

IFRS 16

NEW LEASE ACCOUNTING

**KNOW EVERYTHING ABOUT LEASE VALUATION
FROM BASICS - LESSEE'S POINT OF VIEW**



Author: Sajal Arora

EDITION-01

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RELEVANT FOR ALL COUNTRIES

Dear Readers,

With the introduction of IFRS 16 maximum countries accounting standards setters body, whose accounting standards based on IASs / IFRSs (International Accounting Standards / International Financial Reporting Standard), had acknowledged to bring a change in the lease accounting by introducing a new standard, effective from the date as mandated to meet the country-level requirements, on the same principles as set out in the IFRS 16.

The contents in this book give references of IFRS 16 and state IFRS 16 wherever required but that also mean, gives references to and includes coverage of all respective countries Accounting Standards based on IFRS 16.

You are hereby requested to please consider your country-specific standard where IFRS 16 mentioned and assume the effective date of your country-specific standard.



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to do great work
is to love
what you do”.

-Steve Jobs



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The contents in this book is prepared after in-depth research made by a team of qualified professionals from multiple industries considering the practical difficulties. This book may assist the readers in easy understanding of IFRS 16. The contents in this book is prepared based on the transactions, processes and workflows applicable general in nature. Applying the steps and processes as stated in this book may or may not enable the reader with desired results.

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PREFACE

The new era of lease accounting has been started with the introduction of International Financial Reporting Standard (IFRS) 16 – Leases. Leasing is a common form of finance for many businesses, and will affect most of the companies involved in leasing and especially on the sectors like the airline, telecom, retail and shipping. Listed companies around the world having approx. US \$ 3.3 trillion worth of leases. The IFRS 16 will have a substantial impact on the financial statements and will improve the quality of financial information. This standard will bring a significant transparency of companies lease commitments.

We have designed this book to serve as a reference book for all individuals, financial professionals who wish to learn all basics of IFRS 16 and businesses who want smooth transition to the New Leasing Standard for their business.

Our company has also innovatively developed the software on IFRS 16 including all country-level GAAP equivalent to IFRS 16 which smartly cater to all challenges involved and fully automate the lease valuation processes in terms of – Present Value of Lease Liability, Value of Lease Asset, Lease Interest & Depreciation. The software has include extra amazing features: - Impairment testing, Subsequent modification, Audit disclosures, Lease cash flows, Multi-locations, Multi-Currencies.

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Please contact us if you need more copies of this book trial. Counsel and censure from all readers would be highly appreciated for further improvement in future editions of the book.

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Team WITSYNC

ACKNOWLEDGMENT

The efforts for the contents and design of the book, have been contributed by various professionals from different fields whose hard work really appreciable to make this happen and enable to publish our second book. To achieve this, professionals have contributed their practical experience and shared challenges faced in multiple industries which helps us to design the book for our readers to gain insights of IFRS 16 in a simpler and easier way. I specially want to thank Ms. Shikha Arora the technical reviewer and Mr. Aaditya Arora in detailed research and development, who has done their work with full proficiency. Their inputs into the structure, glide of this book has been irreplaceable.

References to other available public materials have also been made valuable additions to the contents and design of the book.

- IFRS 16 by International Accounting Standard Board, (IASB) is the base of this book.
- IND AS-116,
- SFRS (I) 16,
- MFRS 16
- and all other countries specific standards based on IFRS16.

Along with our team members:

- Shikha Arora, CA Finalist
- Aaditya Arora, MBA in Finance
- Arun Gupta, CA
- Amarjeet Singh, CA
- Richa Joshi, Legal Advisor
- Shephali Mehrotra, CA Finalist
- Ankit Jain, CA
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- Himanshu Gupta, Senior Analyst

ABOUT THE AUTHOR

SAJAL ARORA FOUNDER & CEO

WITSYNC SOFT SOLUTIONS
(UAE & INDIA)



Being qualified Chartered Accountant from India and possessing over 15 years of practical professional work experience in almost all fields of integrated Finance from Accounting, Auditing, Taxation - Direct & Indirect, Transfer Pricing, Project Financing, Project Costing, Financial Reporting & Analysis. Served diversified profiles from basic to top level in multiple industries on an international level.

The author has continuously upgrade his intellectual skills in the ever-changing field of Finance & Taxation, learning through every available opportunity and make every assignment count in terms of value addition to the business and to the author.

The author holds passion to solve problems with long-term sustainable solutions. Follow a professional approach with ethics to create value.

The author holds in-depth hands-on experience and professional knowledge and Served many companies across the world, both in capacity as a consultant and as an employee of the organization. The author has assisted many companies with best financial and taxation planning, structuring business transactions based on effective, viable, legally valid and sustainable solutions with value additions.

“ Create values with professional ethics. ”

With detailed research and analysis of the IFRS 16, it was assessed that the new lease accounting will have a significant impact on the financials of the business from valuation, accounting, presentation, disclosures, subsequent modifications, consolidated values, taxation allowance etc. and automating whole process will add value to the business than managing manually.

Considering the challenges involved, our team has placed great efforts to develop a software tool with pre-defined checks, controls so as to serve a best cost effective and risk-free tool for professionals in managing all their business leases at one single platform and simultaneously also placed efforts in bringing all important aspects of the IFRS 16 in this book write up.

We hope you enjoy reading the book.

Thank you

Sajal Arora



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01

WHY
IFRS 16?

Why IFRS 16? – The Need for Change



Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Entity is the lessor.

Leases are classified as finance leases when substantially all of the risks and rewards of ownership transfer from the Entity to the lessee. Amounts due from lessees under finance leases are recorded as receivables at the Entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Leases where the Entity does not transfer substantially all the risks and rewards incidental to ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

1.1 IFRS 16 Focuses on

- The new lease accounting standard focuses to bring a shift in the lease accounting treatment for:

LESSEE'S

LEASES CLASSIFIED AS "OPERATING LEASES"

LEASES OF LONG TERM DURATION (MORE THAN 12 MONTHS)

LEASES OF HIGH VALUE (not classified as low value)

- The shift in the lease accounting treatment require the lessee to capitalize and bring on-balance all leases with above characteristics following the same valuation methodology as in case of finance lease accounting model in previous lease accounting standard.
- For the purpose of high value, future lease payments which are fixed in nature shall be considered. Future lease payments which are variable in nature can also be considered only to the extent determinable as consistent minimum payout.

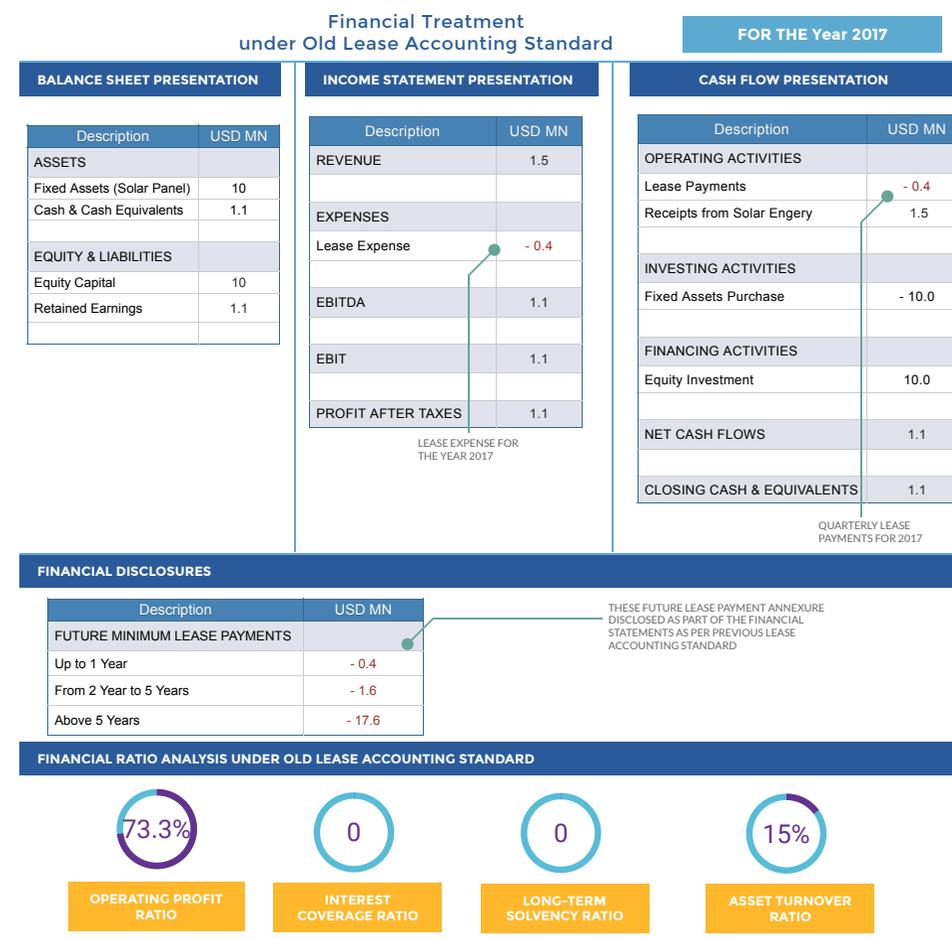
This book focuses on the lease accounting from the lessee's point of view only.



1.2 Pre-IFRS 16 Lease Accounting Treatment

- In previous lease accounting standard, the lessee was required to expense the lease payments as and when incurred on the leased assets classified under operating leases.
- Let us recap the previous operating lease accounting treatment in detail with an illustrative example which will lay conceptual foundation for all the subsequent sections herein, also help in assessing the impact and understand why there was a need to bring a change.

Illustrative Example 1	Scenario	<p>ABC Company is in the business of generation of Solar Energy for which the company has taken a land on lease for 50 years on January 01, 2017 with a quarterly lease payment of USD 100,000.</p> <p>The land shall be used for the installation of solar panels for the generation of solar energy.</p> <p>To best analyze, let us also assume ABC has earned a revenue of USD 1.5 Million during the year 2017 and made equity investment of USD 10 million for purchase of Solar Panels.</p>
	Lease classification in 2017	The lease was classified as operating lease since there was no transfer of risk and reward to the lessee by the lessor.
	Accounting Treatment	The lessee expensed the lease payment on a quarterly basis as and when incurred.
	Financial Presentation & Disclosure	Let us examine the financial presentation and disclosure of the lease payments made by the lessee for the year 2017 as below in an infographic presentation along with the analysis of the financial ratios.



1.3 Why IFRS 16?

- After analyzing the illustration 1 as in section 1.2 above, you will notice that the lessee ABC company undertaken the right of use on land on which the whole business operations are dependent.
- The lease land for ABC company plays a significant role in the business and creates a future lease commitment of USD 19.6 Million which were not accounted in the financial statements under the previous lease accounting standard.
- Due to non-accounting and off-balance sheet reporting of future lease commitments under the previous lease accounting standard, the financial ratios assessed without

considering the impact of future lease commitments resulting thereby the ratios and the drawing power of the lessee excludes the impact of existing lease obligations.

- It is imperative that the lessee is under an obligation to pay future lease commitments which is similar to a situation taking an asset under financing arrangement. Considering this fact, IFRS 16 introduced to capitalize and bring on-balance all leases except as exempted.
- Capitalizing a lease will result to account the lease liability and the right of use in the financial statements for the entire lease duration.

1.4 IFRS 16 Impact in the Financial Statements of Lessee

- Let us understand the impact of IFRS 16 by referring to the pre-IFRS 16 position. Continuing with the same scenario as in illustrative example 1 above with some additional information as below:

Illustrative Example 2	Scenario	ABC Company is in the business of generation of Solar Energy for which the company has taken a land on lease for 50 years on January 01, 2017 with a quarterly lease payment of USD 100,000. The land shall be used for the installation of solar panels for the generation of solar energy. To best analyze, let us also assume ABC has earned a revenue of USD 1.5 Million during the year 2017 and made equity investment of USD 10 million for purchase of Solar Panels. The incremental borrowing rate existing is 3%.
	Lease classification	The lease was classified as operating lease prior to January 01, 2019.
	Accounting Treatment	The lessee expensed the lease payment on a quarterly basis as and when incurred until December 31, 2018 and applied IFRS 16 effective from January 01, 2019.
	Financial Presentation	Let us examine the financial presentation under Pre-IFRS 16 and Post IFRS 16 in the below infographic presentation:

- Hence, you will notice that under IFRS 16, a lease liability with the right of use asset is recognized in the balance sheet of the lessee and the lease expense is divided into two (2) components – interest on lease liability and depreciation on lease asset in the income statement of the lessee. Whereas the total amount of lease payment shall be separated into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the cash flow statement.

Financial Treatment under Old Lease Accounting Standard (Pre-IFRS 16 Position)			FOR THE Year 2018																																																																
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1.5 IFRS 16 Impact on the Financial Ratios

- Considering the above two (2) illustrative examples under Pre-and Post IFRS 16, let us examine the impact of IFRS 16 on the financial ratios



1.6 Extracts from Article issued by Hans Hoogervorst, Chairman, International Accounting Standards Board (IASB)

- Leasing is a common form of finance for many businesses, especially in sectors like the airline industry, retail, and shipping. Listed companies around the world have around US\$3.3 trillion worth of leases. Under previous accounting requirements, over 85% of these leases labeled as “operating leases” and were not recorded on the balance sheet.
- Despite being off-balance sheet, there can be no doubt that operating leases create real liabilities. During the financial crisis, some major retail chains went bankrupt because they were unable to adjust quickly to the new economic reality. They had significant long-term operating lease commitments on their stores and yet had deceptively lean balance sheets. In fact, their off-balance sheet lease liabilities were up to 66 times greater than their reported debt. Clearly, the accounting does not reflect economic reality.

- Accordingly, the International Accounting Standards Board (IASB) and the US national standard-setter, the Financial Accounting Standards Board (FASB), initiated a joint project to develop a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. This approach will result in a more faithful representation of a lessee’s assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee’s financial leverage and capital employed.

- Both IASB and FASB decided that a lessee should be required to recognize assets and liabilities for all leases (with limited exceptions), and both IASB and FASB have defined leases in the same way. The IASB and FASB reached similar decisions regarding the measurement of lease liabilities, and how to account for leases that were formerly classified as finance leases. In addition, both IASB and FASB decided not to substantially change lessor accounting.

- However, the IASB and FASB reached different decisions for leases that were formerly classified as operating leases with respect to the recognition of lease expenses and the reporting of lease-related cash flows. The IASB decided to adopt a single lessee accounting model whereby a lessee accounts for all leases in the same way. The FASB decided to adopt a dual lessee accounting model, classifying leases in a similar manner to the previous requirements in US Generally Accepted Accounting Principles (US GAAP)



02

CHANGES & CHALLENGES

2.1 Changes

From the effective date of new lease accounting standard IFRS 16 replaces and supersedes previous IAS 17, IFRIC 4, SIC 15 and SIC 27.

The new lease accounting standard impacts majorly on the Lessee's financial statements.

Let's analyze with the overall impact and specific change on the lessee's financial statements.

The Overall Changes – Old Vs New Standard

- The major changes are highlighted as below:

Changes
Old Vs New Lease Accounting Standard

AREAS	OLD STANDARD: LEASES	NEW STANDARD: LEASES
Lease Classifications	Operating Leases (Expensed as and when incurred)	-
	Finance Leases (Transfer of significant risk and rewards - Capitalized as Lease Asset)	On-Balance Sheet Leases (All leases to capitalize except as below)
	Excluded Lease Assets (Natural Resources, Biological Assets, Intangible Assets etc.)	Excluded Lease Assets (Natural Resources, Biological Assets, Intangible Assets etc.)
	-	Short-Term Leases (Leases less than 12 months - Expensed as and when incurred)
	-	Low Value Leases (Value as management decides subject to the market purchase value)
Initial Valuation	Finance Leases (Only Finance Leases were required to value based on discounted lease cash flows)	On-Balance Sheet Leases (All leases except as exempted to value based on discounted lease cash flows)
Subsequent Modification	Finance Leases (Any change in lease terms were required to revalue based on discounted lease cash flows)	On-Balance Sheet Leases (Any change in lease terms require to revalue based on discounted lease cash flows)
Lease Accounting	-	-
	Finance Leases (Capitalized, Lease Interest & Depreciation)	On-Balance Sheet Leases (Capitalized, Lease Interest & Depreciation)
	-	Short-Term and Low Value Leases (Expensed as and when incurred, Prepaid or Outstanding Leases)

AREAS	OLD STANDARD: LEASES	NEW STANDARD: LEASES
Lease Disclosures	Future Minimum Lease Payments	-
	-	Lease Depreciation
	-	Lease Interest Expense
	-	Lease Cash Flows
	-	Short-Term Lease Expense
	-	Low Value Lease Expenses
	-	Lease Maturity Analysis
Taxation	Operating Leases (Actual expenses as reflected under Income Statement)	-
	Finance Leases (Adjustments in Tax Computation for Interest & Depreciation - to bring Actual Annual Lease Expense)	On-Balance Sheet Leases (Adjustments in Tax Computation for Interest & Depreciation - to bring Actual Annual Lease Expense)
	-	Short-Term Leases (Actual expenses as reflected under Income Statement)
	-	Low Value Leases (Actual expenses as reflected under Income Statement)

2.2 Challenges Involved

- Replacing the old lease accounting treatment with new lease accounting treatment will involve transitional and subsequent challenges to the business in terms of:

- Identifying Lease and Non-Lease Components
- Classifying a Lease into Short-term, Low-value, and Excluded Leases
- Selection of an Appropriate Discount Rates
- Adoption of relevant Transitional Valuation Approach
- Valuation of a Lease Liability, Lease Asset, Lease Interest and Depreciation
- Lease Accounting
- Financial Presentation and Disclosures
- Subsequent Modification and Resultant Lease Valuation

- With new change in lease accounting, it will increase administrative burden on the business, time consuming exercise on valuation, dependency on multi-spreadsheets, requires a constant technical monitoring of lease terms, etc.

A man in a dark suit and red tie is shown from the chest up, resting his chin on his hand in a thoughtful pose. The background is a dark blue gradient with a faint city skyline and a large white arrow pointing upwards and to the right. The overall aesthetic is professional and business-oriented.

03

KEY FACTORS OF VALUATION

3.1 Importance of Valuation

- The most important part of the new lease accounting standard is the “Valuation of leases”.
- An accurate valuation of leases from inception reflects true and fair lease values in the financial statements of the lessee.
- Lessee’s must ensure to have accurate valuation of their leases from inception as any error in the valuation directly impacts the lease values and the financial ratios.
- In this chapter, all key components and factors which are important for valuation of leases are discussed and ensures lessee to have an accurate valuation in compliance with the new lease accounting standard.
- Key factors of valuation discussed in this chapter are summarized as below:

1. Valuation Of?
2. Point of Valuation
3. Excluded and Exempted Leases
4. Valuation Period
5. Nature and type of Lease Payments
6. Lease Dates and Lease Amounts
7. Determining the Discount Rate

3.2 Valuation Of?

- After identifying a contract contains a lease, where the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, valuation of lease shall be carried out in accordance with the new lease accounting standard as set out in this chapter.
- “Valuation of a Lease” involves:
 - Valuation of a lease liability; and
 - Valuation of a lease asset which is dependent on the valuation of a lease liability.

