# Accounting Standard for Business Enterprises No. 21 — Leases (China)

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## Chapter I — General Provisions

Article 1 — For the purpose of regulating the recognition and measurement of leases and the presentation of related information, this Standard is formulated in accordance with the Accounting Standards for Business Enterprises — Basic Standard.

Article 2 — A "lease" refers to a contract whereby a lessor conveys the right to use an asset to a lessee for a certain period of time in exchange for consideration.

Article 3 — This Standard applies to all leases, except for the following:

(1) The rights to copyrights such as films, videos, scripts and manuscripts, and to patents and other items obtained by a lessee through a licensing agreement, and land use rights obtained by way of grant, allocation or transfer, shall be subject to Accounting Standards for Business Enterprises No. 6 — Intangible Assets.

(2) Licenses of intellectual property granted by a lessor shall be subject to Accounting Standards for Business Enterprises No. 14 — Revenue.

Leases for the exploration for or use of minerals, oil, natural gas and similar non-renewable resources, leases of biological assets by a lessee, and concession contracts for participating in the construction and operation of public infrastructure by means of build-operate-transfer and the like shall not be subject to this Standard.

## Chapter II — Identification, Separation and Combination of Leases

### Section 1 — Identification of a Lease

Article 4 — At the inception of a contract, an enterprise shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of one or more identified assets for a certain period of time in exchange for consideration.

An enterprise is not required to reassess whether a contract is, or contains, a lease, unless there is a change in the terms and conditions of the contract.

Article 5 — To determine whether a contract conveys the right to control the use of an identified asset for a period of time, an enterprise shall assess whether the customer in the contract has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, and the right to direct the use of the identified asset throughout the period of use.

Article 6 — An identified asset is generally specified explicitly in a contract, but may also be implicitly specified at the time the asset is made available for use by the customer. However, even if an asset is specified in a contract, if the supplier of the asset has a substantive substitution right with respect to the asset throughout the period of use, the asset is not an identified asset.

The following conditions being met at the same time indicates that the supplier has a substantive substitution right with respect to the asset:

(1) The supplier of the asset has the practical ability to substitute the asset throughout the period of use;



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(2) The supplier of the asset would benefit economically from the exercise of its right to substitute the asset.

Where an enterprise finds it difficult to determine whether the supplier has a substantive substitution right with respect to the asset, it shall deem that the supplier does not have a substantive substitution right with respect to the asset.

Where a portion of the capacity of an asset or another portion is not physically distinct, that portion is not an identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with substantially all of the economic benefits from the use of the asset.

Article 7 — In assessing whether there is a right to obtain substantially all of the economic benefits from the use of an identified asset, an enterprise shall consider the economic benefits arising within the scope of the customer's right to use the asset as agreed.

Article 8 — In any of the following circumstances, the customer shall be deemed to have the right to direct the use of an identified asset throughout the period of use:

(1) The customer has the right to direct the purpose for which and the manner in which the identified asset is used throughout the period of use.

(2) The purpose for which and the manner in which the identified asset is used are predetermined before the commencement of the period of use, and the customer has the right to operate the asset throughout the period of use, on its own or by directing others, in accordance with the manner it has determined, or the customer designed the identified asset and, at the time of design, predetermined the purpose for which and the manner in which the asset will be used throughout the period of use.

### Section 2 — Separation and Combination of Leases

Article 9 — Where a contract contains multiple separate leases, the lessee and the lessor shall separate the contract and account for each separate lease.

Where a contract contains both lease and non-lease components, the lessee and the lessor shall separate the lease and non-lease components, unless the enterprise applies Article 12 of this Standard for accounting treatment; the lease components shall be accounted for separately in accordance with this Standard, and the non-lease components shall be accounted for in accordance with other applicable accounting standards for business enterprises.

Article 10 — The right to use an identified asset constitutes a separate lease in a contract when both of the following conditions are met:

(1) The lessee can benefit from the use of the asset either on its own or together with other resources that are readily available;

(2) The asset is neither highly dependent on, nor highly interrelated with, other assets in the contract.

Article 11 — In separating the lease and non-lease components of a contract, the lessee shall allocate the consideration in the contract based on the relative proportion of the stand-alone price of each lease component and the stand-alone price of the non-lease component, and the lessor shall allocate the consideration in the contract in accordance with the provisions of Accounting Standards for Business Enterprises No. 14 — Revenue on the allocation of the transaction price.

