Lease contract - the lessee controls the right to use an identified asset.

Finance Lease Model - lessee shall recognize an asset and corresponding liability.

Cost of Right of Use Asset:

1. Present value of the lease payments
2. Lease bonus less any lease incentives
3. Initial direct cost incurred by the lessee
4. Estimated cost of dismantling, removing, or restoring the asset for which the lessee already has a present obligation. The cost is measured at present value

Present Value of Lease Payments:

1. Fixed lease payments
2. Variable lease payments
3. Exercise price of purchase option that is reasonably certain to be exercised
4. Guaranteed residual value
5. Termination penalties if the lease term reflects exercise of a termination option
6. Discount rate is the interest rate implicit in the lease if known to the lessee. Otherwise, use the incremental borrowing rate of the lessee.

Right of Use Asset:

- Subsequently measured using the cost model.
- However, other models are possible.
    1. May use the revaluation model if right of use asset is PPE.
    2. May use the fair value model if the right of use asset is investment property.
- Depreciation (cost model and revaluation model)
    1. Based on useful life of asset if there is transfer of title to the lessee at the end of lease term or purchase option that is certain to be exercised.
    2. Otherwise, based on the shorter of useful life of asset and lease term.

Lease may use the operating lease model under 2 optional exemptions:

1. Short-term lease - has a base term of 12 months or less.
2. Low-value lease
    -Asset of low value when brand new, regardless of its age.
    - May have a term of more than 12 months.

*Rentals are treated as rent expense.