3.3 Point of Valuation

- Valuation of a Lease shall be carried out both at the point of:
 - initial effective date of the new lease accounting standard or at initial recognition of a lease contract (start date of the lease contract); and
 - any subsequent modification of lease terms between lessor and lessee or at any subsequent change in the lease discount rates.
- The “Valuation of a Lease Liability” both at the initial and subsequent recognition are calculated following the same valuation principles as set out in chapter 4.
- For the “Valuation of a Lease Asset” both at the Initial and subsequent recognition are discussed and covered in chapter 5 and 6.

3.4 Excluded and Exempted Leases

Excluded Leases

- The new lease accounting standard shall apply to all leases including subleases, except for below leases which are excluded:
 - Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources;
 - Leases of Biological Assets;
 - Service Concession Arrangements;
 - Licenses of Intellectual Property Rights;
 - Intangible Assets under Licensing Arrangements;
- A lessee may choose to apply the new lease accounting standard to leases of Intangible Assets (other than Intangible Assets under Licensing Arrangements as above). This option is available only once at the time of applying this standard and shall be followed consistently for all future reporting periods.
- Leases of all above assets shall be required to comply with their respective accounting standard or expensed as and when incurred.

Exempt Leases

- A lessee may elect not to value the lease and recognize lease payments as an expense over the lease term in cases where:
 - Leases are of short-term with lease tenure of less than 12 months; and
 - Leases for which the underlying lease asset is of low value.

Lease Duration Assessment

- The lease duration shall be assessed at the time of initial application of the new lease accounting standard or at the initial recognition of a lease contract.

Date of Application	Scenario	Lease Duration	Financial Treatment
At Initial Application of this Standard (Say January 01, 2019)	A Lease contract was signed in January 01, 2017 to end on December 31, 2019	Short-term Lease Contract (as on January 01, 2019)	Expense
	A Lease contract was signed in January 01, 2017 to end on December 31, 2020	Long-term Lease Contract (as on January 01, 2019)	Capitalize
At Initial Recognition	A Lease contract was signed on March 01, 2019 to end on February 28, 2020	Short-term Lease Contract (as on March 01, 2019)	Expense
(At Lease Start Date)	A Lease contract was signed on March 01, 2019 to end on February 28, 2021	Long-term Lease Contract (as on March 01, 2019)	Capitalize

Low-Value Lease Assessment

- A low value shall be assessed by referring to the purchase value of the lease asset when it is new, regardless of the age of the asset being leased.
- The assessment of whether an underlying asset is of low value is performed on an absolute basis.
- The assessment is not affected by the size, nature or circumstances of the lessee.
- An underlying asset can be of low value only if:
 - The lessee can benefit from the use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
 - The underlying asset is not highly dependent on, or highly interrelated with, other assets.
- If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

3.5 Valuation Period

- Valuation period here refers to the “Lease Term” for which valuation of a lease shall be carried out.
- The lease term refers to as the “Non-Cancellable Period” of a lease under the lease contract, including the period under below options:

1	Termination Option	Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
2	Renewal Option	Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
3	Purchase Option	Periods covered by an option to purchase the lease.

- The lease term begins at the lease start date and includes any lease-free period provided to the lessee by the lessor.
- At the lease start date, the lessee shall assess whether there is any reasonable certainty to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease.
- At subsequent, the lessee shall revise the lease term if there is a change in the non-cancellable period of a lease or by exercising an option to extend or purchase or terminate the lease.
- It is important to note that the valuation period in case of “Valuation of a Lease Liability” shall starts from the date of initial application of the new lease accounting standard or the lease start date whichever is later. This is discussed more under chapter 5 initial measurement.
- Hence, the valuation period starts from the lease start date or date of initial application (whichever is later) and ends on the lease end date or end of renewal period (if any) or lease termination date (if any) or lease purchase date (if any).

Important Note:

The “Valuation of a Lease Liability” shall be computed and recognized in the financial statements of the Lessee only to the extent of the lease payments payable in future as on date of the initial application of the new lease accounting standard or initial recognition of a lease contract whichever is later. For example: a lease started on January 01, 2017 and ends on December 31, 2025. The date of initial application of the new lease accounting standard is January 01, 2019. The date of initial recognition of lease was January 01, 2017. Date of initial application of new lease accounting standard is January 01, 2019. Valuation of a Lease Liability shall be computed as on January 01, 2019 for all lease payments payable in future as on January 01, 2019. (the date of initial application of new lease accounting standard – the later date).

3.6 Nature & Type of Lease Payments to Consider for Valuation

Nature & Type of Lease Payments

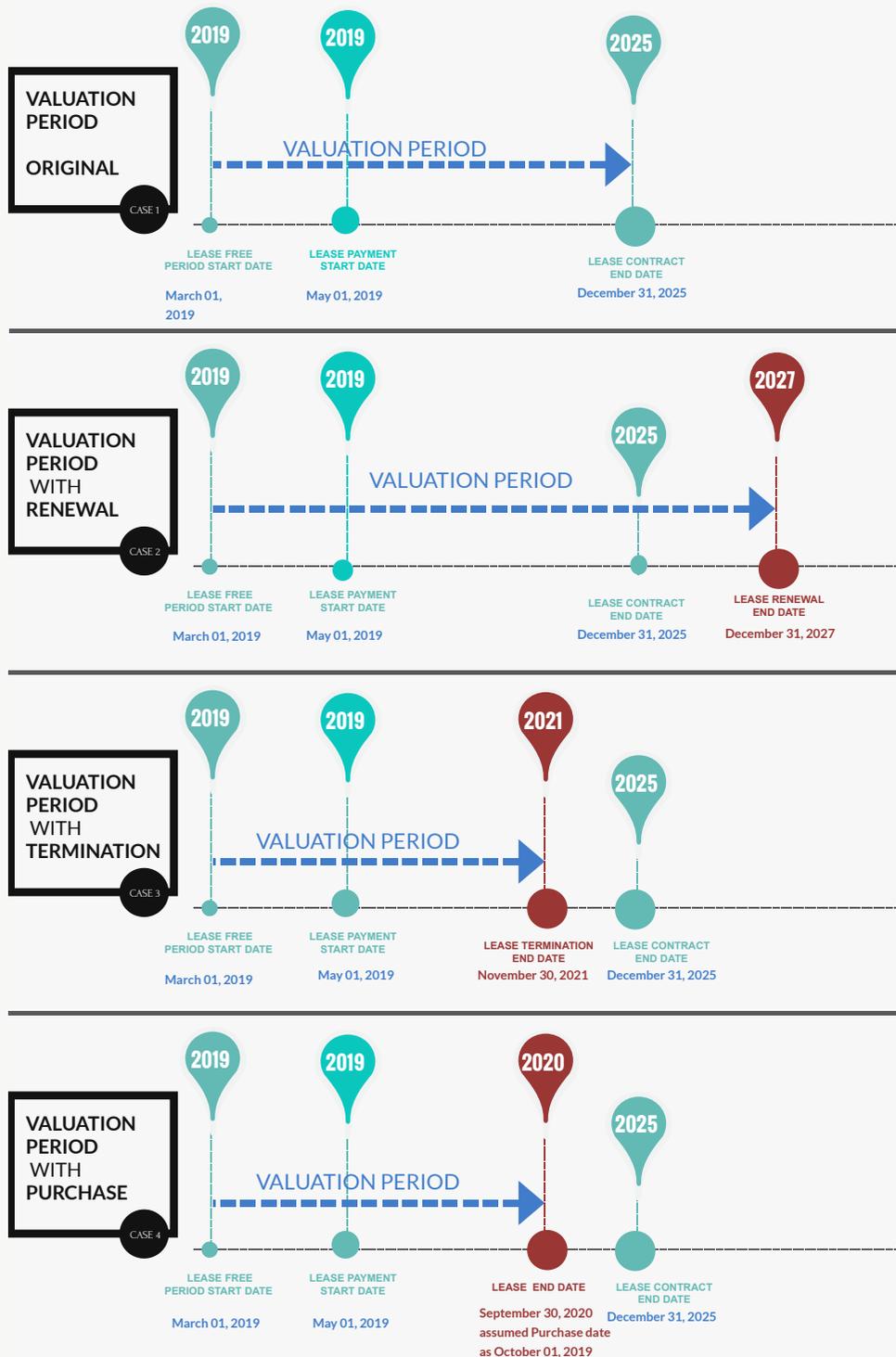
- For the purpose of the “Valuation of a Lease” at initial application or initial recognition and subsequent recognition, lease payments that are payable in the future shall only be considered.
- Below nature and type of lease payments shall only be considered for “Valuation of a Lease”:

- ▶ Fixed lease payments;
- ▶ Variable lease payments only to the extent determinable and that depend on an index or a rate;
- ▶ Amounts expected to be payable by the lessee under residual value guarantees;
- ▶ The exercise price of a purchase option if the lessee is reasonably certain to exercise the option;
- ▶ Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease and Non-Lease Components

- Lease Components are those lease payments which are directly attributable to the use of the Lease Asset.
- Non-Lease Components are those lease payments which relate to activities and costs that do not transfer a good or service to the lessee such as administrative, maintenance, service costs etc.
- For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.
- The above lease payments do not include payments allocated to “Non-Lease Components” of a contract, unless the lessee elects to combine “Non-Lease Components” with a “Lease Component” and to account for them as a single lease component.
- Hence, the above lease payments which are allocable to below components shall only be considered for the “Valuation of a Lease”:

- ▶ Lease Components; and
- ▶ Single Lease Component (Lease & Non-Lease Components Combined).



3.7 Lease Dates and Lease Amount

Lease Dates

- Every lease contract structured with pre-determined dates for lease payouts.
- The lessee requires to make lease payments on a regular basis on those pre-determined dates.
- When lease payments are in recurring form, these pre-determined dates sometimes form the Lease Interval as:
 - Monthly Lease Interval
 - Quarterly Lease Interval
 - Semi-annually Lease Interval
 - Annual Lease Interval
 - Or any other interval not stated above as mutually agreed between lessor and lessee.
- It is also possible that lease payment under the lease contract required to be paid only one-time which shall not form any interval but do have a pre-determined date and valuation of a lease shall be carried.
- These pre-determined lease payment dates are considered for the purpose of valuation of a lease.

Lease Amounts

- The lessee on every pre-determined date require to make lease payment of a certain amount to the lessor.
- These lease payment amount can be consistent or inconsistent from one lease interval to another lease interval.
- Sometimes lessor increases the lease payment by certain amount or percentage (say, 5%, 10%, etc.) to compensate for increase in market inflation after lapse of certain lease interval maybe annually or after a lapse of any agreed period as mutually agreed between lessor and lessee.
- These lease payment amounts shall be considered for the purpose of valuation of a lease.

Consistent Lease Payment	<p>Consistent Lease Payment refers to the amount consistent for all lease intervals excluding any amount added on account of lease escalation.</p> <p>Example 1: Consistent Lease Payment without Lease Escalation</p> <p>ABC Lessee makes lease payment of USD 1,000 on 10th of every month. Here, USD 1,000/- is consistent for all lease payment dates.</p> <p>Example 2: Consistent Lease Payment with Lease Escalation</p> <p>ABC Lessee makes lease payments of USD 1,000 on 10th of every month. Lessor after every 12 months increases the lease payment by 10% thereby for next 12 months' lease payment of USD 1,100 shall be made every month. Here, USD 1,000 is consistent for all lease payment dates for first 12 months. Then, USD 1,100 is consistent for all lease payment dates for next 12 months and so on.</p>																																																
Inconsistent Lease Payment	<p>Inconsistent Lease Payment refers to the amount inconsistent from one lease interval to another lease interval excluding any amount added on account of lease escalation.</p> <p>Example 1: Inconsistent Lease Payment without Lease Escalation</p> <p>ABC Lessee makes monthly lease payment as below:</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Jan</th><th>Feb</th><th>Mar</th><th>Apr</th><th>May</th><th>Jun</th><th>Jul</th><th>Aug</th><th>Sep</th><th>Oct</th><th>Nov</th><th>Dec</th> </tr> </thead> <tbody> <tr> <td>100</td><td>90</td><td>85</td><td>100</td><td>95</td><td>105</td><td>100</td><td>80</td><td>90</td><td>105</td><td>90</td><td>100</td> </tr> </tbody> </table> <p>Here, lease payments on every date is inconsistent.</p> <p>Example 2: Inconsistent Lease Payments with Lease Escalation</p> <p>ABC Lessee makes monthly lease payments as above and Lessor after every 12 months increases the lease payment by 10%.</p> <p>The inconsistent lease payments for next 12 months for above previous 12 months will be as below after applying 10%:</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Jan</th><th>Feb</th><th>Mar</th><th>Apr</th><th>May</th><th>Jun</th><th>Jul</th><th>Aug</th><th>Sep</th><th>Oct</th><th>Nov</th><th>Dec</th> </tr> </thead> <tbody> <tr> <td>110</td><td>99</td><td>93.5</td><td>110</td><td>105.5</td><td>115.5</td><td>110</td><td>88</td><td>99</td><td>115.5</td><td>99</td><td>110</td> </tr> </tbody> </table>	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	100	90	85	100	95	105	100	80	90	105	90	100	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	110	99	93.5	110	105.5	115.5	110	88	99	115.5	99	110
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec																																						
100	90	85	100	95	105	100	80	90	105	90	100																																						
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec																																						
110	99	93.5	110	105.5	115.5	110	88	99	115.5	99	110																																						

3.8 Determining the Discount Rate

Determining the Discount Rate

- The valuation of a lease shall be the present value of all future lease payment.
- The present value shall be calculated using the discount rate which can be:
 - Interest rate implicit in the lease, if that rate can be readily determined; or
 - Lessee's incremental borrowing rate, if the above rate cannot be readily determined.

Compute Effective Daily Discount Rate

- After the selection of the appropriate annual discount rate, the lessee has to correspond the discounting rate to the lease payment interval.
 - For Example, if the lease payment interval is monthly - then the annual discount rate (say 12% per annum) should correspond (say 1% per month) to the monthly lease payment interval. Similarly, if the lease payment interval is quarterly or semi-annually - the annual discount rate should correspond to the respective lease payment interval.
 - The method of adjusting the discounting rate to correspond to the lease payment interval can best be applied only in cases where the lease payment interval is consistent throughout the lease tenure. Since any change in the lease payment interval during the lease term may distort the interval discount rate and may lead to inaccurate valuation.
 - After detailed research and analysis to find the best alternate solution on interval discount rate which can easily correspond to any lease payment interval including any interim changes in the lease, we assessed that the Effective Daily Discounting Rate is one of the best and can successfully be applied in all practical scenarios.
- Compute Effective Daily Discount Rate for the purpose of computation of the Lease Interest for every lease interval.
 - The purpose of computing effective daily discount rate as it allows to compute lease interest for every day for the entire lease duration.

$$\text{Effective Daily Discount Rate} = [(1 + r)^{(1/365) }] - 1$$

Where "r" is annual discount rate





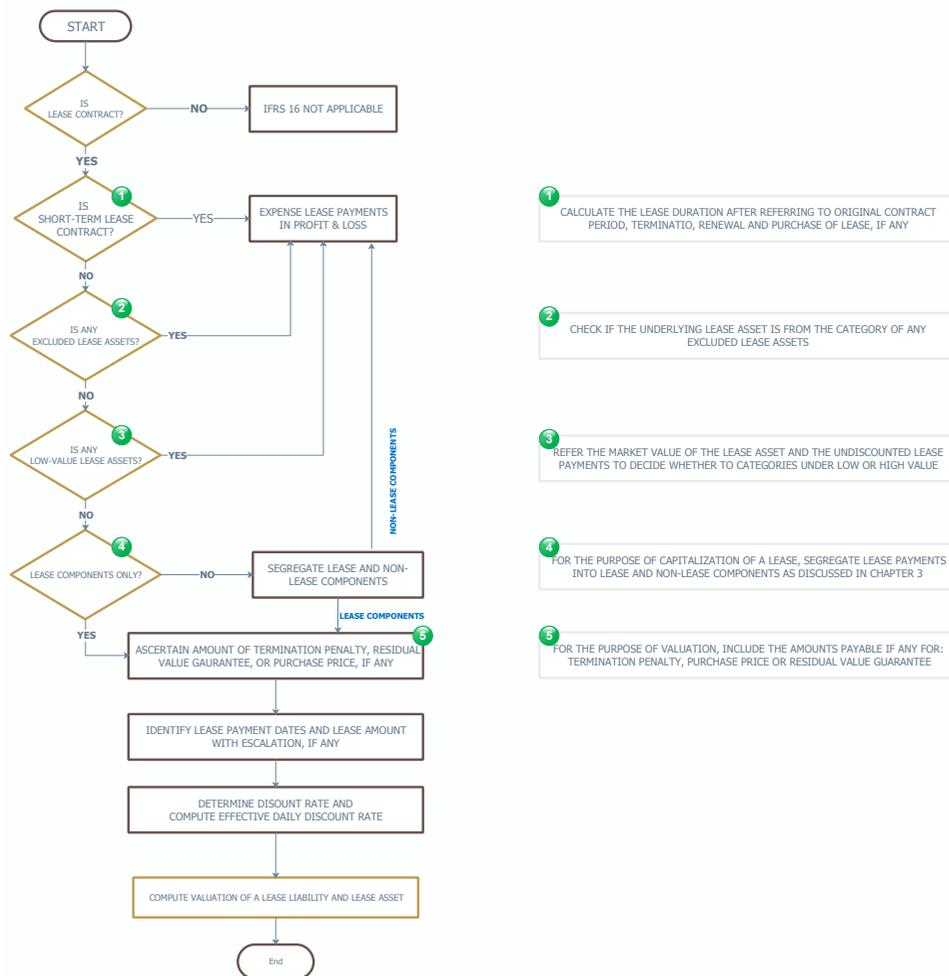
04

VALUATION OF A LEASE

4.1 Valuation of a Lease

- After gathering all the details of a lease as discussed in chapter 3, Valuation of a Lease shall be carried out as set out in this chapter.
- Summarizing all the key details required before valuation of a lease in a flowchart form as below:

Key Points to Consider for Pre-Valuation of a Lease

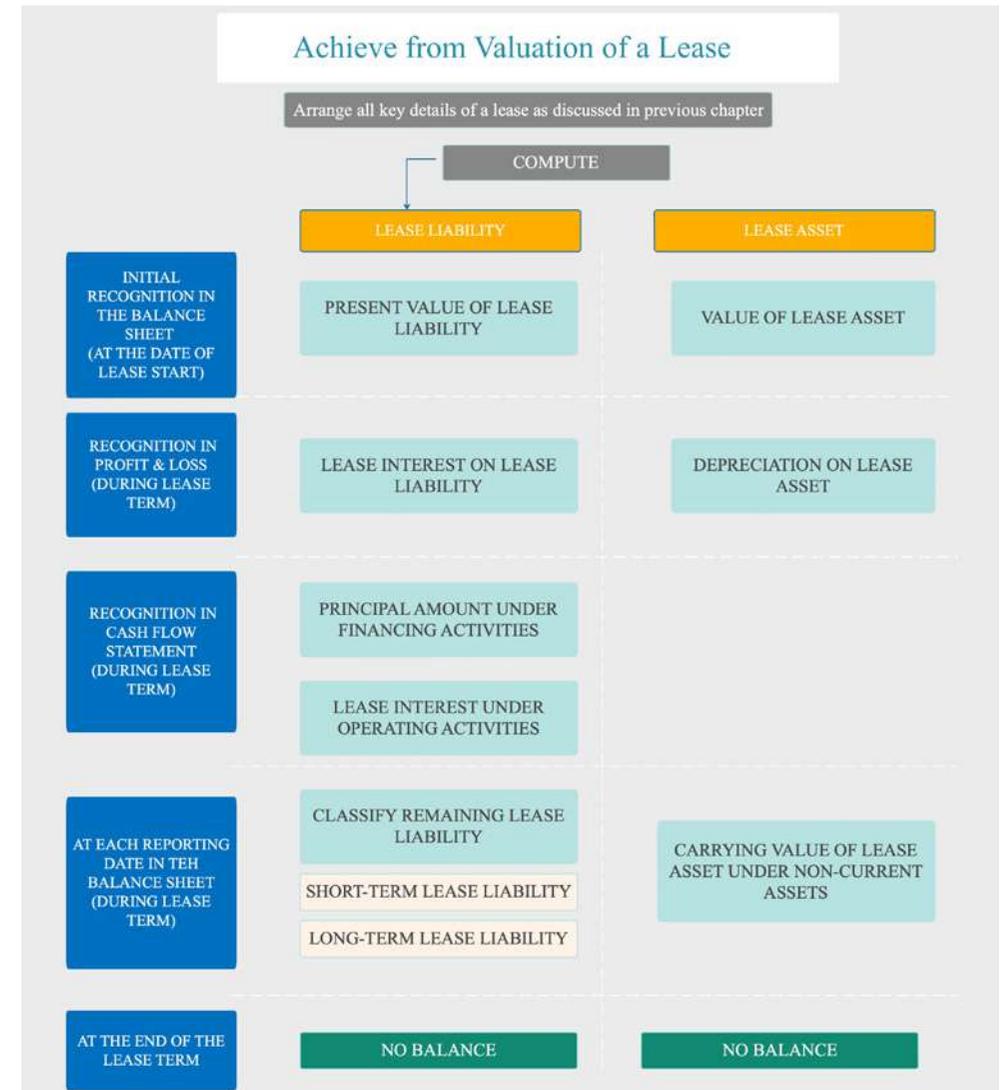


Important Note:

Please note in this chapter we are going to learn on how the valuation of a lease is carried out at the initial measurement of a lease liability and lease asset in the accounting books except transitional valuation which is discussed in chapter 5 and subsequent modification which is discussed in chapter 6.

