

PFRS 16 LEASES

Problem and Given Information

ABC entered into the contract on 1 January 2017 for 5 years, annual rental payments are P100,000 (exclusive of VAT and withholding tax) in arrears (that is, 31 December each year) and at the end of the lease term, the machine will be returned back to the lessor. The economic life of a machine is 10 years.

Use the discount rate of 3% (assumed as incremental borrowing rate at the date of initial application of PFRS 16 and not based on commencement date of the lease.)