

**Appendix A to Agenda paper 11 / FASB Memo 163: IASB/FASB meeting week commencing 11 April 2011**  
**Illustration of Approach 2 and Approach 3 when payment pattern does not equal benefit pattern**

The following examples illustrate the initial and subsequent accounting under Approach 2 and Approach 3 in the memorandum given the following contracts:

- Example A: The pattern of benefit granted to the lessee is identical to the pattern of payment.
- Example B: The pattern of benefit granted to the lessee is even throughout the lease term, but the pattern of payment reflects rent holidays.
- Example C: The pattern of benefit granted to the lessee is even throughout the lease term, but the pattern of payment reflects a large payment in period 1.

In all examples, the right-of-use asset granted to the lessee is the same amount at inception (CU55,824). The variation is the pattern in which payments are made results in the lessee in Examples B and C paying more and less, respectively, than the lessee in Example A. Note that an annuity method of amortizing the lease contract liability is used to illustrate Approach 2.

**EXAMPLE A: Pattern of benefit is equal to payment pattern**

YEAR	APPROACH 2						APPROACH 3		BALANCE SHEET DIFFERENCE (% of liability)	INCOME STATEMENT DIFFERENCE	
	LEASE CONTRACT LIABILITY	LEASE RECEIVABLE	NET LIABILITY	AMORT REVENUE	INTEREST INCOME	LEASE REVENUE	OP LEASE REVENUE	DEFERRED LIABILITY			
Rate	6%	6%									
0	55,823.81	55,823.81	55,823.81	55,823.81	-	-	-	-	-		
1	10,000.00	\$49,173.24	10,000.00	49,173.24	-	6,650.57	3,349.43	10,000.00	-		
2	10,000.00	\$42,123.64	10,000.00	42,123.64	-	7,049.61	2,950.39	10,000.00	-		
3	10,000.00	\$34,651.06	10,000.00	34,651.06	-	7,472.58	2,527.42	10,000.00	-		
4	10,000.00	\$26,730.12	10,000.00	26,730.12	-	7,920.94	2,079.06	10,000.00	-		
5	10,000.00	\$18,333.93	10,000.00	18,333.93	-	8,396.19	1,603.81	10,000.00	-		
6	10,000.00	\$9,433.96	10,000.00	9,433.96	-	8,899.96	1,100.04	10,000.00	-		
7	10,000.00	\$0.00	10,000.00	(0.00)	-	9,433.96	566.04	10,000.00	-		
<b>TOTAL</b>						<b>55,823.81</b>	<b>14,176.19</b>	<b>70,000.00</b>	<b>70,000.00</b>		

**EXAMPLE B: Pattern of benefit does not equal payment pattern - rent holidays**

YEAR	APPROACH 2						APPROACH 3		BALANCE SHEET DIFFERENCE (% of liability)	INCOME STATEMENT DIFFERENCE	
	LEASE CONTRACT LIABILITY	LEASE RECEIVABLE	NET ASSET	AMORT REVENUE	INTEREST INCOME	LEASE REVENUE	OP LEASE REVENUE	DEFERRED ASSET			
Rate	6%	6%									
0	55,823.81	55,823.81	55,823.81	55,823.81	(0.00)	-	-	-	-		
1	10,000.00	\$49,173.24	1,000.00	58,173.24	9,000.00	6,650.57	3,349.43	10,000.00	10,572.38		
2	10,000.00	\$42,123.64	1,000.00	60,663.63	18,540.00	7,049.61	3,490.39	10,540.00	10,572.38		
3	10,000.00	\$34,651.06	14,401.33	49,902.12	15,251.07	7,472.58	3,639.82	11,112.40	10,572.38		
4	10,000.00	\$26,730.12	14,401.33	38,494.92	11,764.80	7,920.94	2,994.13	10,915.06	10,572.38		
5	10,000.00	\$18,333.93	14,401.33	26,403.29	8,069.36	8,396.19	2,309.70	10,705.89	10,572.38		
6	10,000.00	\$9,433.96	14,401.33	13,586.16	4,152.20	8,899.96	1,584.20	10,484.16	10,572.38		
7	10,000.00	-	14,401.33	-	-	9,433.96	815.17	10,249.13	10,572.38		
<b>TOTAL</b>						<b>55,823.81</b>	<b>18,182.83</b>	<b>74,006.64</b>	<b>74,006.64</b>		

14,401.33 equivalent payment to get PVs the same (i.e. increase in payment needed to account for rent holidays of \$1,000)

**EXAMPLE C: Pattern of benefit does not equal payment pattern - down payment**

YEAR	APPROACH 2						APPROACH 3		BALANCE SHEET DIFFERENCE (% of liability)	INCOME STATEMENT DIFFERENCE	
	LEASE CONTRACT LIABILITY	LEASE RECEIVABLE	NET LIABILITY	AMORT REVENUE	INTEREST INCOME	LEASE REVENUE	OP LEASE REVENUE	DEFERRED LIABILITY			
Rate	6%	6%									
0	55,823.81	55,823.81	55,823.81	55,823.81	0.00	-	-	-	-		
1	10,000.00	49,173.24	25,000.00	34,173.24	15,000.00	6,650.57	3,349.43	10,000.00	9,528.19		
2	10,000.00	42,123.64	6,949.56	29,274.07	12,849.56	7,049.61	2,050.39	9,100.00	9,528.19		
3	10,000.00	34,651.06	6,949.56	24,080.96	10,570.10	7,472.58	1,756.44	9,229.03	9,528.19		
4	10,000.00	26,730.12	6,949.56	18,576.26	8,153.86	7,920.94	1,444.86	9,365.79	9,528.19		
5	10,000.00	18,333.93	6,949.56	12,741.27	5,592.66	8,396.19	1,114.58	9,510.77	9,528.19		
6	10,000.00	9,433.96	6,949.56	6,556.19	2,877.77	8,899.96	764.48	9,664.44	9,528.19		
7	10,000.00	-	6,949.56	-	-	9,433.96	393.37	9,827.33	9,528.19		
<b>TOTAL</b>						<b>55,823.81</b>	<b>10,873.55</b>	<b>66,697.36</b>	<b>66,697.36</b>		

6,949.56 equivalent payment to get PVs the same (i.e. decrease in payment needed to account for upfront down payment of \$25,000)