4.2 Role of Valuation of a Lease

- Valuation of a Lease plays a significant role starting from the computation of lease liability at the start of the lease till the end of the lease term.
- Hence, it is important to have accurate valuation of a lease since the inception of the lease.



4.3 Practical Exercise

- After gathering all the details of a lease as discussed in chapter 3, Valuation of a Lease shall be carried out as set out in this chapter.
- Summarizing all the key details required before valuation of a lease in a flowchart form as below:

Illustrative Example 1	<p>ABC Company is in the business of generation of Solar Energy for which the company has taken a land on lease for 3 years on January 01, 2019 with a quarterly advance lease payment of USD 100,000.</p> <p>The lease will be escalated every year by 5% and residual value guarantee of the lease will be USD 40,000/-.</p> <p>Compute value of a lease as on January 01, 2019 using a discount rate of 8.45% per annum, lease interest and depreciation for the entire lease duration in accordance with new accounting standard on leases (IFRS 16).</p>
------------------------	---

Lease Asset Type	Land
Lease Duration	3 Years
Lease Payment Interval	Quarterly advance on first day of every quarter
Lease Payment Type	Fixed Lease Component
Residual Value Guarantee	USD 40,000
Escalation	5% Annually
Discount Rate	8.45% Per Annum
Effective Daily Discount Rate	0.0222268%

You can test the above example or any other case scenario using free trial version account at <https://witsync.co> by creating your account.

Present Value of Lease Liability Computation Formula =
 $\text{Lease Payment} / [(1+r)^{\text{Number of days}}]$

Interest on Lease Liability Computation Formula =
 $[\text{Opening Lease Liability} * (1+r)^{\text{Number of Days}}] - \text{Opening Lease Liability}$

r stands for Effective Daily Discounting Rate

The below valuation computation screens are directly from the software <https://witsync.co>

Part A: Present Value of Lease Liability and Value of Lease Asset as on January 01, 2019:

Present Value of Lease Liability		
	Undiscounted Value	Present Value
Fixed Lease	1261000.00	1127772.87
Residual Value Guarantee	40000	31359.70
Total Value of Lease Liability	1301000	1159132.57 PV Calculus

Valuation Of Lease Asset						
Present Value of Lease Liability	Accrued Lease Payments	Prepaid Lease Payments	Initial Direct Cost	Lease Incentives	Estimated Cost of Dismantling	Value of Lease Asset
1159132.57	0	0	0	0	0	1159132.57

Present Value Of Lease Liability Calculus							
Note! The below information is generated on the basis of the current inputs.							
Year	Lease Payment Dates	Fixed Lease	Termination Penalty	Purchase Value	Residual Value	Total Undiscounted Value	Present Value of Lease Liability
2019	2019-01-01	100000.00	-	-	-	100000	100000
2019	2019-04-01	100000.00	-	-	-	100000	98019.68
2019	2019-07-01	100000.00	-	-	-	100000	96057.22
2019	2019-10-01	100000.00	-	-	-	100000	94113.13
2020	2020-01-01	105000.00	-	-	-	105000	96818.81
2020	2020-04-01	105000.00	-	-	-	105000	94680.39
2020	2020-07-01	105000.00	-	-	-	105000	92980.79
2020	2020-10-01	105000.00	-	-	-	105000	91098.97
2021	2021-01-01	110250.00	-	-	-	110250	93717.99
2021	2021-04-01	110250.00	-	-	-	110250	91862.07
2021	2021-07-01	110250.00	-	-	-	110250	90022.89
2021	2021-10-01	110250.00	-	-	-	110250	88200.93
2021	2021-12-31	-	-	-	40000	40000	31359.7
Grand Total		1261000	0	0	40000	1301000	1159132.57

Confirm

Part B: Lease Interest & Depreciation Annexure

Year	Lease Start Date Lease Payment Dates Month End Dates	Lease Currency - USD							Lease Currency - USD						
		Opening Lease Liability	Monthly Interest Expense	Lease Payments	Closing Lease Liability	Non-Current Liability	Current Liability		Long to Short	Value Of Lease Asset	Subsequent Increase/Decrease	Depreciation	Accumulated Depreciation	Carrying Value Of Lease Asset	Charge To PL
Part 1: Initial Valuation Basis															
2019	01-Jan-2019	1,159,132.57	-	-	1,159,132.57	731,087.19	428,045.38		-	1,159,132.57	-	-	-	-	-
2019	01-Jan-2019	1,159,132.57	-	100,000.00	1,059,132.57	731,087.19	328,045.38		-		-	-	-	-	-
2019	31-Jan-2019	1,059,132.57	7,085.17	-	1,066,217.74	735,977.87	330,239.87		(4,890.68)		32,198.13	32,198.13	1,126,934.44	-	-
2019	28-Feb-2019	1,066,217.74	6,655.58	-	1,072,873.32	740,736.62	332,136.70		(4,758.75)		32,198.13	64,396.25	1,094,736.32	-	-
2019	31-Mar-2019	1,072,873.32	7,417.15	-	1,080,290.47	745,857.59	334,432.88		(5,120.97)		32,198.13	96,594.38	1,062,538.19	-	-
2019	01-Apr-2019	1,080,290.47	240.11	100,000.00	980,530.58	641,023.37	339,507.21		104,834.22		-	-	-	-	-
2019	30-Apr-2019	980,530.58	6,340.00	-	986,870.59	645,168.16	341,702.43		(4,144.79)		32,198.13	128,792.51	1,030,340.06	-	-
2019	31-May-2019	986,870.59	6,822.58	-	993,693.17	649,628.43	344,064.74		(4,460.27)		32,198.13	160,990.63	998,141.94	-	-
2019	30-Jun-2019	993,693.17	6,647.41	-	1,000,340.57	653,974.19	346,366.38		(4,345.76)		32,198.13	193,188.76	965,943.81	-	-
2019	01-Jul-2019	1,000,340.57	222.34	100,000.00	900,562.92	549,119.54	351,443.38		104,854.65		-	-	-	-	-
2019	31-Jul-2019	900,562.92	6,024.40	-	906,587.32	552,792.93	353,794.39		(3,673.39)		32,198.13	225,386.89	933,745.68	-	-
2019	31-Aug-2019	906,587.32	6,267.56	-	912,854.88	556,614.58	356,240.30		(3,821.65)		32,198.13	257,585.02	901,547.55	-	-
2019	30-Sep-2019	912,854.88	6,106.63	-	918,961.50	560,338.11	358,623.39		(3,723.53)		32,198.13	289,783.14	869,349.43	-	-
2019	01-Oct-2019	918,961.50	204.26	100,000.00	819,165.76	455,462.65	363,703.11		104,875.46		-	-	-	-	-
2019	31-Oct-2019	819,165.76	5,479.89	-	824,645.65	458,509.51	366,136.14		(3,046.86)		32,198.13	321,981.27	837,151.30	-	-
2019	30-Nov-2019	824,645.65	5,516.55	-	830,162.19	461,576.76	368,585.43		(3,067.25)		32,198.13	354,179.40	804,953.17	-	-
2019	31-Dec-2019	830,162.19	5,739.20	-	835,901.40	464,767.80	371,133.60		(3,191.04)		32,198.13	386,377.52	772,755.05	-	-
2020	01-Jan-2020	835,901.40	185.79	105,000.00	731,087.19	354,621.10	376,466.09		110,146.70		-	-	-	-	-
2020	31-Jan-2020	731,087.19	4,890.68	-	735,977.87	356,993.38	378,984.49		(2,372.28)		32,198.13	418,575.65	740,556.92	-	-
2020	29-Feb-2020	735,977.87	4,758.75	-	740,736.62	359,221.81	381,514.81		(2,228.43)		32,198.13	450,773.78	708,358.79	-	-
2020	31-Mar-2020	740,736.62	5,120.97	-	745,857.59	361,705.24	384,152.35		(2,483.43)		32,198.13	482,971.90	676,160.67	-	-
2020	01-Apr-2020	745,857.59	165.78	105,000.00	641,023.37	251,535.63	389,487.74		110,169.61		-	-	-	-	-
2020	30-Apr-2020	641,023.37	4,144.79	-	645,168.16	253,162.03	392,006.13		(1,626.40)		32,198.13	515,170.03	643,962.54	-	-
2020	31-May-2020	645,168.16	4,460.27	-	649,628.43	254,912.23	394,716.20		(1,750.20)		32,198.13	547,368.16	611,764.41	-	-
2020	30-Jun-2020	649,628.43	4,345.75	-	653,974.19	256,617.49	397,356.70		(1,705.26)		32,198.13	579,566.28	579,566.29	-	-
2020	01-Jul-2020	653,974.19	145.36	105,000.00	549,119.54	146,424.53	402,695.01		110,192.96		-	-	-	-	-
2020	31-Jul-2020	549,119.54	3,673.39	-	552,792.93	147,404.05	405,388.88		(979.52)		32,198.13	611,764.41	547,368.16	-	-
2020	31-Aug-2020	552,792.93	3,821.65	-	556,614.58	148,423.11	408,191.47		(1,019.06)		32,198.13	643,962.54	515,170.03	-	-
2020	30-Sep-2020	556,614.58	3,723.53	-	560,338.11	149,416.00	410,922.11		(992.89)		32,198.13	676,160.66	482,971.91	-	-
2020	01-Oct-2020	560,338.11	124.55	105,000.00	455,462.65	39,199.21	416,263.44		110,216.79		-	-	-	-	-
2020	31-Oct-2020	455,462.65	3,046.86	-	458,509.51	39,461.44	419,048.07		(262.23)		32,198.13	708,358.79	450,773.78	-	-
2020	30-Nov-2020	458,509.51	3,067.24	-	461,576.76	39,725.42	421,851.34		(263.98)		32,198.13	740,556.92	418,575.65	-	-
2020	31-Dec-2020	461,576.76	3,191.04	-	464,767.80	0.05	464,767.75		39,725.37		32,198.13	772,755.05	386,377.52	-	-
2021	01-Jan-2021	464,767.80	103.30	110,250.00	354,621.10	-	354,621.10		0.05		-	-	-	-	-
2021	31-Jan-2021	354,621.10	2,372.27	-	356,993.38	-	356,993.38		-		32,198.13	804,953.17	354,179.40	-	-
2021	28-Feb-2021	356,993.38	2,228.44	-	359,221.81	-	359,221.81		-		32,198.13	837,151.30	321,981.27	-	-
2021	31-Mar-2021	359,221.81	2,483.43	-	361,705.24	-	361,705.24		-		32,198.13	869,349.43	289,783.14	-	-
2021	01-Apr-2021	361,705.24	80.40	110,250.00	251,535.63	-	251,535.63		-		-	-	-	-	-
2021	30-Apr-2021	251,535.63	1,626.40	-	253,162.03	-	253,162.03		-		32,198.13	901,547.55	257,585.02	-	-
2021	31-May-2021	253,162.03	1,750.20	-	254,912.23	-	254,912.23		-		32,198.13	933,745.68	225,386.89	-	-
2021	30-Jun-2021	254,912.23	1,705.26	-	256,617.49	-	256,617.49		-		32,198.13	965,943.81	193,188.76	-	-
2021	01-Jul-2021	256,617.49	57.04	110,250.00	146,424.53	-	146,424.53		-		-	-	-	-	-
2021	31-Jul-2021	146,424.53	979.52	-	147,404.05	-	147,404.05		-		32,198.13	998,141.93	160,990.64	-	-
2021	31-Aug-2021	147,404.05	1,019.06	-	148,423.11	-	148,423.11		-		32,198.13	1,030,340.06	128,792.51	-	-
2021	30-Sep-2021	148,423.11	992.89	-	149,416.00	-	149,416.00		-		32,198.13	1,062,538.19	96,594.38	-	-
2021	01-Oct-2021	149,416.00	33.21	110,250.00	39,199.21	-	39,199.21		-		-	-	-	-	-
2021	31-Oct-2021	39,199.21	262.23	-	39,461.44	-	39,461.44		-		32,198.13	1,094,736.31	64,396.26	-	-
2021	30-Nov-2021	39,461.44	263.98	-	39,725.42	-	39,725.42		-		32,198.13	1,126,934.44	32,198.13	-	-
2021	31-Dec-2021	39,725.42	274.64	40,000.00	0.05	-	0.05		-		32,198.13	1,159,132.57	-	-	-

A hand holding a pen writing on a document with a line graph. The background is a dark blue overlay.

05

**INITIAL
MEASUREMENT**

5.1 Initial Measurement of a Lease Liability

- At the date of initial measurement, a lessee shall measure the lease liability at the present value of the lease payments that are payable in the future.
- The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.
- The nature and type of lease payments shall be such as discussed in chapter 3.

5.2 Initial Measurement of a Lease Asset

- At the date of initial measurement, a lessee shall measure the right of use asset at cost.
- The cost of the right-of-use asset shall comprise as below:

Cost of Right-of-Use Asset		
Below Cost shall be considered at the Date of Initial Measurement of a Lease Asset		
FIRST AMOUNT	Amount of the initial measurement of the lease liability, as calculated above in 5.1	(Present Value of all future lease payments)
ADD or LESS	Any opening lease balances at or before the date of initial measurement	(Add Opening lease prepaid, lease advance or Less accrued lease balances)
ADD	Any initial indirect costs incurred by the lessee at the date of initial measurement	(Like any brokerage or commission paid or payable by the lessee)
LESS	Any lease incentives received by the lessee at the date of initial measurement	(Like any brokerage or commission received by the lessee. If receivable in future adjust under the present value of lease liability.)
ADD	Any estimate of costs to be incurred by the lessee in dismantling and removing or restoring the lease asset	(Add Opening lease prepaid, lease advance or Less accrued lease balances)

5.3 Date of Initial Measurement

Date of Initial Measurement:

- The date of initial measurement shall be either:

Date of the initial application of the New Lease Accounting Standard (IFRS 16 or equivalent country level standard); or	In cases where a lease is existing as on the date of the initial application.
The commencement date of the lease.	In cases where a lease starts on or after the date of initial application.

Date of Initial Application:

- The date of initial application is the beginning of the annual reporting period in which the entity first applies the New Lease Accounting Standard.
- The date of the initial application of the New Lease Accounting Standard shall be either:
 - The Effective Date of New Lease Accounting Standard; or
 - In case of early application of the New Lease Accounting Standard adopted, the date when the early application adopted.

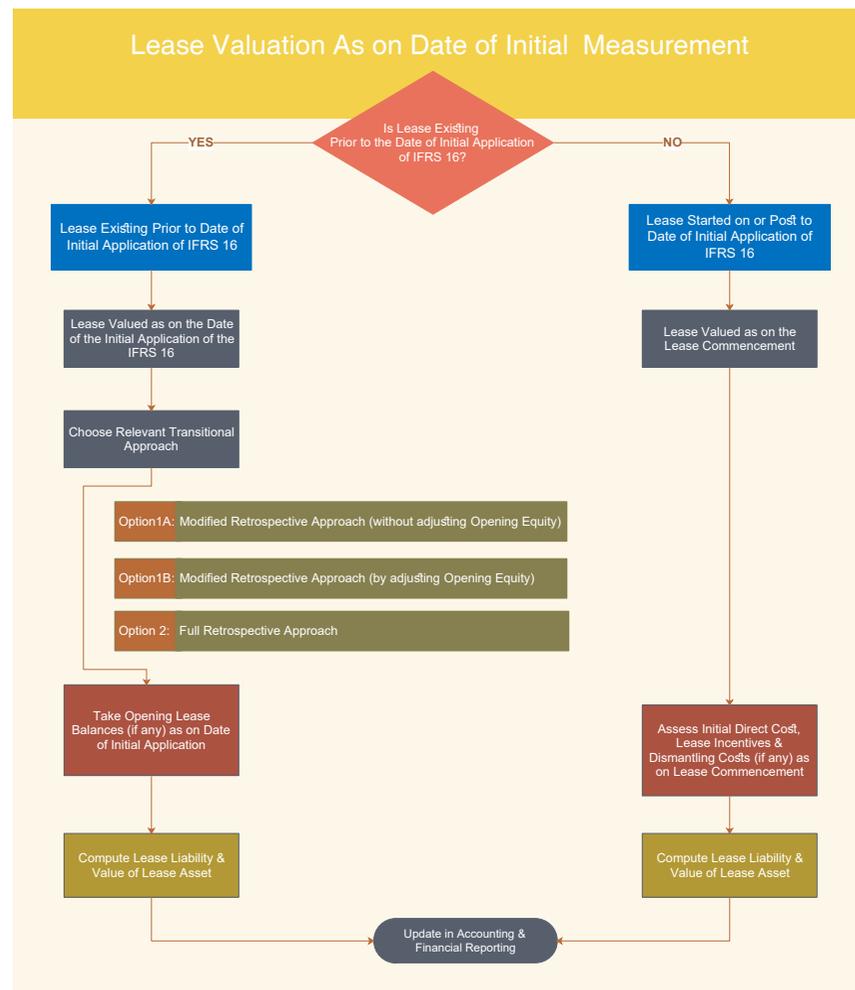
Date of Lease Commencement:

- Commencement date here means the date on which the lessor makes an underlying lease asset available for use by a lessee. Commencement date covers the initial lease free period as well.
- For example: ABC Lessee signs a lease contract on May 01, 2019 with the initial free period of 2 months, where a lease to start from July 01, 2019. Here, the commencement date of a lease shall be May 01, 2019 and initial measurement of a lease shall be computed as on May 01, 2019.

