

Chapter 12

Answer to example 1 – Low-value assets

An expense of \$1,500 would be recognised through profit or loss for each of the four year lease. At the end of year one an accrual of \$1,500 would be recognised on the statement of financial position of which \$500 would be released over the remaining three years of the lease.

$$\text{Expense (p.a.)} = \frac{\$2,000 \times 3}{4} = \$1,500$$

Answer to example 2 – Lessee accounting

Initial recognition

Record the right of use asset and lease liability

DR	Right-of-use asset	\$22,730
CR	Lease liability	\$22,730

Record the initial direct costs

DR	Right-of-use asset	\$1,000
CR	Cash	\$1,000

Record the incentive payments received

DR	Cash	\$500
CR	Right-of-use asset	\$500

$$\text{Right-of-use asset} = 22,730 + 1,000 - 500 = 23,230$$

Subsequent measurement

Depreciate the asset over the earlier lease term of five years.

$$\text{Expense (p.a.)} = \frac{\$23,230}{5} = \$4,646$$

Record finance lease payments and interest using the rate implicit in the lease

Year	B/f	Payment	Capital balance	Finance cost (5%)	C/f
1	22,730	(5,000)	17,730	887	18,617
2	18,617	(5,000)	13,617	681	14,298
3	14,298	(5,000)	9,298	465	9,763
4	9,763	(5,000)	4,763	237	5,000
5	5,000	(5,000)	-	-	-



Answer to example 3 – Sale and leaseback (1)

(i) Transfer of asset is not a sale

Seller

- Continue to recognise the asset @ \$8.4 million and depreciate.
- Recognise a financial liability @ transfer proceeds of \$10 million.

Lessor

- Do not recognise the asset as it has not been sold to the buyer.
- Recognise a financial asset @ transfer proceeds of \$10 million.

(ii) Transfer of asset is sale

Seller

- Derecognise the asset @ \$8.4 million¹
- Recognise lease liability @ PV of lease rentals²
- Recognise a right-of-use asset, as a proportion of the previous carrying value of underlying asset³
- Gain/loss on rights transferred⁴

Lessor

- Recognise purchase of the asset @ \$10 million (fair value = proceeds)
- Apply lessor accounting

DR Bank	\$10,000,000	
DR Right of use asset ³ (W2)	\$6,486,257	
CR Lease liability ² (W1)		\$7,721,735
CR PPE – Building ¹		\$8,400,000
CR Gain on transfer ⁴		\$364,522

(W1) Lease liability = PV of lease rentals at rate implicit in the lease = \$1 million x $AF_{1-10@5\%}$

Lease a = \$1 million x 7.722 = \$7,721,735

(W2)		\$		\$
Right-of-use retained	7,721,735	77.22%	6,486,257	
Rights transferred	2,278,265	22.78%	1,913,743	
Total	10,000,000	100.0%	8,400,000	



Answer to example 4 – Sale and leaseback (2)

- i) The proceeds of \$9 million are below the \$10 million fair value of the asset and so the below-market proceeds of \$1 million are treated as a prepayment.

DR Bank	\$9,000,000	
DR Prepayment	\$1,000,000	
DR Right of use asset ³ (W2)	\$6,486,257	
CR Lease liability ² (W1)		\$7,721,735
CR PPE – Building ¹		\$8,400,000
CR Gain on transfer ⁴		\$364,522

- ii) The proceeds of \$11 million are greater than the \$10 million fair value of the asset, so the above market proceeds are treated as additional financing provided by the buyer-lessor to the seller-lessee.

DR Bank	\$11,000,000	
DR Right of use asset ³ (W2)	\$6,486,257	
CR Lease liability ² (W1)		\$8,721,735
CR PPE – Building ¹		\$8,400,000
CR Gain on transfer ⁴		\$364,522

Chapter 13**Answer to example 1 – Discounting and provisions**

The provision is initially recognised at its present value on 1 July 2018 of \$450,000 (= \$495,000 x 0.9091 (rounded to nearest \$000)).

The provision is then unwound at 10% for six months to calculate the finance cost of \$22,500 (\$450,000 x 10% x 6/12)

	<i>SFP</i>		<i>SPL</i>
	\$		\$
Provision	472,500	Finance cost	22,500

Answer to example 2 – Provisions and contingencies (1)

Answer A

Answer to example 3 – Provisions and contingencies (2)

If she has a 42% chance of losing, then she must have a 58% chance of winning. It is, therefore, not probable that she has an obligation. No provision would be appropriate.

However, there is a possible obligation, arising from some past event, which may involve the outflow of economic resource.

The appropriate treatment in Justina's financial statements for the year ended 31 August, 2009 would therefore seem to be to treat the matter as a contingent liability.

This involves:

- a disclosure note of the past event,
- the legal action outstanding,
- an explanation of the uncertainties upon which the outcome depends, and
- an estimate of the costs, were she to lose the case

