LEASE EXAMPLE

DUNCAN & TOPLIS

Company X Ltd signed a five-year lease on 29 December 2024 to lease a warehouse facility and offices. Lease rentals are £137,500 per annum payable on a monthly basis. The lease previously met the operating lease criteria in FRS 102 (January 2022).

Company X Ltd has an accounting reference date of 31 March. No upfront fees were payable on inception of the lease and no lease incentives were granted. On 1 April 2026, the company could borrow money from a reputable high-street lender at a rate of 7% per annum (see Transition to FRS 102 (2024) later in the example).

LEASE EXAMPLE

DUNCAN & TOPLIS

The lease payments are profiled as follows:

	£
Lease rentals in the agreement	687,500
Lease rentals payable per year	137,500
Lease rental payable per month	11,458

LEASE EXAMPLE

DUNCAN & TOPLIS

IN THE YEARS TO 31 MARCH 2026

The following lease payments have been recognized in profit or loss as the lease was previously accounted for as an operating lease under FRS 102:

	£
Year to 31 March 2025	34,375 (137,500 x (3/12))
Year to 31 March 2026	137,500

LEASE EXAMPLE

DUNCAN & TOPLIS

Lease rentals not paid at each reporting date are as follows:

	£
Year to 31 March 2025	653,125
Year to 31 March 2026	515,625
Year to 31 March 2027	378,125
Year to 31 March 2028	240,625
Period to 31 December 2029	103,125

LEASE EXAMPLE

DUNCAN & TOPLIS

The date of initial application of the new lease accounting rules is 1 April 2026. On this date, the committed lease rentals (i.e. unpaid lease rentals) amount to £515,625.

In this example, Company X Ltd can borrow money at 7% on 1 April 2026, hence on initial application:

YEAR/PERIOD TO	CALCULATION (£)	PRESENT VALUE (£)
31/03/27	$137,500 \times 1/1.07^1$	128,505
31/03/28	$137,500 \times 1/1.07^2$	120,098
31/03/29	$137,500 \times 1/1.07^3$	112,241
31/12/29	$103,125 \times 1/1.07^3$	84,181
Present value of committed lease payments		445,025

LEASE EXAMPLE

DUNCAN & TOPLIS

Company X Ltd recognises the right-of-use asset at the amount of the lease liability (as calculated above) adjusted for any prepaid or accrued lease payments (although there are no prepaid or accrued lease payments in this example):

	£	£
Dr PPE	445,025	
Cr Lease liability		445,025
Being recognition of lease at date of initial application		

LEASE EXAMPLE

DUNCAN & TOPLIS

If the lease rentals have been posted to profit or loss during the year of transition to the new lease accounting requirements, a journal to reallocate these will need to be made as follows:

	£	£
Dr Lease liability	137,500	
Cr PL		137,500
Being reallocation of lease payments		

LEASE EXAMPLE

DUNCAN & TOPLIS

Subsequent measurement of right-of-use asset:

	£	£
Dr PL depreciation charge	111,256	
Cr BS depreciation charge		111,256
Being depreciation of right-of-use asset		

LEASE EXAMPLE

DUNCAN & TOPLIS

Subsequent measurement of lease liability:

YEAR/PERIOD	OPENING BALANCE (£)	CASHFLOW (£)	INTEREST AT 7% (£)	CLOSING BALANCE (£)
31/03/27	445,025	(137,500)	28,607	336,132
31/03/28	336,132	(137,500)	21,607	220,239
31/03/29	220,239	(137,500)	14,157	96,896
31/12/29	96,896	(103,125)	6,229	-

LEASE EXAMPLE

DUNCAN & TOPLIS

At 31 March 2027, a journal will be required to allocate the finance cost of £28,607 as follows:

	£	£
Dr PL Finance cost	28,607	
Cr Lease liability		28,607
Being interest charge on lease liability		

LEASE EXAMPLE

DUNCAN & TOPLIS

Summary of impact:

	ASSET (£)	LIABILITY (£)	P&L IMPACT (£)
PPE	333,769		
Current liability		115,893	
Non-current liability		220,239	
PL			2,363

LEASE EXAMPLE

DUNCAN & TOPLIS

Overall:

IMPACT ON PL 2024	IMPACT ON PL 2022
Depreciation charge - £111,256	Lease rental expense - £137,500
Finance cost - £28,607	
Overall impact – reduction in profit (£2,363)	

IMPACT ON BS 2024	IMPACT ON BS 2022
Reduction in cash - £137,500	Reduction in cash - £137,500
Right-of-use asset - £333,769	
Lease liability – (£336,132)	