5.4 Lease Valuation Approaches

- The lease valuation shall be carried out as on the date of initial measurement by adopting the following approaches as applicable:

(a). Transitional Valuation Approach; or	In cases where a lease existing as on the date of the initial application.	Covered in this chapter
(b). Simple Valuation Approach.	In cases where a lease starts on or after the date of initial application.	Covered in Chapter 4



Important Note:

In this chapter, we are focusing on Lease Valuation of those leases which are existing as on the date of initial application of the New Lease Accounting Standard i.e. initial measurement of lease liability and lease asset applying transitional valuation approaches.

Lease Valuation of those leases which commences on or after the date of initial application of the New Lease Accounting Standard i.e. initial measurement of lease liability and lease asset applying simple valuation approach shall be similar to the principles as discussed in chapter 4.

5.5 Valuation Treatment for Previous Leases Existing at the Date of Initial Application

- All previous leases as per the Old Accounting Standard (IAS 17) were either classified as Operating Leases or Finance Leases.
- There may also be a possibility that the lessee was in possession of a lease but previously was not identified as lease.
- The Lease Valuation for Leases previously classified as “Operating Lease” or “Finance Lease” or “Leases Previously Not Identified as Leases” shall be followed as per the New Lease Accounting Standard as:

(a). Operating Leases	Apply Transitional Valuation Approach	Covered in this chapter
(b). Finance Leases	Carry forward the value of lease asset and lease liability existing prior to the date of initial application of the New Lease Accounting Standard.	-
(c). Previously Not Identified as Lease	Simple Valuation Approach	Covered in Chapter 4

5.6 Transitional Valuation Approach

- Transitional Valuation Approach shall be applicable only to Leases which previously classified as Operating Leases.
- A lessee shall elect to apply the relevant transitional valuation approach to all its leases existing as on the date of the initial application of the New Leasing Standard.
- A lessee shall have the option to elect the relevant transitional valuation approach as below:

a) Retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application of the Standard; or	Named as “Modified Retrospective Approach”
b) Retrospectively to each prior reporting period presented applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	Named as “Full Retrospective Approach”

- A lessee shall apply the elected transitional valuation approach consistently to all of its leases in which it is a lessee.
- Each of the above transitional approaches are discussed in the following sections.

5.7 Modified Retrospective Approach

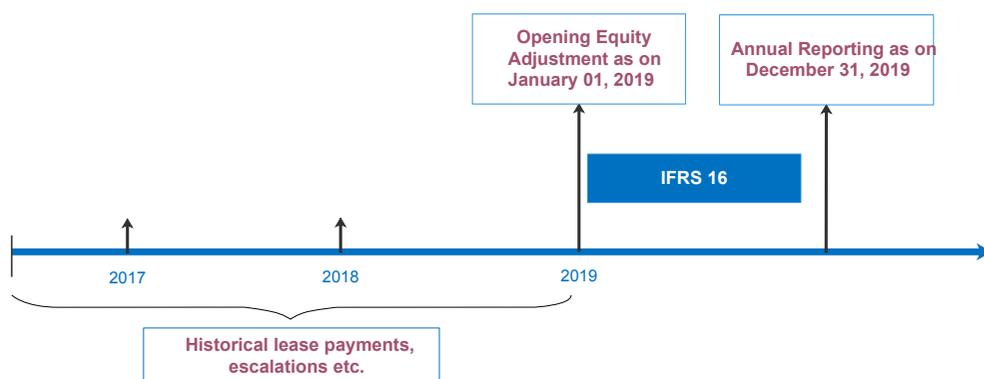
- If a lessee elects to apply the Modified Retrospective Approach, the lessee shall not restate comparative information.
- Instead, the lessee shall recognize the cumulative effect of initially applying this standard as an adjustment to opening balance of the retained earnings (or other component of equity, as appropriate) at the date of initial application.
- However, under the Modified Retrospective Approach, the lessee is given with an option to recognize cumulative effect at the date of initial application by adjusting opening balance of the retained earnings or not to adjust the opening retained earnings.
- Hence, Modified Retrospective Approach is further sub-classified as below:

a) Modified Retrospective Approach (by adjusting opening equity)	Cumulative effect is computed at the date of initial application.
b) Modified Retrospective Approach (without adjusting opening equity)	No adjustment of cumulative effect required.

- The lessee shall have the option to choose anyone of the above Modified Retrospective Approach to recognize the value of lease asset on a lease-by-lease basis.
- The lessee shall recognize a lease liability and lease asset at the date of initial application under respective approach as below:

Initial Measurement	Modified Retrospective Approach	
	Without adjusting opening equity	By adjusting opening equity
Lease Liability	The Lessee shall measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.	
Lease Asset	Value of lease asset equal to the amount of lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.	Value of lease asset shall be carrying amount as on the date of initial application as if the Standard had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application.
	Value of Lease Asset = Value of Lease Liability (as above) (+) Prepaid Balance (if any); or (-) Accrued Lease (if any)	Value of Lease Asset = Value of Lease Liability (as on lease commencement date) (-) Depreciation before the date of initial application
Adjustment to Equity	Not applicable	Adjustment to Opening Equity = Value of Lease Liability (as above) (-) Value of Lease Asset (as above) (+) Prepaid Balance (if any) (-) Accrued Balance (if any)

- Hence, the Modified Retrospective Approach applicability shall look like as per below image:



- Let us now understand the above approaches with a practical example.

5.7.1 Practical Exercise – Modified Retrospective Approach (without adjusting opening equity)

- Transitional Valuation Approach shall be applicable only to Leases which previously classified as Operating Leases.
- A lessee shall elect to apply the relevant transitional valuation approach to all its leases existing as on the date of the initial application of the New Leasing Standard.
- A lessee shall have the option to elect the relevant transitional valuation approach as below:

Illustrative Example 1	<p>ABC Company is in the business of generation of Solar Energy for which the company has taken a land on lease for 5 years on January 01, 2017 with a quarterly advance lease payment of USD 100,000.</p> <p>The lease will be escalated every year by 5% and residual value guarantee of the lease will be USD 40,000/-. Compute value of a lease as on January 01, 2019 using a discount rate of 8.45% per annum, lease interest and depreciation for the entire lease duration in accordance with new accounting standard on leases (IFRS 16). Apply Modified Retrospective Approach (Without Adjusting Opening Equity).</p> <p>Further, as on December 31, 2018, there was a prepaid lease balance of USD 20,000/- (assumed).</p>
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Lease Asset Type	Land
Lease Duration	5 Years
Lease Payment Interval	Quarterly advance on first day of every quarter
Lease Payment Type	Fixed Lease Component
Residual Value Guarantee	USD 40,000
Opening Lease Balance	USD 20,000 (Prepaid) as on January 01, 2019
Transitional Valuation Approach	Modified Retrospective Approach (Without Adjusting Opening Equity)
Escalation	5% Annually
Discount Rate	8.45% Per Annum
Effective Daily Discount Rate	0.0222268%

You can test the above example or any other case scenario using free trial version account at <https://witsync.co> by creating your account.

The below valuation computation screens are directly from the software <https://witsync.co>

Part A: Present Value of Lease Liability and Value of Lease Asset as on January 01, 2019:

Present Value of Lease Liability		Undiscounted Value	Present Value
Lease Rentals		1390252.52	1243369.61
Residual Value Guarantee		40000	31359.70
Total Value of Lease Liability		1430252.52	1274729.31

Valuation Of Lease Asset						
Modified Retrospective Approach by not adjusting the Opening Equity (equivalent to Present Value of Lease Liability)						
Present Value of Lease Liability	Accrued Lease Payments	Prepaid Lease Payments	Initial Direct Cost	Lease Incentives	Estimated Cost of Dismantling	Value of Lease Asset
1274729.31	0.00	20,000.00	0	0	0	1294729.31

Present Value Of Lease Liability Calculus							
Year	Lease Payment Dates	Lease Rentals	Termination Penalty	Purchase Value	Residual Value	Total Undiscounted Value	Present Value of Lease Liability
2019	2019-01-01	110250.00	-	-	-	110250	110250
2019	2019-04-01	110250.00	-	-	-	110250	108066.69
2019	2019-07-01	110250.00	-	-	-	110250	105903.08
2019	2019-10-01	110250.00	-	-	-	110250	103759.73
2020	2020-01-01	115762.50	-	-	-	115762.5	106742.74
2020	2020-04-01	115762.50	-	-	-	115762.5	104605.64
2020	2020-07-01	115762.50	-	-	-	115762.5	102511.32
2020	2020-10-01	115762.50	-	-	-	115762.5	100436.81
2021	2021-01-01	121550.63	-	-	-	121550.63	103324.09
2021	2021-04-01	121550.63	-	-	-	121550.63	101277.94
2021	2021-07-01	121550.63	-	-	-	121550.63	99250.24
2021	2021-10-01	121550.63	-	-	-	121550.63	97241.53
2021	2021-12-31	-	-	-	40000	40000	31359.7
Grand Total		1390252.52	0	0	40000	1430252.52	1274729.31

Confirm

Part B: Lease Interest Expense with Closing Lease Liability & Lease Asset Depreciation, Accumulated Depreciation and Carrying Value of Lease Asset:

Year	Lease Start Date Lease Payment Dates Month End Dates	Lease Currency - USD									
		Opening Lease Liability	Monthly Interest Expense	Lease Payments	Closing Lease Liability	Value Of Lease Asset	Subsequent Increase/Decrease	Depreciation	Accumulated Depreciation	Carrying Value Of Lease Asset	Charge To PL
Part 1: Initial Valuation Basis											
2019	01-Jan-2019	1,274,729.31	-	-	1,274,729.31	1,294,729.31	-	-	-	-	-
2019	01-Jan-2019	1,274,729.31	-	110,250.00	1,164,479.31	-	-	-	-	-	-
2019	31-Jan-2019	1,164,479.31	7,789.90	-	1,172,269.21	-	35,964.70	35,964.70	1,258,764.61	-	-
2019	28-Feb-2019	1,172,269.21	7,317.58	-	1,179,586.78	-	35,964.70	71,929.41	1,222,799.90	-	-
2019	31-Mar-2019	1,179,586.78	8,154.90	-	1,187,741.68	-	35,964.70	107,894.11	1,186,835.20	-	-
2019	01-Apr-2019	1,187,741.68	264.00	110,250.00	1,077,755.68	-	-	-	-	-	-
2019	30-Apr-2019	1,077,755.68	6,968.65	-	1,084,724.33	-	35,964.70	143,858.81	1,150,870.50	-	-
2019	31-May-2019	1,084,724.33	7,499.08	-	1,092,223.41	-	35,964.70	179,823.52	1,114,905.79	-	-
2019	30-Jun-2019	1,092,223.41	7,306.53	-	1,099,529.94	-	35,964.70	215,788.22	1,078,941.09	-	-
2019	01-Jul-2019	1,099,529.94	244.39	110,250.00	989,524.33	-	-	-	-	-	-
2019	31-Jul-2019	989,524.33	6,619.52	-	996,143.85	-	35,964.70	251,752.92	1,042,976.39	-	-
2019	31-Aug-2019	996,143.85	6,886.69	-	1,003,030.54	-	35,964.70	287,717.62	1,007,011.69	-	-
2019	30-Sep-2019	1,003,030.54	6,709.87	-	1,009,740.41	-	35,964.70	323,682.33	971,046.98	-	-
2019	01-Oct-2019	1,009,740.41	224.43	110,250.00	899,714.84	-	-	-	-	-	-
2019	31-Oct-2019	899,714.84	6,018.73	-	905,733.57	-	35,964.70	359,647.03	935,082.28	-	-
2019	30-Nov-2019	905,733.57	6,058.99	-	911,792.56	-	35,964.70	395,611.73	899,117.58	-	-
2019	31-Dec-2019	911,792.56	6,303.54	-	918,096.10	-	35,964.70	431,576.44	863,152.87	-	-
2020	01-Jan-2020	918,096.10	204.06	115,762.50	802,537.67	-	-	-	-	-	-
2020	31-Jan-2020	802,537.67	5,368.65	-	807,906.32	-	35,964.70	467,541.14	827,188.17	-	-
2020	29-Feb-2020	807,906.32	5,223.83	-	813,130.15	-	35,964.70	503,505.84	791,223.47	-	-
2020	31-Mar-2020	813,130.15	5,621.45	-	818,751.61	-	35,964.70	539,470.55	755,258.76	-	-
2020	01-Apr-2020	818,751.61	181.98	115,762.50	703,171.09	-	-	-	-	-	-
2020	30-Apr-2020	703,171.09	4,546.63	-	707,717.72	-	35,964.70	575,435.25	719,294.06	-	-
2020	31-May-2020	707,717.72	4,892.70	-	712,610.42	-	35,964.70	611,399.95	683,329.36	-	-
2020	30-Jun-2020	712,610.42	4,767.08	-	717,377.49	-	35,964.70	647,364.66	647,364.65	-	-
2020	01-Jul-2020	717,377.49	159.45	115,762.50	601,774.44	-	-	-	-	-	-
2020	31-Jul-2020	601,774.44	4,025.63	-	605,800.07	-	35,964.70	683,329.36	611,399.95	-	-
2020	31-Aug-2020	605,800.07	4,188.11	-	609,988.18	-	35,964.70	719,294.06	575,435.25	-	-
2020	30-Sep-2020	609,988.18	4,080.57	-	614,068.75	-	35,964.70	755,258.77	539,470.54	-	-
2020	01-Oct-2020	614,068.75	136.49	115,762.50	498,442.74	-	-	-	-	-	-
2020	31-Oct-2020	498,442.74	3,334.38	-	501,777.12	-	35,964.70	791,223.47	503,505.84	-	-
2020	30-Nov-2020	501,777.12	3,356.69	-	505,133.81	-	35,964.70	827,188.17	467,541.14	-	-
2020	31-Dec-2020	505,133.81	3,492.17	-	508,625.98	-	35,964.70	863,152.87	431,576.44	-	-
2021	01-Jan-2021	508,625.98	113.05	121,550.63	387,188.40	-	-	-	-	-	-
2021	31-Jan-2021	387,188.40	2,590.13	-	389,778.53	-	35,964.70	899,117.58	395,611.73	-	-
2021	28-Feb-2021	389,778.53	2,433.09	-	392,211.62	-	35,964.70	935,082.28	359,647.03	-	-
2021	31-Mar-2021	392,211.62	2,711.50	-	394,923.12	-	35,964.70	971,046.98	323,682.33	-	-
2021	01-Apr-2021	394,923.12	87.78	121,550.63	273,460.26	-	-	-	-	-	-

2021 30-Apr-2021	273,460.26	1,768.16	-	275,228.43	35,964.70	1,007,011.69	287,717.62	-
2021 31-May-2021	275,228.43	1,902.75	-	277,131.18	35,964.70	1,042,976.39	251,752.92	-
2021 30-Jun-2021	277,131.18	1,853.90	-	278,985.07	35,964.70	1,078,941.09	215,788.22	-
2021 01-Jul-2021	278,985.07	62.01	121,550.63	157,496.45	-	-	-	-
2021 31-Jul-2021	157,496.45	1,053.59	-	158,550.04	35,964.70	1,114,905.80	179,823.51	-
2021 31-Aug-2021	158,550.04	1,096.11	-	159,646.15	35,964.70	1,150,870.50	143,858.81	-
2021 30-Sep-2021	159,646.15	1,067.97	-	160,714.12	35,964.70	1,186,835.20	107,894.11	-
2021 01-Oct-2021	160,714.12	35.72	121,550.63	39,199.21	-	-	-	-
2021 31-Oct-2021	39,199.21	262.23	-	39,461.44	35,964.70	1,222,799.91	71,929.40	-
2021 30-Nov-2021	39,461.44	263.98	-	39,725.42	35,964.70	1,258,764.61	35,964.70	-
2021 31-Dec-2021	39,725.42	274.64	40,000.00	0.06	35,964.70	1,294,729.31	-	-

5.7.2 Practical Exercise – Modified Retrospective Approach (by adjusting opening equity)

Illustrative Example 1	<p>ABC Company is in the business of generation of Solar Energy for which the company has taken a land on lease for 5 years on January 01, 2017 with a quarterly advance lease payment of USD 100,000.</p> <p>The lease will be escalated every year by 5% and residual value guarantee of the lease will be USD 40,000/-. Compute value of a lease as on January 01, 2019 using a discount rate of 8.45% per annum, lease interest and depreciation for the entire lease duration in accordance with new accounting standard on leases (IFRS 16). Apply Modified Retrospective Approach (By Adjusting Opening Equity).</p> <p>Further, as on December 31, 2018, there was a prepaid lease balance of USD 20,000/- (assumed).</p>
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Lease Asset Type	Land
Lease Duration	5 Years
Lease Payment Interval	Quarterly advance on first day of every quarter
Lease Payment Type	Fixed Lease Component
Residual Value Guarantee	USD 40,000
Opening Lease Balance	USD 20,000 (Prepaid) as on January 01, 2019
Transitional Valuation Approach	Modified Retrospective Approach (Without Adjusting Opening Equity)
Escalation	5% Annually
Discount Rate	8.45% Per Annum
Effective Daily Discount Rate	0.0222268%

You can test the above example or any other case scenario using free trial version account at <https://witsync.co> by creating your account.

