

## DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE: IFRIC 4

### The Issue:

- Sometimes a company enters into an arrangement that does not taken the legal form of a lease but in substance the company has a right to use an asset in return for a payment

### Determining whether an arrangement contains a lease

- An arrangement contains a lease when the following **two** are met:
  1. fulfilment of the arrangement is **dependent on the use of a specific asset**
    - in fulfilling the arrangement, the supplier, **must the asset explicitly identified in the arrangement;**
    - if the supplier has the right and ability to fulfill the arrangement using other assets, the arrangement does not contain a lease
    - if **not explicitly identified**, it should be implicitly specified, for example the supplier only owns one asset that can be used to fulfill the arrangement
  2. the arrangement conveys a right to use the asset
    - an arrangement conveys a right to use the asset, when **one** of the following is met:
      - 1.The purchaser has the ability or right **to operate the asset or direct others to operate the asset** in a **manner it determines** while **obtaining or controlling more than an insignificant amount** of the output or other utility of the asset
      - 2.The purchaser has the ability or right to **control physical access** to the underlying asset while obtaining or controlling **more than an insignificant amount of the output or other utility of the asset**
      - 3.it is **remote that parties other than the purchaser** will take **more than an insignificant amount of the output** that will be produced or generated by the asset; **and** the price that the purchaser pays for output **is not contractually fixed per unit of output** nor equal to the market price per unit of output
        - this implies that the purchaser is paying an amount to use the asset (in addition to the output)