

IFRS 16 Practice Drill #1 (suggested time: 15 minutes)

Lessee Ltd. (LL) entered into a 5-year lease agreement for the use of machinery on December 31, 2019. The information pertaining to the lease is provided by the Controller below:

Fair value of machinery:	\$465,000
Useful life of machinery (years):	10
Residual value:	65,000
Implicit rate:	6%

You, CPA, are asked to prepare all journal entries pertaining to this lease agreement for the years 2019 and 2020, assuming LL is reporting under IFRS. The payments are fixed annually at \$61,980, the first payment is due on the lease commencement date and the implicit rate is known to LL. The Controller advises that the agreement requires LL to return the equipment at the end of the lease term. LL's year-end matches the lease commencement date.