The below valuation computation screens are directly from the software <https://witsync.co>

Part A: Present Value of Lease Liability and Value of Lease Asset as on January 01, 2019:

Present Value of Lease Liability PV Calculus		
	Undiscounted Value	Present Value
Lease Rentals	1390252.52	1243369.61
Residual Value Guarantee	40000	31359.70
Total Value of Lease Liability	1430252.52	1274729.31

Valuation Of Lease Asset					
Modified Retrospective Approach by adjusting the Opening Equity					
Value of Lease Asset	Present Value of Lease Liability	Prepaid Lease Payments	Accrued Lease Payments	Adjustment To Equity	Action
1108713.11	1274729.31	20000	0	-186016.20	Carrying Amount Details

Present Value Of Lease Liability Calculus							
Year	Lease Payment Dates	Lease Rentals	Termination Penalty	Purchase Value	Residual Value	Total Undiscounted Value	Present Value of Lease Liability
2019	2019-01-01	110250.00	-	-	-	110250	110250
2019	2019-04-01	110250.00	-	-	-	110250	108066.69
2019	2019-07-01	110250.00	-	-	-	110250	105903.08
2019	2019-10-01	110250.00	-	-	-	110250	103759.73
2020	2020-01-01	115762.50	-	-	-	115762.5	106742.74
2020	2020-04-01	115762.50	-	-	-	115762.5	104605.64
2020	2020-07-01	115762.50	-	-	-	115762.5	102511.32
2020	2020-10-01	115762.50	-	-	-	115762.5	100436.61
2021	2021-01-01	121550.63	-	-	-	121550.63	103324.09
2021	2021-04-01	121550.63	-	-	-	121550.63	101277.94
2021	2021-07-01	121550.63	-	-	-	121550.63	99250.24
2021	2021-10-01	121550.63	-	-	-	121550.63	97241.53
2021	2021-12-31	-	-	-	40000	40000	31359.7
Grand Total		1390252.52	0	0	40000	1430252.52	1274729.31

Value of Lease Asset Computation								
Year	Date of Lease Payments	Lease Payments	Historical Present Value of Lease Payments	Historical Present Value of Lease Liability	Historical Value of Lease Asset	Historical Depreciation	Historical Accumulated Depreciation	Carrying Value Of Lease Asset
2017	1-Jan-17	100,000.00	100,000.00	1,847,855.18	1,847,855.18	-	-	-
2017	31-Jan-17	-	-	-	-	30,797.59	30,797.59	1,817,057.59
2017	28-Feb-17	-	-	-	-	30,797.59	61,595.17	1,786,260.01
2017	31-Mar-17	-	-	-	-	30,797.59	92,392.76	1,755,462.42
2017	1-Apr-17	100,000.00	98,019.68	-	-	-	-	-
2017	30-Apr-17	-	-	-	-	30,797.59	123,190.35	1,724,664.83
2017	31-May-17	-	-	-	-	30,797.59	153,987.93	1,693,867.25
2017	30-Jun-17	-	-	-	-	30,797.59	184,785.52	1,663,069.66
2017	1-Jul-17	100,000.00	96,057.22	-	-	-	-	-
2017	31-Jul-17	-	-	-	-	30,797.59	215,583.10	1,632,272.08
2017	31-Aug-17	-	-	-	-	30,797.59	246,380.69	1,601,474.49
2017	30-Sep-17	-	-	-	-	30,797.59	277,178.28	1,570,676.90
2017	1-Oct-17	100,000.00	94,113.13	-	-	-	-	-
2017	31-Oct-17	-	-	-	-	30,797.59	307,975.86	1,539,879.32
2017	30-Nov-17	-	-	-	-	30,797.59	338,773.45	1,509,081.73
2017	31-Dec-17	-	-	-	-	30,797.59	369,571.04	1,478,284.14
2018	1-Jan-18	105,000.00	96,818.81	-	-	-	-	-
2018	31-Jan-18	-	-	-	-	30,797.59	400,368.62	1,447,486.56
2018	28-Feb-18	-	-	-	-	30,797.59	431,166.21	1,416,688.97
2018	31-Mar-18	-	-	-	-	30,797.59	461,963.79	1,385,891.39
2018	1-Apr-18	105,000.00	94,901.48	-	-	-	-	-
2018	30-Apr-18	-	-	-	-	30,797.59	492,761.38	1,355,093.80
2018	31-May-18	-	-	-	-	30,797.59	523,558.97	1,324,296.21
2018	30-Jun-18	-	-	-	-	30,797.59	554,356.55	1,293,498.63
2018	1-Jul-18	105,000.00	93,001.46	-	-	-	-	-
2018	31-Jul-18	-	-	-	-	30,797.59	585,154.14	1,262,701.04
2018	31-Aug-18	-	-	-	-	30,797.59	615,951.73	1,231,903.45
2018	30-Sep-18	-	-	-	-	30,797.59	646,749.31	1,201,105.87
2018	1-Oct-18	105,000.00	91,119.21	-	-	-	-	-
2018	31-Oct-18	-	-	-	-	30,797.59	677,546.90	1,170,308.28
2018	30-Nov-18	-	-	-	-	30,797.59	708,344.48	1,139,510.70
2018	31-Dec-18	-	-	-	-	30,797.59	739,142.07	1,108,713.11
2019	1-Jan-19	110,250.00	93,738.82	-	-	-	-	-
2019	31-Jan-19	-	-	-	-	30,797.59	769,939.66	1,077,915.52
2019	28-Feb-19	-	-	-	-	30,797.59	800,737.24	1,047,117.94
2019	31-Mar-19	-	-	-	-	30,797.59	831,534.83	1,016,320.35
2019	1-Apr-19	110,250.00	91,882.49	-	-	-	-	-
2019	30-Apr-19	-	-	-	-	30,797.59	862,332.42	985,522.76
2019	31-May-19	-	-	-	-	30,797.59	893,130.00	954,725.18
2019	30-Jun-19	-	-	-	-	30,797.59	923,927.59	923,927.59
2019	1-Jul-19	110,250.00	90,042.90	-	-	-	-	-
2019	31-Jul-19	-	-	-	-	30,797.59	954,725.18	893,130.00
2019	31-Aug-19	-	-	-	-	30,797.59	985,522.76	862,332.42
2019	30-Sep-19	-	-	-	-	30,797.59	1,016,320.35	831,534.83
2019	1-Oct-19	110,250.00	88,220.54	-	-	-	-	-
2019	31-Oct-19	-	-	-	-	30,797.59	1,047,117.93	800,737.25
2019	30-Nov-19	-	-	-	-	30,797.59	1,077,915.52	769,939.66
2019	31-Dec-19	-	-	-	-	30,797.59	1,108,713.11	739,142.07
2020	1-Jan-20	115,762.50	90,756.81	-	-	-	-	-
2020	31-Jan-20	-	-	-	-	30,797.59	1,139,510.69	708,344.49
2020	29-Feb-20	-	-	-	-	30,797.59	1,170,308.28	677,546.90
2020	31-Mar-20	-	-	-	-	30,797.59	1,201,105.87	646,749.31
2020	1-Apr-20	115,762.50	88,939.76	-	-	-	-	-
2020	30-Apr-20	-	-	-	-	30,797.59	1,231,903.45	615,951.73
2020	31-May-20	-	-	-	-	30,797.59	1,262,701.04	585,154.14
2020	30-Jun-20	-	-	-	-	30,797.59	1,293,498.62	554,356.56
2020	1-Jul-20	115,762.50	87,159.09	-	-	-	-	-
2020	31-Jul-20	-	-	-	-	30,797.59	1,324,296.21	523,558.97
2020	31-Aug-20	-	-	-	-	30,797.59	1,355,093.80	492,761.38
2020	30-Sep-20	-	-	-	-	30,797.59	1,385,891.38	461,963.80
2020	1-Oct-20	115,762.50	85,395.10	-	-	-	-	-
2020	31-Oct-20	-	-	-	-	30,797.59	1,416,688.97	431,166.21
2020	30-Nov-20	-	-	-	-	30,797.59	1,447,486.56	400,368.62
2020	31-Dec-20	-	-	-	-	30,797.59	1,478,284.14	369,571.04
2021	1-Jan-21	121,550.63	87,850.14	-	-	-	-	-
2021	31-Jan-21	-	-	-	-	30,797.59	1,509,081.73	338,773.45
2021	28-Feb-21	-	-	-	-	30,797.59	1,539,879.32	307,975.87
2021	31-Mar-21	-	-	-	-	30,797.59	1,570,676.90	277,178.28
2021	1-Apr-21	121,550.63	86,110.42	-	-	-	-	-
2021	30-Apr-21	-	-	-	-	30,797.59	1,601,474.49	246,380.69
2021	31-May-21	-	-	-	-	30,797.59	1,632,272.07	215,583.11
2021	30-Jun-21	-	-	-	-	30,797.59	1,663,069.66	184,785.52
2021	1-Jul-21	121,550.63	84,386.40	-	-	-	-	-
2021	31-Jul-21	-	-	-	-	30,797.59	1,693,867.25	153,987.93
2021	31-Aug-21	-	-	-	-	30,797.59	1,724,664.83	123,190.35
2021	30-Sep-21	-	-	-	-	30,797.59	1,755,462.42	92,392.76
2021	1-Oct-21	121,550.63	82,678.52	-	-	-	-	-
2021	31-Oct-21	-	-	-	-	30,797.59	1,786,260.01	61,595.17
2021	30-Nov-21	-	-	-	-	30,797.59	1,817,057.59	30,797.59
2021	31-Dec-21	40,000.00	26,663.20	-	-	30,797.59	1,847,855.18	-

Part B: Lease Interest Expense with Closing Lease Liability & Lease Asset Depreciation, Accumulated Depreciation and Carrying Value of Lease Asset:

Year	Lease Start Date Lease Payment Dates Month End Dates	Lease Currency - USD									
		Opening Lease Liability	Monthly Interest Expense	Lease Payments	Closing Lease Liability	Value Of Lease Asset	Subsequent Increase/Decr ease	Depreciation	Accumulated Depreciation	Carrying Value Of Lease Asset	Charge To PL
Part 1:	Initial Valuation Basis										
2019	01-Jan-2019	1,274,729.31	-	-	1,274,729.31	1,108,713.11	-	-	-	-	-
2019	01-Jan-2019	1,274,729.31	-	110,250.00	1,164,479.31	-	-	-	-	-	-
2019	31-Jan-2019	1,164,479.31	7,789.90	-	1,172,269.21	-	30,797.59	30,797.59	1,077,915.52	-	-
2019	28-Feb-2019	1,172,269.21	7,317.58	-	1,179,586.78	-	30,797.59	61,595.17	1,047,117.94	-	-
2019	31-Mar-2019	1,179,586.78	8,154.90	-	1,187,741.68	-	30,797.59	92,392.76	1,016,320.35	-	-
2019	01-Apr-2019	1,187,741.68	264.00	110,250.00	1,077,755.68	-	-	-	-	-	-
2019	30-Apr-2019	1,077,755.68	6,968.65	-	1,084,724.33	-	30,797.59	123,190.35	985,522.76	-	-
2019	31-May-2019	1,084,724.33	7,499.08	-	1,092,223.41	-	30,797.59	153,987.93	954,725.18	-	-
2019	30-Jun-2019	1,092,223.41	7,306.53	-	1,099,529.94	-	30,797.59	184,785.52	923,927.59	-	-
2019	01-Jul-2019	1,099,529.94	244.39	110,250.00	989,524.33	-	-	-	-	-	-
2019	31-Jul-2019	989,524.33	6,619.52	-	996,143.85	-	30,797.59	215,583.10	893,130.01	-	-
2019	31-Aug-2019	996,143.85	6,886.69	-	1,003,030.54	-	30,797.59	246,380.69	862,332.42	-	-
2019	30-Sep-2019	1,003,030.54	6,709.87	-	1,009,740.41	-	30,797.59	277,178.28	831,534.83	-	-
2019	01-Oct-2019	1,009,740.41	224.43	110,250.00	899,714.84	-	-	-	-	-	-
2019	31-Oct-2019	899,714.84	6,018.73	-	905,733.57	-	30,797.59	307,975.86	800,737.25	-	-
2019	30-Nov-2019	905,733.57	6,058.99	-	911,792.56	-	30,797.59	338,773.45	769,939.66	-	-
2019	31-Dec-2019	911,792.56	6,303.54	-	918,096.10	-	30,797.59	369,571.04	739,142.07	-	-
2020	01-Jan-2020	918,096.10	204.06	115,762.50	802,537.67	-	-	-	-	-	-
2020	31-Jan-2020	802,537.67	5,368.65	-	807,906.32	-	30,797.59	400,368.62	708,344.49	-	-
2020	29-Feb-2020	807,906.32	5,223.83	-	813,130.15	-	30,797.59	431,166.21	677,546.90	-	-
2020	31-Mar-2020	813,130.15	5,621.45	-	818,751.61	-	30,797.59	461,963.80	646,749.31	-	-
2020	01-Apr-2020	818,751.61	181.98	115,762.50	703,171.09	-	-	-	-	-	-
2020	30-Apr-2020	703,171.09	4,546.63	-	707,717.72	-	30,797.59	492,761.38	615,951.73	-	-
2020	31-May-2020	707,717.72	4,892.70	-	712,610.42	-	30,797.59	523,558.97	585,154.14	-	-
2020	30-Jun-2020	712,610.42	4,767.08	-	717,377.49	-	30,797.59	554,356.56	554,356.55	-	-
2020	01-Jul-2020	717,377.49	159.45	115,762.50	601,774.44	-	-	-	-	-	-
2020	31-Jul-2020	601,774.44	4,025.63	-	605,800.07	-	30,797.59	585,154.14	523,558.97	-	-
2020	31-Aug-2020	605,800.07	4,188.11	-	609,988.18	-	30,797.59	615,951.73	492,761.38	-	-
2020	30-Sep-2020	609,988.18	4,080.57	-	614,068.75	-	30,797.59	646,749.31	461,963.80	-	-
2020	01-Oct-2020	614,068.75	136.49	115,762.50	498,442.74	-	-	-	-	-	-
2020	31-Oct-2020	498,442.74	3,334.38	-	501,777.12	-	30,797.59	677,546.90	431,166.21	-	-
2020	30-Nov-2020	501,777.12	3,356.69	-	505,133.81	-	30,797.59	708,344.49	400,368.62	-	-
2020	31-Dec-2020	505,133.81	3,492.17	-	508,625.98	-	30,797.59	739,142.07	369,571.04	-	-
2021	01-Jan-2021	508,625.98	113.05	121,550.63	387,188.40	-	-	-	-	-	-
2021	31-Jan-2021	387,188.40	2,590.13	-	389,778.53	-	30,797.59	769,939.66	338,773.45	-	-
2021	28-Feb-2021	389,778.53	2,433.09	-	392,211.62	-	30,797.59	800,737.25	307,975.86	-	-
2021	31-Mar-2021	392,211.62	2,711.50	-	394,923.12	-	30,797.59	831,534.83	277,178.28	-	-
2021	01-Apr-2021	394,923.12	87.78	121,550.63	273,460.26	-	-	-	-	-	-
2021	30-Apr-2021	273,460.26	1,768.16	-	275,228.43	-	30,797.59	862,332.42	246,380.69	-	-
2021	31-May-2021	275,228.43	1,902.75	-	277,131.18	-	30,797.59	893,130.01	215,583.10	-	-
2021	30-Jun-2021	277,131.18	1,853.90	-	278,985.07	-	30,797.59	923,927.59	184,785.52	-	-
2021	01-Jul-2021	278,985.07	62.01	121,550.63	157,496.45	-	-	-	-	-	-
2021	31-Jul-2021	157,496.45	1,053.59	-	158,550.04	-	30,797.59	954,725.18	153,987.93	-	-
2021	31-Aug-2021	158,550.04	1,096.11	-	159,646.15	-	30,797.59	985,522.76	123,190.35	-	-
2021	30-Sep-2021	159,646.15	1,067.97	-	160,714.12	-	30,797.59	1,016,320.35	92,392.76	-	-
2021	01-Oct-2021	160,714.12	35.72	121,550.63	39,199.21	-	-	-	-	-	-
2021	31-Oct-2021	39,199.21	262.23	-	39,461.44	-	30,797.59	1,047,117.94	61,595.17	-	-
2021	30-Nov-2021	39,461.44	263.98	-	39,725.42	-	30,797.59	1,077,915.52	30,797.59	-	-
2021	31-Dec-2021	39,725.42	274.64	40,000.00	0.06	-	30,797.59	1,108,713.11	-	-	-

5.8 Full Retrospective Approach

• Under the Full Retrospective Approach, a lessee applies the standard retrospectively in accordance with the IAS 8 or equivalent country-based GAAP on Accounting Policies, Changes in Accounting Estimates and Errors.

• Under this approach, the lessee:

- Apply this approach to all leases in which it is a lessee (i.e. all leases existing as on date of initial application of this standard shall follow the Full Retrospective Approach only with no option to choose on lease-by-lease basis);
- Restates its immediate prior comparative financial statements;
- Recognize an adjustment in equity at the beginning of the earliest period presented; and
- Makes the disclosures required as per IAS 8 on a change in accounting policy.

• A lessee will require extensive historical information about its leasing transactions in order to apply the standard using Full Retrospective Approach.

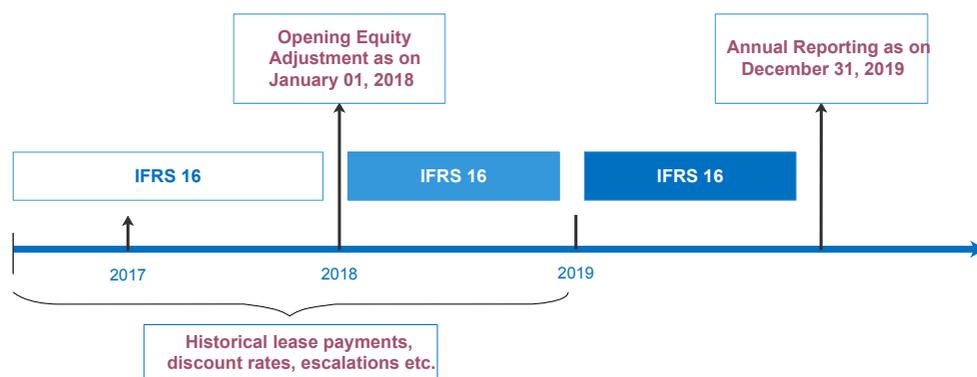
• The historical information required as at lease commencement, and also as at each date on which a company would have been required to recalculate lease assets and liabilities on a reassessment or modification of the lease which includes:

- historical lease payments and historical discount rates
- lease term, including whether a lessee was reasonably certain to exercise a renewal option or termination option or purchase option;
- amounts expected to be paid under residual value guarantee;
- amortization and impairment of the lease asset; and
- all historical changes during the lapsed lease term after the commencement date of the lease for the purpose of reassessment or modification of value of lease liability and lease asset.

Initial Measurement	Full Retrospective Approach
	By adjusting opening equity
Lease Liability	The Lessee shall measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.
Lease Asset	Value of lease asset shall be carrying amount as on the date of initial application as if the Standard had been applied since the lease commencement date, but discounted using the lessee's historical incremental borrowing rate at the date of lease commencement.

Lease Asset	Value of Lease Asset / Carrying Value of Lease Asset as on date of initial application = Value of Lease Liability using historical discount rate (as on lease commencement date) (-) Depreciation before the date of initial application
Adjustment to Equity	Adjustment to Equity as on date of initial application = Value of Lease Liability (as above) (-) Value of Lease Asset (as above) (+) Prepaid Balance (if any) (-) Accrued Balance (if any)

- Hence, the Full Retrospective Approach applicability shall look like as per below image:



- Let us now understand the above approach with a practical example.

