarter due at beginning of each quarter (lease began Q1, 2019)



No renewal no purchase option



Discount rate: 7% per quarter



Asset useful life: 20 years

Present value of series of 10 quarterly payments, \$100,000 each, payable at the beginning of each quarter, at the rate of 7% per quarter is \$702,358. Hence at the lease commencement, in Q1, 2019, Company A made the following journal entry:

Entry:

Right-of-use asset Debit: \$702,358
Lease liability Credit: \$702,358

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Illustration

The lessee recognizes interest expense and the reduction of the lease liability in line with the following table:

IBR	7.00%				
No of payments	Period	Payment \$	Opening lease liability \$	Interest \$	Closing lease liability \$
1	Q1, 19	100,000	702,358	49,165	651,523
2	Q2, 19	100,000	651,523	45,607	597,130
3	Q3, 19	100,000	597,130	41,799	538,929
4	Q4, 19	100,000	538,929	37,725	476,654
5	Q1, 20	100,000	476,654	33,366	410,020
6	Q2, 20	100,000	410,020	28,701	338,721
7	Q3, 20	100,000	338,721	23,710	262,431
8	Q4, 20	100,000	262,431	18,370	180,802
9	Q1, 21	100,000	180,802	12,656	93,458
10	Q2, 21	100,000	93,458	6,542	0

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Scenario 1:

Due to COVID, the lessor provided a discount on the next two payments, for Q2, 2020 and Q3, 2020, amounting to \$70,000 per payment. The lessee decided to apply the practical expedient and not account for the discount as a lease modification, as it apparently met all three conditions to do so.

The actual lease payment amounting to \$30,000 for Q2, 2020 will be accounted as:

Interest expense (P/L)	Debit	\$28,701		Ref (i)
Lease liability	Debit	\$71,299		Ref (ii)
Cash	Credit		\$30,000	Ref (iii)
Rent Concession (P/L)	Credit		\$70,000	

(i) as shown in the previous table – see the yellow line

(ii) difference between \$100,000 and \$28,701

(iii) original payment of \$100,000 less discount of \$70,000

The payment for Q3, 2020 will also be recognized accordingly.

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Scenario 2:

Due to COVID, the lessor provided rental concessions at the beginning of Q2, 2020, under which the lessee is not required to make the monthly lease payments of \$100,000 in Q2, 2020, and Q3, 2020, but it has to make up for those payments in Q1, 2021 and Q2, 2021.

Recognize the present value effect that would result from discounting the revised payments using an unchanged discount rate at the time when the deferral is granted.

Revised payment profile is discounted using an unchanged discount rate of 7%, as illustrated in the table.

There is a resulting difference of \$33,214 that is recognized in profit or loss when the concession is granted at the beginning of Q2, 2020. This adjustment is needed to ensure that the liability will amortize down to zero by the end of the lease term.

IBR	7.00%				
No of payments	Period	Payment \$	Opening lease liability \$	Interest \$	Closing lease liability \$
1	Q2, 20	0	376,806	26,376	403,182
2	Q3, 20	0	403,182	28,223	431,405
3	Q4, 20	100,000	431,405	30,198	361,604
4	Q1, 21	200,000	361,604	25,312	186,916
5	Q2, 21	200,000	186,916	13,084	0
Adjustment to lease liability:					
	Q2, 20	Opening (original)	410,020		
	Q2, 20	Opening (revised)	376,806		
		Gain (P/L)	33,214		