Article 12 — For the purpose of simplification, a lessee may elect, by class of underlying asset, whether to separate the lease and non-lease components of a contract. Where the lessee elects not to separate them, it shall combine each lease component and the non-lease components related thereto into a lease and account for them in accordance with this Standard. However, an embedded derivative that should be separated in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments shall not be combined with the lease component for accounting



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treatment.

Article 13 — Where an enterprise enters into two or more contracts containing leases with the same counterparty (or a related party of that counterparty) at or near the same time, the contracts shall be combined and accounted for as a single contract when any of the following conditions is met:

(1) The two or more contracts are entered into for an overall commercial purpose and constitute a package deal, the overall commercial purpose of which cannot be understood if they are not considered as a whole.

(2) The amount of consideration in one of the two or more contracts depends on the pricing or performance of the other contracts.

(3) The rights to use assets conveyed under the two or more contracts, taken together, constitute a separate lease.

## Chapter III — Accounting by the Lessee

### Section 1 — Recognition and Initial Measurement

Article 14 — At the commencement date of a lease, a lessee shall recognize a right-of-use asset and a lease liability for the lease, except for short-term leases and leases of low-value assets to which the simplified treatment in Section 3 of Chapter III of this Standard is applied.

A "right-of-use asset" refers to the right of a lessee to use a leased asset during the lease term.

The "commencement date of a lease" refers to the date on which the lessor makes a leased asset available for use by the lessee.

Article 15 — The "lease term" refers to the non-cancellable period for which a lessee has the right to use a leased asset.

Where a lessee has a renewal option, that is, the right to renew the lease of the asset, and it is reasonably certain that it will exercise the option, the lease term shall also include the period covered by the renewal option.

Where a lessee has a termination option, that is, the right to terminate the lease of the asset, but it is reasonably certain that it will not exercise the option, the lease term shall include the period covered by the termination option.

Where a significant event or change within the lessee's control occurs and affects whether the lessee is reasonably certain to exercise the relevant option, the lessee shall reassess whether it is reasonably certain to exercise a renewal option or a purchase option, or not to exercise a termination option.

Article 16 — A right-of-use asset shall be measured initially at cost. The cost includes:

(1) The amount of the initial measurement of the lease liability;

(2) Lease payments made at or before the commencement date of the lease, less any lease incentives received;

(3) Initial direct costs incurred by the lessee;

(4) The costs that the lessee is expected to incur to dismantle and remove the leased asset, restore the site on which the leased asset is located, or restore the leased asset to the condition required by the terms and conditions of the lease. Where the aforesaid costs are incurred for the production of inventories, Accounting Standards for Business Enterprises No. 1 — Inventories shall apply.

The lessee shall recognize and measure the costs described in paragraph (4) of this Article in accordance with Accounting Standards for Business Enterprises No. 13 — Contingencies.



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A "lease incentive" refers to a benefit provided by a lessor to a lessee to enter into a lease, including payments made by the lessor to the lessee in connection with the lease, and costs reimbursed by the lessor for the lessee or assumed by the lessor.

"Initial direct costs" refers to the incremental costs incurred to obtain a lease. Incremental costs are costs that would not have been incurred if the lease had not been obtained.

Article 17 — A lease liability shall be measured initially at the present value of the lease payments that are not paid at the commencement date of the lease.

In calculating the present value of the lease payments, the lessee shall use the interest rate implicit in the lease as the discount rate; where the interest rate implicit in the lease cannot be determined, the lessee shall use its incremental borrowing rate as the discount rate.

The "interest rate implicit in the lease" refers to the interest rate that makes the sum of the present value of the lease payments receivable by the lessor and the present value of the unguaranteed residual value equal to the sum of the fair value of the leased asset and the initial direct costs of the lessor.

The "lessee's incremental borrowing rate" refers to the interest rate that the lessee would have to pay to borrow funds, in a similar economic environment, for a similar term and with similar security, to obtain an asset of a value close to the value of the right-of-use asset.

Article 18 — "Lease payments" refers to the payments made by a lessee to a lessor in connection with the right to use a leased asset during the lease term, including:

(1) Fixed payments and in-substance fixed payments, less any lease incentives;

(2) Variable lease payments that depend on an index or a rate, which are determined at initial measurement based on the index or rate at the commencement date of the lease;

(3) The exercise price of a purchase option, provided that the lessee is reasonably certain to exercise the option;

(4) Payments to be made for exercising a termination option, provided that the lease term reflects that the lessee will exercise the termination option;

(5) Amounts expected to be payable under residual value guarantees provided by the lessee.

"In-substance fixed payments" refers to payments that may, in form, contain a variable element but are, in substance, unavoidable.