5.8.1 Practical Exercise – Full Retrospective Approach

Illustrative Example 1	<p>ABC Company is in the business of generation of Solar Energy for which the company has taken a land on lease for 5 years on January 01, 2017 with a quarterly advance lease payment of USD 100,000.</p> <p>The lease will be escalated every year by 5% and residual value guarantee of the lease will be USD 40,000/-. Compute value of a lease using a discount rate of 8.45% per annum, lease interest and depreciation for the entire lease duration in accordance with new accounting standard on leases (IFRS 16). Apply Full Retrospective Approach.</p> <p>Further, as on December 31, 2017, there was a prepaid lease balance of USD 20,000/- (assumed).</p>
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Lease Asset Type	Land
Lease Duration	5 Years
Lease Payment Interval	Quarterly advance on first day of every quarter
Lease Payment Type	Fixed Lease Component
Residual Value Guarantee	USD 40,000
Opening Lease Balance	USD 20,000 (Prepaid) as on January 01, 2018
Transitional Valuation Approach	Full Retrospective Approach
Escalation	5% Annually
Discount Rate	8.45% Per Annum
Effective Daily Discount Rate	0.0222268%
Lease Valuation Shall be Computed	As on January 01, 2018

You can test the above example or any other case scenario using free trial version account at <https://witsync.co> by creating your account.

The below valuation computation screens are directly from the software <https://witsync.co>

Part A: Present Value of Lease Liability and Value of Lease Asset as on January 01, 2019:

Present Value of Lease Liability		
	Undiscounted Value	Present Value
Lease Rentals	1,810,252.52	1,554,090.63
Residual Value Guarantee	40,000.00	28,916.2
Total Value of Lease Liability	1,850,252.52	1,583,006.83

Valuation Of Lease Asset					
Full Retrospective Approach					
Value of Lease Asset	Present Value of Lease Liability	Prepaid Lease Payments	Accrued Lease Payments	Adjustment To Equity	Action
1,478,284.144	1,583,006.83	20000	0	-124,722.686	Carrying Amount Details

Present Value of Lease Liability

Year	Lease Payment Dates	Lease Payment	Termination Penalty	Purchase Value	Residual Value	Total Undiscounted Value	Present Value of Lease Liability
2018	1-Jan-18	105,000.00	-	-	-	105,000.00	105,000.00
2018	1-Apr-18	105,000.00	-	-	-	105,000.00	102,920.66
2018	1-Jul-18	105,000.00	-	-	-	105,000.00	100,860.08
2018	1-Oct-18	105,000.00	-	-	-	105,000.00	98,818.79
2019	1-Jan-19	110,250.00	-	-	-	110,250.00	101,659.75
2019	1-Apr-19	110,250.00	-	-	-	110,250.00	99,646.56
2019	1-Jul-19	110,250.00	-	-	-	110,250.00	97,651.53
2019	1-Oct-19	110,250.00	-	-	-	110,250.00	95,675.17
2020	1-Jan-20	115,762.50	-	-	-	115,762.50	98,425.76
2020	1-Apr-20	115,762.50	-	-	-	115,762.50	96,455.17
2020	1-Jul-20	115,762.50	-	-	-	115,762.50	94,524.04
2020	1-Oct-20	115,762.50	-	-	-	115,762.50	92,610.98
2021	1-Jan-21	121,550.63	-	-	-	121,550.63	95,273.48
2021	1-Apr-21	121,550.63	-	-	-	121,550.63	93,386.76
2021	1-Jul-21	121,550.63	-	-	-	121,550.63	91,517.05
2021	1-Oct-21	121,550.63	-	-	-	121,550.63	89,664.85
2021	31-Dec-21	-	-	-	40,000.00	40,000.00	28,916.20
Grand Total		1,810,252.52	-	-	40,000.00	1,850,252.52	1,583,006.83

Year	Date of Lease Payments	Lease Payments	Historical Present Value of Lease Payments	Historical Present Value of Lease Liability	Historical Value of Lease Asset	Historical Depreciation	Historical Accumulated Depreciation	Carrying Value Of Lease Asset
2017	1-Jan-17	100,000.00	100,000.00	1,847,855.18	1,847,855.18	-	-	-
2017	31-Jan-17	-	-	-	-	30,797.59	30,797.59	1,817,057.59
2017	28-Feb-17	-	-	-	-	30,797.59	61,595.17	1,786,260.01
2017	31-Mar-17	-	-	-	-	30,797.59	92,392.76	1,755,462.42
2017	1-Apr-17	100,000.00	98,019.68	-	-	-	-	-
2017	30-Apr-17	-	-	-	-	30,797.59	123,190.35	1,724,664.83
2017	31-May-17	-	-	-	-	30,797.59	153,987.93	1,693,867.25
2017	30-Jun-17	-	-	-	-	30,797.59	184,785.52	1,663,069.66
2017	1-Jul-17	100,000.00	96,057.22	-	-	-	-	-
2017	31-Jul-17	-	-	-	-	30,797.59	215,583.10	1,632,272.08
2017	31-Aug-17	-	-	-	-	30,797.59	246,380.69	1,601,474.49
2017	30-Sep-17	-	-	-	-	30,797.59	277,178.28	1,570,676.90
2017	1-Oct-17	100,000.00	94,113.13	-	-	-	-	-
2017	31-Oct-17	-	-	-	-	30,797.59	307,975.86	1,539,879.32
2017	30-Nov-17	-	-	-	-	30,797.59	338,773.45	1,509,081.73
2017	31-Dec-17	-	-	-	-	30,797.59	369,571.04	1,478,284.14
2018	1-Jan-18	105,000.00	96,818.81	-	-	-	-	-
2018	31-Jan-18	-	-	-	-	30,797.59	400,368.62	1,447,486.56
2018	28-Feb-18	-	-	-	-	30,797.59	431,166.21	1,416,688.97
2018	31-Mar-18	-	-	-	-	30,797.59	461,963.79	1,385,891.39
2018	1-Apr-18	105,000.00	94,901.48	-	-	-	-	-
2018	30-Apr-18	-	-	-	-	30,797.59	492,761.38	1,355,093.80
2018	31-May-18	-	-	-	-	30,797.59	523,558.97	1,324,296.21
2018	30-Jun-18	-	-	-	-	30,797.59	554,356.55	1,293,498.63
2018	1-Jul-18	105,000.00	93,001.46	-	-	-	-	-
2018	31-Jul-18	-	-	-	-	30,797.59	585,154.14	1,262,701.04
2018	31-Aug-18	-	-	-	-	30,797.59	615,951.73	1,231,903.45
2018	30-Sep-18	-	-	-	-	30,797.59	646,749.31	1,201,105.87
2018	1-Oct-18	105,000.00	91,119.21	-	-	-	-	-
2018	31-Oct-18	-	-	-	-	30,797.59	677,546.90	1,170,308.28
2018	30-Nov-18	-	-	-	-	30,797.59	708,344.48	1,139,510.70
2018	31-Dec-18	-	-	-	-	30,797.59	739,142.07	1,108,713.11
2019	1-Jan-19	110,250.00	93,738.82	-	-	-	-	-
2019	31-Jan-19	-	-	-	-	30,797.59	769,939.66	1,077,915.52
2019	28-Feb-19	-	-	-	-	30,797.59	800,737.24	1,047,117.94
2019	31-Mar-19	-	-	-	-	30,797.59	831,534.83	1,016,320.35
2019	1-Apr-19	110,250.00	91,882.49	-	-	-	-	-
2019	30-Apr-19	-	-	-	-	30,797.59	862,332.42	985,522.76
2019	31-May-19	-	-	-	-	30,797.59	893,130.00	954,725.18
2019	30-Jun-19	-	-	-	-	30,797.59	923,927.59	923,927.59
2019	1-Jul-19	110,250.00	90,042.90	-	-	-	-	-
2019	31-Jul-19	-	-	-	-	30,797.59	954,725.18	893,130.00
2019	31-Aug-19	-	-	-	-	30,797.59	985,522.76	862,332.42
2019	30-Sep-19	-	-	-	-	30,797.59	1,016,320.35	831,534.83
2019	1-Oct-19	110,250.00	88,220.54	-	-	-	-	-
2019	31-Oct-19	-	-	-	-	30,797.59	1,047,117.93	800,737.25
2019	30-Nov-19	-	-	-	-	30,797.59	1,077,915.52	769,939.66
2019	31-Dec-19	-	-	-	-	30,797.59	1,108,713.11	739,142.07
2020	1-Jan-20	115,762.50	90,756.81	-	-	-	-	-
2020	31-Jan-20	-	-	-	-	30,797.59	1,139,510.69	708,344.49
2020	29-Feb-20	-	-	-	-	30,797.59	1,170,308.28	677,546.90
2020	31-Mar-20	-	-	-	-	30,797.59	1,201,105.87	646,749.31
2020	1-Apr-20	115,762.50	88,939.76	-	-	-	-	-
2020	30-Apr-20	-	-	-	-	30,797.59	1,231,903.45	615,951.73
2020	31-May-20	-	-	-	-	30,797.59	1,262,701.04	585,154.14
2020	30-Jun-20	-	-	-	-	30,797.59	1,293,498.62	554,356.56
2020	1-Jul-20	115,762.50	87,159.09	-	-	-	-	-
2020	31-Jul-20	-	-	-	-	30,797.59	1,324,296.21	523,558.97
2020	31-Aug-20	-	-	-	-	30,797.59	1,355,093.80	492,761.38
2020	30-Sep-20	-	-	-	-	30,797.59	1,385,891.38	461,963.80
2020	1-Oct-20	115,762.50	85,395.10	-	-	-	-	-
2020	31-Oct-20	-	-	-	-	30,797.59	1,416,688.97	431,166.21
2020	30-Nov-20	-	-	-	-	30,797.59	1,447,486.56	400,368.62
2020	31-Dec-20	-	-	-	-	30,797.59	1,478,284.14	369,571.04
2021	1-Jan-21	121,550.63	87,850.14	-	-	-	-	-
2021	31-Jan-21	-	-	-	-	30,797.59	1,509,081.73	338,773.45
2021	28-Feb-21	-	-	-	-	30,797.59	1,539,879.32	307,975.87
2021	31-Mar-21	-	-	-	-	30,797.59	1,570,676.90	277,178.28
2021	1-Apr-21	121,550.63	86,110.42	-	-	-	-	-
2021	30-Apr-21	-	-	-	-	30,797.59	1,601,474.49	246,380.69
2021	31-May-21	-	-	-	-	30,797.59	1,632,272.07	215,583.11
2021	30-Jun-21	-	-	-	-	30,797.59	1,663,069.66	184,785.52
2021	1-Jul-21	121,550.63	84,386.40	-	-	-	-	-
2021	31-Jul-21	-	-	-	-	30,797.59	1,693,867.25	153,987.93
2021	31-Aug-21	-	-	-	-	30,797.59	1,724,664.83	123,190.35
2021	30-Sep-21	-	-	-	-	30,797.59	1,755,462.42	92,392.76
2021	1-Oct-21	121,550.63	82,678.52	-	-	-	-	-
2021	31-Oct-21	-	-	-	-	30,797.59	1,786,260.01	61,595.17
2021	30-Nov-21	-	-	-	-	30,797.59	1,817,057.59	30,797.59
2021	31-Dec-21	40,000.00	26,663.20	-	-	30,797.59	1,847,855.18	-

Part B: Lease Interest Expense with Closing Lease Liability and Lease Asset Depreciation, Accumulated Depreciation and Carrying Value of Lease Asset:

Year	Lease Start Date / Lease Payment Dates / Month End Dates	Lease Currency - USD											Charge To PL			
		Opening Lease Liability	Monthly Interest Expense	Lease Payments	Closing Lease Liability	Non-Current Liability	Current Liability	Long to Short	Value Of Lease Asset	Subsequent Increase/Decrease	Depreciation	Accumulated Depreciation		Carrying Value Of Lease Asset		
Part 1 Initial Valuation Basis																
2018	01-Jan-2018	1,583,006.83	-	-	1,583,006.83	1,164,479.22	418,527.61	-	1,478,284.14	-	-	-	-	-	-	-
2018	01-Jan-2018	1,583,006.83	-	105,000.00	1,478,006.83	1,164,479.22	313,527.61	-	-	-	-	-	-	-	-	-
2018	31-Jan-2018	1,478,006.83	9,887.27	-	1,487,894.10	1,172,269.12	315,624.98	(7,789.90)	-	30,797.59	30,797.59	1,447,486.55	-	-	-	-
2018	28-Feb-2018	1,487,894.10	9,287.78	-	1,497,181.88	1,179,586.69	317,595.19	(7,317.57)	-	30,797.59	61,595.17	1,416,688.97	-	-	-	-
2018	31-Mar-2018	1,497,181.88	10,350.54	-	1,507,532.42	1,187,741.59	319,790.83	(8,154.90)	-	30,797.59	92,392.76	1,385,891.38	-	-	-	-
2018	01-Apr-2018	1,507,532.42	335.08	105,000.00	1,402,867.50	1,077,755.59	325,111.91	109,986.00	-	-	-	-	-	-	-	-
2018	30-Apr-2018	1,402,867.50	9,070.79	-	1,411,938.29	1,084,724.24	327,214.05	(6,968.65)	-	30,797.59	123,190.35	1,355,093.79	-	-	-	-
2018	31-May-2018	1,411,938.29	9,761.22	-	1,421,699.51	1,092,223.32	329,476.19	(7,499.08)	-	30,797.59	153,987.93	1,324,296.21	-	-	-	-
2018	30-Jun-2018	1,421,699.51	9,510.59	-	1,431,210.11	1,099,529.85	331,680.26	(7,306.53)	-	30,797.59	184,785.52	1,293,498.62	-	-	-	-
2018	01-Jul-2018	1,431,210.11	318.11	105,000.00	1,326,528.22	989,524.24	337,003.98	110,005.61	-	-	-	-	-	-	-	-
2018	31-Jul-2018	1,326,528.22	8,873.94	-	1,335,402.16	996,143.76	339,258.40	(6,619.52)	-	30,797.59	215,583.10	1,262,701.04	-	-	-	-
2018	31-Aug-2018	1,335,402.16	9,232.10	-	1,344,634.26	1,003,030.45	341,603.81	(6,886.69)	-	30,797.59	246,380.69	1,231,903.45	-	-	-	-
2018	30-Sep-2018	1,344,634.26	8,995.06	-	1,353,629.32	1,009,740.32	343,889.00	(6,709.87)	-	30,797.59	277,178.28	1,201,105.86	-	-	-	-
2018	01-Oct-2018	1,353,629.32	300.87	105,000.00	1,248,930.19	899,714.75	349,215.44	110,025.57	-	-	-	-	-	-	-	-
2018	31-Oct-2018	1,248,930.19	8,354.84	-	1,257,285.03	905,733.48	351,551.55	(6,018.73)	-	30,797.59	307,975.86	1,170,308.28	-	-	-	-
2018	30-Nov-2018	1,257,285.03	8,410.73	-	1,265,695.75	911,792.47	353,903.28	(6,058.99)	-	30,797.59	338,773.45	1,139,510.69	-	-	-	-
2018	31-Dec-2018	1,265,695.75	8,750.20	-	1,274,445.95	918,096.01	356,349.94	(6,303.54)	-	30,797.59	369,571.04	1,108,713.10	-	-	-	-
2019	01-Jan-2019	1,274,445.95	283.27	110,250.00	1,164,479.22	802,537.57	361,941.65	115,558.44	-	-	-	-	-	-	-	-
2019	31-Jan-2019	1,164,479.22	7,789.89	-	1,172,269.12	807,906.22	364,362.90	(5,368.65)	-	30,797.59	400,368.62	1,077,915.52	-	-	-	-
2019	28-Feb-2019	1,172,269.12	7,317.58	-	1,179,586.69	813,130.06	366,456.63	(5,223.84)	-	30,797.59	431,166.21	1,047,117.93	-	-	-	-
2019	31-Mar-2019	1,179,586.69	8,154.90	-	1,187,741.59	818,751.51	368,990.08	(5,621.45)	-	30,797.59	461,963.79	1,016,320.35	-	-	-	-
2019	01-Apr-2019	1,187,741.59	264.00	110,250.00	1,077,755.59	703,170.99	374,584.60	115,580.52	-	-	-	-	-	-	-	-
2019	30-Apr-2019	1,077,755.59	6,988.65	-	1,084,724.24	707,717.62	377,006.62	(4,546.63)	-	30,797.59	492,761.38	985,522.76	-	-	-	-
2019	31-May-2019	1,084,724.24	7,499.08	-	1,092,223.32	712,610.32	379,613.00	(4,892.70)	-	30,797.59	523,558.97	954,725.17	-	-	-	-
2019	30-Jun-2019	1,092,223.32	7,306.53	-	1,099,529.85	717,377.39	382,152.46	(4,767.07)	-	30,797.59	554,356.55	923,927.59	-	-	-	-
2019	01-Jul-2019	1,099,529.85	244.39	110,250.00	989,524.24	601,774.34	387,749.90	115,603.05	-	-	-	-	-	-	-	-
2019	31-Jul-2019	989,524.24	6,619.52	-	996,143.76	605,799.97	390,343.79	(4,025.63)	-	30,797.59	585,154.14	893,130.00	-	-	-	-
2019	31-Aug-2019	996,143.76	6,886.69	-	1,003,030.45	609,988.08	393,042.37	(4,188.11)	-	30,797.59	615,951.73	862,332.41	-	-	-	-
2019	30-Sep-2019	1,003,030.45	6,709.87	-	1,009,740.32	614,068.65	395,671.67	(4,080.57)	-	30,797.59	646,749.31	831,534.83	-	-	-	-
2019	01-Oct-2019	1,009,740.32	224.43	110,250.00	899,714.75	498,442.64	401,272.11	115,626.01	-	-	-	-	-	-	-	-
2019	31-Oct-2019	899,714.75	6,018.73	-	905,733.48	501,777.02	403,956.46	(3,334.38)	-	30,797.59	677,546.90	800,737.24	-	-	-	-
2019	30-Nov-2019	905,733.48	6,058.99	-	911,792.47	505,133.70	406,658.77	(3,356.68)	-	30,797.59	708,344.48	769,939.66	-	-	-	-
2019	31-Dec-2019	911,792.47	6,303.54	-	918,096.01	508,625.87	409,470.14	(3,492.17)	-	30,797.59	739,142.07	739,142.07	-	-	-	-
2020	01-Jan-2020	918,096.01	204.06	115,762.50	802,537.57	387,188.29	415,349.28	121,437.58	-	-	-	-	-	-	-	-
2020	31-Jan-2020	802,537.57	5,368.65	-	807,906.22	389,778.43	418,127.79	(2,590.14)	-	30,797.59	769,939.66	708,344.48	-	-	-	-
2020	29-Feb-2020	807,906.22	5,223.83	-	813,130.06	392,211.51	420,918.55	(2,433.08)	-	30,797.59	800,737.24	677,546.90	-	-	-	-
2020	31-Mar-2020	813,130.06	5,621.45	-	818,751.51	394,923.01	423,828.50	(2,711.50)	-	30,797.59	831,534.83	646,749.31	-	-	-	-
2020	01-Apr-2020	818,751.51	181.98	115,762.50	703,170.99	273,460.16	429,710.83	121,462.85	-	-	-	-	-	-	-	-
2020	30-Apr-2020	703,170.99	4,546.63	-	707,717.62	275,228.32	432,489.30	(1,768.16)	-	30,797.59	862,332.42	615,951.72	-	-	-	-
2020	31-May-2020	707,717.62	4,892.70	-	712,610.32	277,131.07	435,479.25	(1,902.75)	-	30,797.59	893,130.00	585,154.14	-	-	-	-
2020	30-Jun-2020	712,610.32	4,767.07	-	717,377.39	278,984.97	438,392.42	(1,853.90)	-	30,797.59	923,927.59	554,356.55	-	-	-	-
2020	01-Jul-2020	717,377.39	159.45	115,762.50	601,774.34	157,496.35	444,277.99	121,488.62	-	-	-	-	-	-	-	-
2020	31-Jul-2020	601,774.34	4,025.63	-	605,799.97	158,549.93	447,250.04	(1,053.58)	-	30,797.59	954,725.18	523,558.96	-	-	-	-
2020	31-Aug-2020	605,799.97	4,188.11	-	609,988.08	159,646.04	450,342.04	(1,096.11)	-	30,797.59	985,522.76	492,761.38	-	-	-	-
2020	30-Sep-2020	609,988.08	4,080.57	-	614,068.65	160,714.01	453,354.64	(1,067.97)	-	30,797.59	1,016,320.35	461,963.79	-	-	-	-
2020	01-Oct-2020	614,068.65	136.49	115,762.50	498,442.64	39,199.10	459,243.54	121,514.91	-	-	-	-	-	-	-	-
2020	31-Oct-2020	498,442.64	3,334.38	-	501,777.02	39,461.33	462,315.69	(262.23)	-	30,797.59	1,047,117.93	431,166.21	-	-	-	-
2020	30-Nov-2020	501,777.02	3,356.69	-	505,133.70	39,725.31	465,408.39	(263.98)	-	30,797.59	1,077,915.52	400,368.62	-	-	-	-
2020	31-Dec-2020	505,133.70	3,492.17	-	508,625.87	(0.06)	468,625.93	39,725.37	-	30,797.59	1,108,713.11	369,571.03	-	-	-	-
2021	01-Jan-2021	508,625.87	113.05	121,550.63	387,188.29	-	387,188.29	(0.06)	-	-	-	-	-	-	-	-
2021	31-Jan-2021	387,188.29	2,590.13	-	389,778.43	-	389,778.43	-	-	30,797.59	1,139,510.69	338,773.45	-	-	-	-
2021	28-Feb-2021	389,778.43	2,433.09	-	392,211.51	-	392,211.51	-	-	30,797.59	1,170,308.28	307,975.86	-	-	-	-
2021	31-Mar-2021	392,211.51	2,711.50	-	394,923.01	-	394,923.01	-	-	30,797.59	1,201,105.87	277,178.27	-	-	-	-
2021	01-Apr-2021	394,923.01	87.78	121,550.63	273,460.16	-	273,460.16	-	-	-	-	-	-	-	-	-
2021	30-Apr-2021	273,460.16	1,768.16	-	275,228.32	-	275,228.32	-	-	30,797.59	1,231,903.45	246,380.69	-	-	-	-
2021	31-May-2021	275,228.32	1,902.75	-	277,131.07	-	277,131.07	-	-	30,797.59	1,262,701.04	215,583.10	-	-	-	-
2021	30-Jun-2021	277,131.07	1,853.89	-	278,984.97	-	278,984.97	-	-	30,797.59	1,293,498.62	184,785.52	-	-	-	-
2021	01-Jul-2021	278,984.97	62.01	121,550.63	157,496.35	-	157,496.35	-	-	-	-	-	-	-	-	-
2021	31-Jul-2021	157,496.35	1,053.59	-	158,549.93	-	158,549.93	-	-	30,797.59	1,324,296.21	153,987.93	-	-	-	-
2021	31-Aug-2021	158,549.93	1,096.11	-	159,646.04	-	159,646.04	-	-	30,797.59	1,355,093.80	123,190.34	-	-	-	-
2021	30-Sep-2021	159,646.04	1,067.97	-	160,714.01	-	160,714.01	-	-	30,797.59	1,385,891.38	92,392.76	-	-	-	-
2021	01-Oct-2021	160,714.01	35.72	121,550.63	39,199.10	-	39,199.10	-	-	-	-	-	-	-	-	-
2021	31-Oct-2021	39,199.10	262.23	-	39,461.33	-	39,461.33	-	-	30,797.59	1,416,688.97	61,595.17	-	-	-	-
2021	30-Nov-2021	39,461.33	263.98	-	39,725.31	-	39,725.31	-	-	30,797.59	1,447,486.56	30,797.58	-	-	-	-
2021	31-Dec-2021	39,725.31	274.64	40,000.00	(0.06)	(0.06)	-	0.06	-	30,797.59	1,478,284.14	-	-	-	-	-





