

International Financial Reporting Standard

**Annual Improvements to
IFRS Standards 2018–2020**

May 2020

ILLUSTRATIVE EXAMPLES – AMENDMENTS

[IFRS 16]

[Related to AASB 2020-3]

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Amendment to Illustrative Examples accompanying IFRS 16 Leases

Part 1 of Illustrative Example 13 in paragraph IE5 is amended. New text is underlined and deleted text is struck through.

Lessee measurement (paragraphs 18–41 and B34–B41)

IE5 ...

Example 13—Measurement by a lessee and accounting for a change in the lease term

Part 1—Initial measurement of the right-of-use asset and the lease liability

Lessee enters into a 10-year lease of a floor of a building, with an option to extend for five years. Lease payments are CU50,000 per year during the initial term and CU55,000 per year during the optional period, all payable at the beginning of each year. To obtain the lease, Lessee incurs initial direct costs of CU20,000, of which CU15,000 relates to a payment to a former tenant occupying that floor of the building and CU5,000 relates to a commission paid to the real estate agent that arranged the lease. As an incentive to Lessee for entering into the lease, Lessor agrees to reimburse to Lessee the real estate commission of CU5,000 and Lessee's leasehold improvements of CU7,000.

At the commencement date, Lessee concludes that it is not reasonably certain to exercise the option to extend the lease and, therefore, determines that the lease term is 10 years.

The interest rate implicit in the lease is not readily determinable. Lessee's incremental borrowing rate is 5 per cent per annum, which reflects the fixed rate at which Lessee could borrow an amount similar to the value of the right-of-use asset, in the same currency, for a 10-year term, and with similar collateral.

At the commencement date, Lessee makes the lease payment for the first year, incurs initial direct costs, receives the lease incentive ~~incentives~~ from Lessor and measures the lease liability at the present value of the remaining nine payments of CU50,000, discounted at the interest rate of 5 per cent per annum, which is CU355,391.

continued...

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Example 13—Measurement by a lessee and accounting for a change in the lease term

Lessee initially recognises assets and liabilities in relation to the lease as follows.

Right-of-use asset	CU405,391
Lease liability	CU355,391
Cash (lease payment for the first year)	CU50,000
Right-of-use asset	CU20,000
Cash (initial direct costs)	CU20,000
Cash (lease incentive)	CU5,000
Right-of-use asset	CU5,000

Lessee accounts for the reimbursement of leasehold improvements from Lessor applying other relevant Standards and not as a lease incentive applying IFRS 16. This is because costs incurred on leasehold improvements by Lessee are not included within the cost of the right-of-use asset.

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