"Variable lease payments" refers to payments made by a lessee to a lessor for the right to use a leased asset during the lease term that vary because of changes in facts or circumstances occurring after the commencement date of the lease (other than the passage of time). Variable lease payments that depend on an index or a rate include payments linked to a consumer price index, payments linked to a benchmark interest rate, and payments that vary to reflect changes in market rental rates.

Article 19 — A "residual value guarantee" refers to a guarantee made to a lessor by a party unrelated to the lessor that the value of the leased asset will be at least a specified amount at the end of the lease.

"Unguaranteed residual value" refers to the portion of the residual value of a leased asset, the realization of which by the lessor is not assured or which is guaranteed solely by a party related to the lessor.

### Section 2 — Subsequent Measurement

Article 20 — After the commencement date of a lease, a lessee shall measure a right-of-use asset subsequently using the cost model in accordance with Articles 21, 22, 27 and 29 of this Standard.

Article 21 — A lessee shall depreciate a right-of-use asset by reference to the provisions on depreciation in Accounting Standards for Business Enterprises No. 4 — Fixed Assets.



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Where the lessee is reasonably certain to obtain ownership of the leased asset at the end of the lease term, it shall depreciate the right-of-use asset over the remaining useful life of the leased asset. Where it cannot be reasonably determined whether the lessee will obtain ownership of the leased asset at the end of the lease term, it shall depreciate the right-of-use asset over the shorter of the lease term and the remaining useful life of the leased asset.

Article 22 — A lessee shall determine whether a right-of-use asset is impaired and account for any identified impairment loss in accordance with Accounting Standards for Business Enterprises No. 8 — Impairment of Assets.

Article 23 — A lessee shall calculate the interest expense on a lease liability for each period during the lease term using a fixed periodic rate and recognize it in profit or loss for the current period. Where, in accordance with Accounting Standards for Business Enterprises No. 17 — Borrowing Costs and other standards, the interest should be included in the cost of the relevant asset, those standards shall prevail.

The periodic rate is the discount rate adopted in accordance with Article 17 of this Standard, or the revised discount rate adopted in accordance with Articles 25, 26 and 29 of this Standard.

Article 24 — Variable lease payments not included in the measurement of the lease liability shall be recognized in profit or loss for the current period when they are incurred. Where, in accordance with Accounting Standards for Business Enterprises No. 1 — Inventories and other standards, the payments should be included in the cost of the relevant asset, those standards shall prevail.

Article 25 — After the commencement date of a lease, in any of the following circumstances, a lessee shall redetermine the lease payments and remeasure the lease liability at the present value calculated using the changed lease payments and the revised discount rate:

(1) Where the lease term changes because the assessment result of a renewal option or a termination option changes in accordance with paragraph 4 of Article 15 of this Standard, or because the actual exercise of the aforesaid option is inconsistent with the original assessment result, the lease payments shall be redetermined based on the new lease term;

(2) Where the assessment result of a purchase option changes in accordance with paragraph 4 of Article 15 of this Standard, the lease payments shall be redetermined based on the new assessment result.

In calculating the present value of the changed lease payments, the lessee shall use the interest rate implicit in the lease for the remaining lease term as the revised discount rate; where the interest rate implicit in the lease for the remaining lease term cannot be determined, the lessee shall use its incremental borrowing rate at the reassessment date as the revised discount rate.

Article 26 — After the commencement date of a lease, where the amount expected to be payable under a residual value guarantee changes, or where future lease payments change because of a change in the index or rate used to determine the lease payments, the lessee shall remeasure the lease liability at the present value of the changed lease payments. In these circumstances, the lessee shall use an unchanged discount rate; however, where the change in lease payments arises from a change in a floating interest rate, the revised discount rate shall be used.

Article 27 — When a lessee remeasures a lease liability in accordance with Articles 25 and 26 of this Standard or because of a change in in-substance fixed payments, it shall make a corresponding adjustment to the carrying amount of the right-of-use asset. Where the carrying amount of the right-of-use asset has been reduced to zero but the lease liability still needs to be further reduced, the lessee shall recognize the remaining amount in profit or loss for the current period.

Article 28 — Where a lease is modified and the modification meets both of the following conditions, the lessee shall account for the lease modification as a separate lease:

(1) The modification increases the scope of the lease by adding the right to use one or more underlying assets;

(2) The increased consideration is commensurate with the stand-alone price for the increase in scope, adjusted for the circumstances of the particular contract.

A "lease modification" refers to a change in the scope of a lease, the lease consideration, or the lease term that is not part of the original terms and conditions of the contract, including adding or terminating the right to use one or more underlying assets, and extending or shortening the contractual lease term.