06

SUBSEQUENT MEASUREMENT & REMEASUREMENT

6.1 Subsequent Measurement & Remeasurement

- The value of lease liability and lease asset initially recognized in the financial statements shall be adjusted, by the amount of interest, depreciation, lease payments and or any changes in the lease terms, subsequently at each reporting period end.

6.2 Subsequent Measurement of a Lease Liability

- After the commencement date, a lessee shall measure the lease liability by:
 - a) Increasing the carrying amount to reflect interest on the lease liability; and
 - b) Reducing the carrying amount to reflect lease payments made.

6.3 Subsequent Remeasurement of a Lease Liability

- After the commencement date, a lessee shall remeasure the carrying amount of lease liability by:
 - a) to reflect any reassessment or lease modifications in the lease contract with the lessor; or
 - b) to reflect revised in-substance fixed future lease payments; or
 - c) to reflect changes in the discount rate; or
 - d) to reflect changes in the lease duration (due to termination, renewal or purchase option); or
 - e) to reflect change in the amount expected to be payable under a residual value guarantee.
- A lessee recognizes the amount of the remeasurement of the lease liability as an adjustment to the value of lease asset.
- However, if the carrying amount of the lease asset is reduced to “Zero” and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in the profit and loss statement.

6.4 Subsequent Measurement of a Lease Asset

- After the date of initial measurement, a lessee shall measure the lease asset applying a cost model, unless the lessee applies the fair value model as per IAS 40 or the revaluation model as per IAS 16.
- To apply a cost model, a lessee shall measure the lease asset at cost:
 - Less: any accumulated depreciation; and
 - Less: any accumulated impairment losses.
- A lessee shall apply the depreciation requirements as in IAS 16 in depreciating the lease asset.
- 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.

6.5 Subsequent Remeasurement of a Lease Asset

- After the date of initial measurement, a lessee shall remeasure the value of lease asset by adjusting for any remeasurement or reassessment of the lease liability as discussed above in section 6.3.

6.6 Treatment of Reassessment of the Lease Liability

- After the commencement date, a lessee shall remeasure the lease liability to reflect changes to the lease payments.
- A lessee shall recognize the amount of the remeasurement of the lease liability as an adjustment to the lease asset.
- However, if the carrying amount of the lease asset is reduced to “Zero” and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in profit or loss.

6.7 Practical Exercise

Illustrative Example 1	<p>ABC Company is in the business of generation of Solar Energy for which the company has taken a land on lease for 5 years on January 01, 2017 with a quarterly advance lease payment of USD 100,000.</p> <p>The lease will be escalated every year by 5% and residual value guarantee of the lease will be USD 40,000/-. Compute value of a lease using a discount rate of 8.45% per annum, lease interest and depreciation for the entire lease duration in accordance with new accounting standard on leases (IFRS 16). Apply Full Retrospective Approach.</p> <p>Further, as on December 31, 2017, there was a prepaid lease balance of USD 20,000/- (assumed).</p> <p>ABC Company as on October 01, 2019, decides to remeasure the lease liability with all terms of the lease contract remain unchanged.</p>
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Lease Asset Type	Land
Lease Duration	5 Years
Lease Payment Interval	Quarterly advance on first day of every quarter
Lease Payment Type	Fixed Lease Component
Residual Value Guarantee	USD 40,000
Opening Lease Balance	USD 20,000 (Prepaid) as on January 01, 2018
Transitional Valuation Approach	Full Retrospective Approach
Escalation	5% Annually
Discount Rate	8.45% Per Annum
Effective Daily Discount Rate	0.0222268%

You can test the above example or any other case scenario using free trial version account at <https://witsync.co> by creating your account.

The below valuation computation screens are directly from the software <https://witsync.co>

Part A: Initial Measurement of Lease Liability & Asset:

Part A1: Present Value of Lease Liability and Value of Lease Asset as on January 01, 2019:

(For this please refer to page 66 for initial measurement)

Part A2: Lease Interest Expense with Closing Lease Liability:

(For this please refer to page 68 for initial measurement)

Part A3: Lease Asset Depreciation, Accumulated Depreciation and Carrying Value of Lease Asset:

(For this please refer to page 68 for initial measurement)

Part B: Subsequent Measurement as on October 01, 2019:

Part B1: New Present Value of Lease Liability and Value of Lease Asset as on October 01, 2019:

Present Value of Lease Liability		
	Undiscounted Value	Present Value
LP-01	1,059,502.52	976,643.55
Residual Value Guarantee	40,000.00	33,321.2
Total Value of Lease Liability	1,099,502.52	1,009,964.75

Valuation Of Lease Asset				
PART A: Change in Lease Liability				
Existing Lease Liability Balance	Present Value of Lease Liability	Increase/Decrease in Lease Liability		
1009740.32	1,009,964.75	224.43		
PART B: New Value of Lease Asset				
Existing Value of Lease Asset	Existing Carrying Value of Lease Asset	Increase/Decrease in Lease Liability	New Value of Lease Asset	Charge to PL
1478284.14	831534.83	224.43	1478508.57	0

Part B2: Lease Interest Expense with Closing Lease Liability and Lease Asset Depreciation, Accumulated Depreciation and Carrying Value of Lease Asset:

Year	Lease Start Date Lease Payment Dates Month End Dates	Lease Currency - Specify Currency									
		Opening Lease Liability	Monthly Interest Expense	Lease Payments	Closing Lease Liability	Value Of Lease Asset	Subsequent Increase/Decrease	Depreciation	Accumulated Depreciation	Carrying Value Of Lease Asset	Charge To PL
Part 1: Initial Valuation Basis											
2018	01-Jan-2018	1,583,006.83	-	-	1,583,006.83	1,478,284.14	-	-	-	-	-
2018	01-Jan-2018	1,583,006.83	-	105,000.00	1,478,006.83						
2018	31-Jan-2018	1,478,006.83	9,887.27	-	1,487,894.10			30,797.59	30,797.59	1,447,486.55	-
2018	28-Feb-2018	1,487,894.10	9,287.78	-	1,497,181.88			30,797.59	61,595.17	1,416,688.97	-
2018	31-Mar-2018	1,497,181.88	10,350.54	-	1,507,532.42			30,797.59	92,392.76	1,385,891.38	-
2018	01-Apr-2018	1,507,532.42	335.08	105,000.00	1,402,867.50			-	-	-	-
2018	30-Apr-2018	1,402,867.50	9,070.79	-	1,411,938.29			30,797.59	123,190.35	1,355,093.79	-
2018	31-May-2018	1,411,938.29	9,761.22	-	1,421,699.51			30,797.59	153,987.93	1,324,296.21	-
2018	30-Jun-2018	1,421,699.51	9,510.59	-	1,431,210.11			30,797.59	184,785.52	1,293,498.62	-
2018	01-Jul-2018	1,431,210.11	318.11	105,000.00	1,326,528.22			-	-	-	-
2018	31-Jul-2018	1,326,528.22	8,873.94	-	1,335,402.16			30,797.59	215,583.10	1,262,701.04	-
2018	31-Aug-2018	1,335,402.16	9,232.10	-	1,344,634.26			30,797.59	246,380.69	1,231,903.45	-
2018	30-Sep-2018	1,344,634.26	8,995.06	-	1,353,629.32			30,797.59	277,178.28	1,201,105.86	-
2018	01-Oct-2018	1,353,629.32	300.87	105,000.00	1,248,930.19			-	-	-	-
2018	31-Oct-2018	1,248,930.19	8,354.84	-	1,257,285.03			30,797.59	307,975.86	1,170,308.28	-
2018	30-Nov-2018	1,257,285.03	8,410.73	-	1,265,695.75			30,797.59	338,773.45	1,139,510.69	-
2018	31-Dec-2018	1,265,695.75	8,750.20	-	1,274,445.95			30,797.59	369,571.04	1,108,713.10	-
2019	01-Jan-2019	1,274,445.95	283.27	110,250.00	1,164,479.22			-	-	-	-
2019	31-Jan-2019	1,164,479.22	7,789.89	-	1,172,269.12			30,797.59	400,368.62	1,077,915.52	-
2019	28-Feb-2019	1,172,269.12	7,317.58	-	1,179,586.69			30,797.59	431,166.21	1,047,117.93	-
2019	31-Mar-2019	1,179,586.69	8,154.90	-	1,187,741.59			30,797.59	461,963.79	1,016,320.35	-
2019	01-Apr-2019	1,187,741.59	264.00	110,250.00	1,077,755.59			-	-	-	-
2019	30-Apr-2019	1,077,755.59	6,988.65	-	1,084,724.24			30,797.59	492,761.38	985,522.76	-
2019	31-May-2019	1,084,724.24	7,499.08	-	1,092,223.32			30,797.59	523,558.97	954,725.17	-
2019	30-Jun-2019	1,092,223.32	7,306.53	-	1,099,529.85			30,797.59	554,356.55	923,927.59	-
2019	01-Jul-2019	1,099,529.85	244.39	110,250.00	989,524.24			-	-	-	-
2019	31-Jul-2019	989,524.24	6,619.52	-	996,143.76			30,797.59	585,154.14	893,130.00	-
2019	31-Aug-2019	996,143.76	6,886.69	-	1,003,030.45			30,797.59	615,951.73	862,332.41	-
2019	30-Sep-2019	1,003,030.45	6,709.87	-	1,009,740.32			30,797.59	646,749.31	831,534.83	-
Part 2: Subsequent Lease Valuation		Subsequent Reference# 1		Effective From		1-Oct-19					
2019	01-Oct-2019	1,009,964.75	-	-	1,009,964.75	1,478,508.57	224.43	-	-	-	-
2019	01-Oct-2019	1,009,964.75	-	110,250.00	899,714.75			-	-	-	-
2019	31-Oct-2019	899,714.75	6,018.73	-	905,733.48			30,805.90	677,555.21	800,953.36	-
2019	30-Nov-2019	905,733.48	6,058.99	-	911,792.47			30,805.90	708,361.11	770,147.46	-
2019	31-Dec-2019	911,792.47	6,303.54	-	918,096.01			30,805.90	739,167.01	739,341.56	-
2020	01-Jan-2020	918,096.01	204.06	115,762.50	802,537.57			-	-	-	-
2020	31-Jan-2020	802,537.57	5,368.65	-	807,906.22			30,805.90	769,972.90	708,535.67	-
2020	29-Feb-2020	807,906.22	5,223.83	-	813,130.06			30,805.90	800,778.80	677,729.77	-
2020	31-Mar-2020	813,130.06	5,621.45	-	818,751.51			30,805.90	831,584.70	646,923.87	-
2020	01-Apr-2020	818,751.51	181.98	115,762.50	703,170.99			-	-	-	-
2020	30-Apr-2020	703,170.99	4,546.63	-	707,717.62			30,805.90	862,390.60	616,117.97	-
2020	31-May-2020	707,717.62	4,892.70	-	712,610.32			30,805.90	893,196.50	585,312.07	-
2020	30-Jun-2020	712,610.32	4,767.07	-	717,377.39			30,805.90	924,002.40	554,506.17	-
2020	01-Jul-2020	717,377.39	159.45	115,762.50	601,774.34			-	-	-	-
2020	31-Jul-2020	601,774.34	4,025.63	-	605,799.97			30,805.90	954,808.30	523,700.27	-
2020	31-Aug-2020	605,799.97	4,188.11	-	609,988.08			30,805.90	985,614.19	492,894.38	-
2020	30-Sep-2020	609,988.08	4,080.57	-	614,068.65			30,805.90	1,016,420.09	462,088.48	-
2020	01-Oct-2020	614,068.65	136.49	115,762.50	498,442.64			-	-	-	-
2020	31-Oct-2020	498,442.64	3,334.38	-	501,777.02			30,805.90	1,047,225.99	431,282.58	-
2020	30-Nov-2020	501,777.02	3,356.69	-	505,133.71			30,805.90	1,078,031.89	400,476.68	-
2020	31-Dec-2020	505,133.71	3,492.17	-	508,625.87			30,805.90	1,108,837.79	369,670.78	-
2021	01-Jan-2021	508,625.87	113.05	121,550.63	387,188.29			-	-	-	-
2021	31-Jan-2021	387,188.29	2,590.13	-	389,778.43			30,805.90	1,139,643.69	338,864.88	-
2021	28-Feb-2021	389,778.43	2,433.09	-	392,211.51			30,805.90	1,170,449.58	308,058.99	-
2021	31-Mar-2021	392,211.51	2,711.50	-	394,923.01			30,805.90	1,201,255.48	277,253.09	-
2021	01-Apr-2021	394,923.01	87.78	121,550.63	273,460.16			-	-	-	-
2021	30-Apr-2021	273,460.16	1,768.16	-	275,228.32			30,805.90	1,232,061.38	246,447.19	-
2021	31-May-2021	275,228.32	1,902.75	-	277,131.07			30,805.90	1,262,867.28	215,641.29	-
2021	30-Jun-2021	277,131.07	1,853.89	-	278,984.97			30,805.90	1,293,673.18	184,835.39	-
2021	01-Jul-2021	278,984.97	62.01	121,550.63	157,496.35			-	-	-	-
2021	31-Jul-2021	157,496.35	1,053.59	-	158,549.93			30,805.90	1,324,479.08	154,029.49	-
2021	31-Aug-2021	158,549.93	1,096.11	-	159,646.05			30,805.90	1,355,284.98	123,223.59	-
2021	30-Sep-2021	159,646.05	1,067.97	-	160,714.01			30,805.90	1,386,090.87	92,417.70	-
2021	01-Oct-2021	160,714.01	35.72	121,550.63	39,199.10			-	-	-	-
2021	31-Oct-2021	39,199.10	262.23	-	39,461.33			30,805.90	1,416,896.77	61,611.80	-
2021	30-Nov-2021	39,461.33	263.98	-	39,725.31			30,805.90	1,447,702.67	30,805.90	-
2021	31-Dec-2021	39,725.31	274.64	40,000.00	(0.05)			30,805.90	1,478,508.57	-	-



The background is a dark blue-tinted photograph of a desk. On the left, a calculator is visible. In the center, there are several accounting documents with columns of text and numbers. A hand is holding a pen over one of the documents. The overall scene suggests a professional accounting or financial setting.

07

ACCOUNTING ENTRIES

7.1 Journal Entries for the Initial & Subsequent Recognition

- Let's now understand the journal entries to be passed at the initial and subsequent recognition of the lease liability and lease asset with periodic lease interest expense and the depreciation.
- Considering the immediate previous example in chapter 6, below is the annexure in which marked the relevant serial numbers for the journal entries.

Part A - Chart

Accounting Entry Number	Year	Lease Start Date		Opening Lease Liability	Monthly Interest Expense	Lease Payments	Closing Lease Liability	Value Of Lease Asset	Subsequent Increase/Decrease	Depreciation	Accumulated Depreciation	Carrying Value Of Lease Asset	Charge To PL
		Lease Payment Dates	Month End Dates										
Part 1: Initial Valuation Basis													
01	2018	01-Jan-2018		1,583,006.83	-	-	1,583,006.83	1,478,284.14	-	-	-	-	-
02	2018	01-Jan-2018		1,583,006.83	-	105,000.00	1,478,006.83						
03	2018	31-Jan-2018		1,478,006.83	9,887.27	-	1,487,894.10			30,797.59	30,797.59	1,447,486.55	-
	2018	28-Feb-2018		1,487,894.10	9,287.78	-	1,497,181.88			30,797.59	61,595.17	1,416,688.97	-
	2018	31-Mar-2018		1,497,181.88	10,350.54	-	1,507,532.42			30,797.59	92,392.76	1,385,891.38	-
	2018	01-Apr-2018		1,507,532.42	335.08	105,000.00	1,402,867.50			-	-	-	-
	2018	30-Apr-2018		1,402,867.50	9,070.79	-	1,411,938.29			30,797.59	123,190.35	1,355,093.79	-
	2018	31-May-2018		1,411,938.29	9,761.22	-	1,421,699.51			30,797.59	153,987.93	1,324,296.21	-
	2018	30-Jun-2018		1,421,699.51	9,510.59	-	1,431,210.11			30,797.59	184,785.52	1,293,498.62	-
	2018	01-Jul-2018		1,431,210.11	318.11	105,000.00	1,328,528.22			-	-	-	-
	2018	31-Jul-2018		1,328,528.22	8,873.94	-	1,335,402.16			30,797.59	215,583.10	1,262,701.04	-
	2018	31-Aug-2018		1,335,402.16	9,232.10	-	1,344,634.26			30,797.59	246,380.69	1,231,903.45	-
	2018	30-Sep-2018		1,344,634.26	8,995.06	-	1,353,629.32			30,797.59	277,178.28	1,201,105.86	-
	2018	01-Oct-2018		1,353,629.32	300.87	105,000.00	1,248,930.19			-	-	-	-
	2018	31-Oct-2018		1,248,930.19	8,354.84	-	1,257,285.03			30,797.59	307,975.86	1,170,308.28	-
	2018	30-Nov-2018		1,257,285.03	8,410.73	-	1,265,695.75			30,797.59	338,773.45	1,139,510.69	-
	2018	31-Dec-2018		1,265,695.75	8,750.20	-	1,274,445.95			30,797.59	369,571.04	1,108,713.10	-
	2019	01-Jan-2019		1,274,445.95	283.27	110,250.00	1,164,479.22			-	-	-	-
	2019	31-Jan-2019		1,164,479.22	7,789.89	-	1,172,269.12			30,797.59	400,368.62	1,077,915.52	-
	2019	28-Feb-2019		1,172,269.12	7,317.58	-	1,179,586.69			30,797.59	431,166.21	1,047,117.93	-
	2019	31-Mar-2019		1,179,586.69	8,154.90	-	1,187,741.59			30,797.59	461,963.79	1,016,320.35	-
	2019	01-Apr-2019		1,187,741.59	264.00	110,250.00	1,077,755.59			-	-	-	-
	2019	30-Apr-2019		1,077,755.59	6,968.65	-	1,084,724.24			30,797.59	492,761.38	985,522.76	-
	2019	31-May-2019		1,084,724.24	7,499.08	-	1,092,223.32			30,797.59	523,558.97	954,725.17	-
	2019	30-Jun-2019		1,092,223.32	7,306.53	-	1,099,529.85			30,797.59	554,356.55	923,927.59	-
	2019	01-Jul-2019		1,099,529.85	244.39	110,250.00	989,524.24			-	-	-	-
	2019	31-Jul-2019		989,524.24	6,619.52	-	996,143.76			30,797.59	585,154.14	893,130.00	-
	2019	31-Aug-2019		996,143.76	6,886.69	-	1,003,030.45			30,797.59	615,951.73	862,332.41	-
	2019	30-Sep-2019		1,003,030.45	6,709.87	-	1,009,740.32			30,797.59	646,749.31	831,534.83	-
Part 2: Subsequent Lease Valuation													
04	2019	01-Oct-2019		1,009,964.75	-	-	1,009,964.75	1,478,508.57	224.43	-	-	-	-
	2019	01-Oct-2019		1,009,964.75	-	110,250.00	899,714.75			-	-	-	-
	2019	31-Oct-2019		899,714.75	6,018.73	-	905,733.48			30,805.90	677,555.21	800,953.36	-
	2019	30-Nov-2019		905,733.48	6,058.99	-	911,792.47			30,805.90	708,361.11	770,147.46	-
	2019	31-Dec-2019		911,792.47	6,303.54	-	918,096.01			30,805.90	739,167.01	739,341.56	-
	2020	01-Jan-2020		918,096.01	204.06	115,762.50	802,537.57			-	-	-	-
	2020	31-Jan-2020		802,537.57	5,368.65	-	807,906.22			30,805.90	769,972.90	708,535.67	-
	2020	29-Feb-2020		807,906.22	5,223.83	-	813,130.06			30,805.90	800,778.80	677,729.77	-
	2020	31-Mar-2020		813,130.06	5,621.45	-	818,751.51			30,805.90	831,584.70	646,923.87	-
	2020	01-Apr-2020		818,751.51	181.98	115,762.50	703,170.99			-	-	-	-
	2020	30-Apr-2020		703,170.99	4,546.63	-	707,717.62			30,805.90	862,390.60	616,117.97	-
	2020	31-May-2020		707,717.62	4,892.70	-	712,610.32			30,805.90	893,196.50	585,312.07	-
	2020	30-Jun-2020		712,610.32	4,767.07	-	717,377.39			30,805.90	924,002.40	554,506.17	-
	2020	01-Jul-2020		717,377.39	159.45	115,762.50	601,774.34			-	-	-	-
	2020	31-Jul-2020		601,774.34	4,025.63	-	605,799.97			30,805.90	954,808.30	523,700.27	-
	2020	31-Aug-2020		605,799.97	4,188.11	-	609,988.08			30,805.90	985,614.19	492,894.38	-
	2020	30-Sep-2020		609,988.08	4,080.57	-	614,068.65			30,805.90	1,016,420.09	462,088.48	-
	2020	01-Oct-2020		614,068.65	136.49	115,762.50	498,442.64			-	-	-	-
	2020	31-Oct-2020		498,442.64	3,334.38	-	501,777.02			30,805.90	1,047,225.99	431,282.58	-
	2020	30-Nov-2020		501,777.02	3,356.69	-	505,133.71			30,805.90	1,078,031.89	400,476.88	-
	2020	31-Dec-2020		505,133.71	3,492.17	-	508,625.87			30,805.90	1,108,837.79	369,670.78	-
	2021	01-Jan-2021		508,625.87	113.05	121,550.63	387,188.29			-	-	-	-
	2021	31-Jan-2021		387,188.29	2,590.13	-	389,778.43			30,805.90	1,139,643.69	338,864.88	-
	2021	28-Feb-2021		389,778.43	2,433.09	-	392,211.51			30,805.90	1,170,449.58	308,058.99	-
	2021	31-Mar-2021		392,211.51	2,711.50	-	394,923.01			30,805.90	1,201,255.48	277,253.09	-
	2021	01-Apr-2021		394,923.01	87.78	121,550.63	273,460.16			-	-	-	-
	2021	30-Apr-2021		273,460.16	1,768.16	-	275,228.32			30,805.90	1,232,061.38	246,447.19	-
	2021	31-May-2021		275,228.32	1,902.75	-	277,131.07			30,805.90	1,262,867.28	215,641.29	-
	2021	30-Jun-2021		277,131.07	1,853.89	-	278,984.97			30,805.90	1,293,673.18	184,835.39	-
	2021	01-Jul-2021		278,984.97	62.01	121,550.63	157,496.35			-	-	-	-
	2021	31-Jul-2021		157,496.35	1,953.59	-	159,449.93			30,805.90	1,324,479.08	154,029.49	-
	2021	31-Aug-2021		159,449.93	1,086.11	-	159,646.05			30,805.90	1,355,284.98	123,223.59	-
	2021	30-Sep-2021		159,646.05	1,067.97	-	160,714.01			30,805.90	1,386,090.87	92,417.70	-
	2021	01-Oct-2021		160,714.01	35.72	121,550.63	39,199.10			-	-	-	-
	2021	31-Oct-2021		39,199.10	262.23	-	39,461.33			30,805.90	1,416,896.77	61,611.80	-
	2021	30-Nov-2021		39,461.33	263.98	-	39,725.31			30,805.90	1,447,702.67	30,805.90	-
	2021	31-Dec-2021		39,725.31	274.64	40,000.00	(0.05)			30,805.90	1,478,508.57	-	-

Part B - Chart

(Amounts in USD)

Accounting Entry Number	Dates	General Ledger Name	Debit Amount	Credit Amount
At the time of Initial Recognition of the Lease Liability & Lease Asset				
01	01-Jul-2018	Lease Asset Account Opening Reserves Account To Lease Liability Account To Prepaid Lease Account	1,478,284.14 124,722.69	1,583,006.83 20,000.00
			1,603,006.83	1,603,006.83
At the time of Lease Payment				
02	01-Jul-2018	In the Lease Annexure - there appears contractual payments on the dates as per the lease contract, however, the accounting entry shall be entered only when there is actual lease payment made on the actual payment date. Here, we presuming that contractual payment made in actual on the same date as in the lease annexure Part A: Credit to Lessor as Payable Due Lease Liability Account To Lessor's Payable Account	105,000.00	105,000.00
			105,000.00	105,000.00
		Part B: Payment to Lessor Lessor's Payable Account To Bank Account	105,000.00	105,000.00
			105,000.00	105,000.00
At the time of Lease Interest Due				
03.1	31-Jul-2018	Lease Interest Expense Account To Lease Liability Account	9,887.27	9,887.27
			9,887.27	9,887.27
At the time of Lease Asset Depreciation				
03.2	31-Jul-2018	Lease Asset Depreciation Account To Lease Asset Accumulated Depreciation Account	30,797.59	30,797.59
			30,797.59	30,797.59
At the time of Subsequent Remeasurement				
04	01-Oct-2019	Lease Asset Account To Lease Liability Account (by the amount of subsequent increase or decrease)	224.43	224.43
			224.43	224.43
Likewise all the future entries for lease payment, lease interest due, lease asset depreciation and subsequent remeasurement entries shall follow as above				
At the time of Lease End				
Lease interest due entry and lease payment shall be same as above entries passed with respective date amounts. Hence, the lease interest expense shall be ended at the end of the lease contract and lease liability shall be closed at the final payment to the lessor				
Closing of the Lease Asset Account at the time of End of Lease Contract				
05	31-Dec-2021	Lease Asset Depreciation accounting entry shall be similar to above entry with the amount on th respective date Lease Asset Accumulated Depreciation Account To Lease Asset Account	1,478,508.57	1,478,508.57
			1,478,508.57	1,478,508.57

Revenue growth divisions.



Distribution marketing participation in the securities market.



Distribution of the securities market key players



08

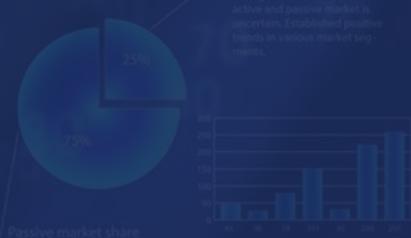
FINANCIAL PRESENTATION

	TYU division	FRT division
RTG	274	154
BDE	150	144
BGV	304	954
WEP	415	174

Projected sales of main products in 2013



Share of market activity



Changes in the activity of the active and passive market in securities. Established positive trends on various market key players.

Passive market share

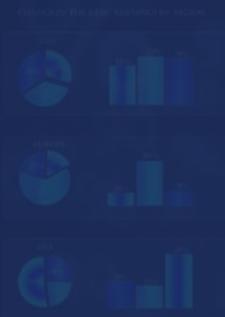


Distribution of market share among the major industry players



Distribution of market share among the major industry players (TYU division & FRT division) in 2013. Market share is calculated based on the total sales of the securities market. The market share is calculated based on the total sales of the securities market.

Projected sales of main products in 2013



8.1 Financial Presentation

A lessee shall either present in the statement of financial position, or disclose in the notes:

(a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:

- (i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
- (ii) disclose which line items in the statement of financial position include those right-of-use assets.

(b) lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

The above requirement does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of IAS 1 Presentation of Financial Statements requires to be presented separately in the statement of profit or loss and other comprehensive income.

In the statement of cash flows, a lessee shall classify:

- (a) cash payments for the principal portion of the lease liability within financing activities;
- (b) cash payments for the interest portion of the lease liability applying the requirements in IAS 7 Statement of Cash Flows for interest paid; and
- (c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.





09

DISCLOSURES

9.1 Disclosures

The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

A lessee shall disclose the following amounts for the reporting period:

- a) depreciation charge for right-of-use assets by class of underlying asset;
- b) interest expense on lease liabilities;
- c) the expense relating to short-term leases accounted. This expense need not include the expense relating to leases with a lease term of one month or less;
- d) the expense relating to leases of low-value assets accounted. This expense shall not include the expense relating to short-term leases of low-value assets.
- e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
- f) income from subleasing right-of-use assets;
- g) total cash outflow for leases;
- h) additions to right-of-use assets;
- i) gains or losses arising from sale and leaseback transactions; and
- j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

A lessee shall disclose a maturity analysis of lease liabilities separately from the maturity analyses of other financial liabilities.

In addition to the disclosures as above a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective. This additional information may include, but is not limited to, information that helps users of financial statements to assess:

- (a) the nature of the lessee's leasing activities;
- (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
 - (i) variable lease payments;
 - (ii) extension options and termination options;
 - (iii) residual value guarantees; and
 - (iv) leases not yet commenced to which the lessee is committed.
- (c) restrictions or covenants imposed by leases; and
- (d) sale and leaseback transactions.





10

INCOME
TAXATION
IMPACT

10.1 Impact on Taxable Profits

With the introduction of IFRS 16 Leases, there will be an impact on the computation of Taxable Profits in countries where Income Taxes apply.

The major impact shall the lessees are required to make below adjustments (allowance and disallowance of expenses) while calculating the Taxable Profits:

ASSESSMENT OF ALL LEASE EXPENSES

	Accounting Profits	Taxable Profits
 ACTUAL LEASE EXPENSE	 Capitalized lease expenses shall be accounted through lease interest and depreciation only	 Actual Lease Expense incurred during the Taxable Period on account of usage shall only be allowed for deduction under taxes
LEASE INTEREST		 Disallowed
LEASE DEPRECIATION		 Disallowed

10.2 Impact on Deferred Tax Computation

With the above impact on the Taxable Profits, there may be a possibility that on account of actual lease expense, lease interest and lease depreciation there arise a difference amount. Such difference shall be considered as a timing difference unless the tax laws specifically stipulates.

Timing differences shall either creates a Deferred Tax Asset (DTA) or Deferred Tax Liability (DTL).

Here below, with a brief illustrative example explained the impact on Taxable Profits and Computation of the Deferred Tax.

IFRS 16 Impact on Income Taxation

Taxation Computation

Lease Interest, Lease Asset Depreciation & Lease Expense

ACCOUNTING PROFIT			TAXABLE PROFIT			DEFERRED TAX COMPUTATION							
S.No	Incomes / Expenses	Notional Amount	Add / Less	Incomes / Expenses	Notional Amount	Difference	Temporary	Perma nent	Opening DTA/	DTA / Credit	DTL / Exp	Rever sal	Closing DTA/ DTL
1	Revenue	100,000.00		Earnings Before Tax	61,500.00								
2	Direct Cost	(20,000.00)											
3	Gross Profit	80,000.00											
4	Lease Asset Depreciation	(8,500.00)	Add	Lease Asset Depreciation	8,500.00								
5	Earnings Before Interest & Tax (EBIT)	71,500.00									-	-	-
6	Lease Interest	(10,000.00)	Add	Lease Interest	10,000.00								-
7	Earnings Before Tax	61,500.00											
8	Tax Expense	(15,375.00)	Less	Actual Lease Expense during Tax Period	(2,000.00)	16,500.00	16,500.00	-	-	4,125.00	-	-	4,125.00
8.1	Current Tax at 25% (78,000*25%)	(19,500.00)											
8.2	Deferred Tax (16,500*25%)	4,125.00											
Earnings After Tax (EAT)		46,125.00		Taxable Profit	78,000.00	16,500.00	16,500.00	-	4,125.00	-	-	-	4,125.00

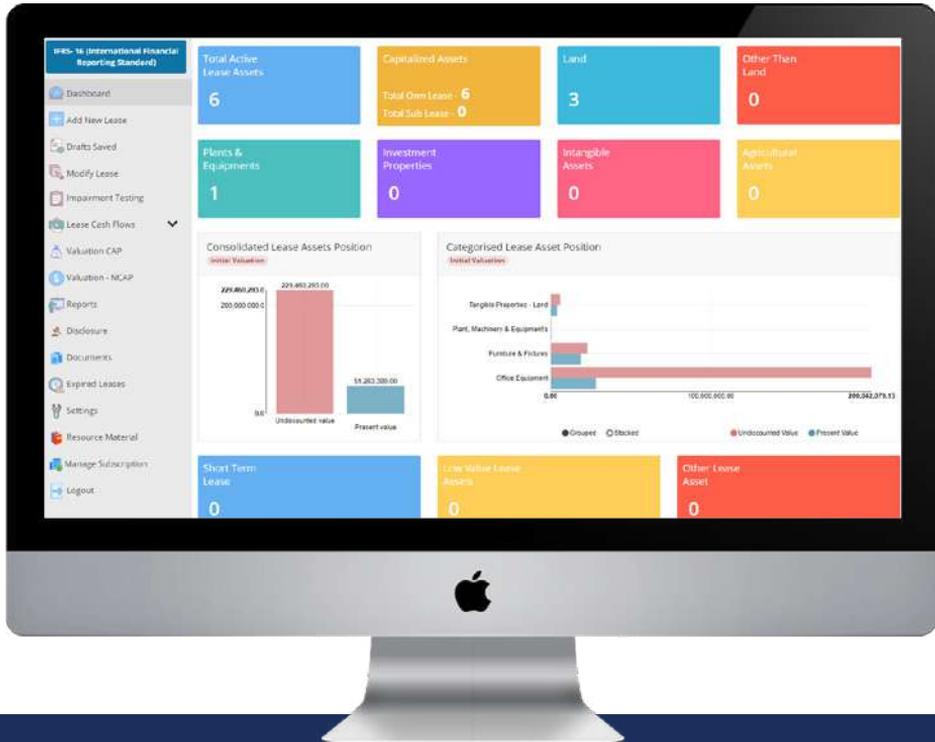


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THANK YOU

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(in compliance with IFRS 16 on Leases)



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