Article 29 — Where a lease modification is not accounted for as a separate lease, at the effective date of the lease modification, the lessee shall allocate the consideration of the modified contract in accordance with Articles 9 to 12 of this Standard, redetermine the lease term in accordance with Article 15 of this Standard, and remeasure the lease liability at the present value calculated using the modified lease payments and the revised discount rate.

In calculating the present value of the modified lease payments, the lessee shall use the interest rate implicit in the lease for the remaining lease term as the revised discount rate; where the interest rate implicit in the lease for the remaining lease term cannot be determined, the lessee shall use its incremental borrowing rate at the effective date of the lease modification as the revised discount rate. The effective date of a lease modification is the date on which the parties agree to the lease modification.

Where a lease modification reduces the scope of the lease or shortens the lease term, the lessee shall make a corresponding reduction to the carrying amount of the right-of-use asset and recognize the relevant gain or loss on the partial or full termination of the lease in profit or loss for the current period. Where other lease modifications result in the remeasurement of the lease liability, the lessee shall make a corresponding adjustment to the carrying amount of the right-of-use asset.

### Section 3 — Short-Term Leases and Leases of Low-Value Assets

Article 30 — A "short-term lease" refers to a lease with a lease term of no more than 12 months at the commencement date of the lease.

A lease containing a purchase option is not a short-term lease.

Article 31 — A "lease of a low-value asset" refers to a lease where the underlying asset is of low value when it is new.

The determination of a lease of a low-value asset relates only to the absolute value of the asset, and is not affected by the size, nature or other circumstances of the lessee. A lease of a low-value asset shall also meet Article 10 of this Standard.

Where a lessee subleases or expects to sublease a leased asset, the head lease is not a lease of a low-value asset.

Article 32 — For short-term leases and leases of low-value assets, a lessee may elect not to recognize a right-of-use asset and a lease liability.

Where a lessee makes such an election, it shall recognize the lease payments for the short-term lease and the lease of a low-value asset in the cost of the relevant asset or in profit or loss for the current period on a straight-line basis over the lease term or using another systematic and rational method. Where another systematic and rational method better reflects the lessee's pattern of benefit, the lessee shall use that method.

Article 33 — For short-term leases, a lessee shall make the accounting treatment election described in Article 32 of this Standard by class of underlying asset.



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For leases of low-value assets, a lessee may make the accounting treatment election described in Article 32 of this Standard on a lease-by-lease basis.

Article 34 — Where a short-term lease to which the simplified treatment in Article 32 of this Standard is applied is modified, or where the lease term changes for reasons other than a lease modification, the lessee shall account for it as a new lease.

## Chapter IV — Accounting by the Lessor

### Section 1 — Classification of Leases by the Lessor

Article 35 — At the inception date of a lease, a lessor shall classify the lease as a finance lease or an operating lease.

The "inception date of a lease" is the earlier of the date of the lease agreement and the date on which the parties commit to the principal terms and conditions of the lease.

A "finance lease" refers to a lease that transfers substantially all of the risks and rewards incidental to ownership of the leased asset. Ownership may or may not ultimately be transferred.

An "operating lease" refers to a lease other than a finance lease.

After the inception date of a lease, a lessor is not required to reassess the classification of the lease unless there is a lease modification. Where there is a change in accounting estimates such as the estimated useful life or the estimated residual value of the leased asset, or where the lessee defaults, the lessor shall not reassess the classification of the lease.

Article 36 — Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Where a lease transfers substantially all of the risks and rewards incidental to ownership of the leased asset, the lessor shall classify the lease as a finance lease.

A lease is generally classified as a finance lease in any one or more of the following circumstances:

(1) Ownership of the leased asset is transferred to the lessee at the end of the lease term.

(2) The lessee has a purchase option, and the purchase price agreed is sufficiently lower than the fair value of the leased asset at the time the option is expected to be exercised, so that it is reasonably certain at the inception date that the lessee will exercise the option.

(3) Although ownership of the asset is not transferred, the lease term covers the major part of the useful life of the leased asset.

(4) At the inception date, the present value of the lease payments receivable is substantially equal to the fair value of the leased asset.

(5) The leased asset is of such a specialized nature that only the lessee can use it without major modifications.

A lease may also be classified as a finance lease where any one or more of the following indicators exist:

(1) If the lessee cancels the lease, the lessee bears the loss caused to the lessor by the cancellation.

(2) Gains or losses from fluctuations in the fair value of the residual value of the asset accrue to the lessee.

(3) The lessee has the ability to continue the lease for a further period at a rent that is substantially lower than the market rent.

Article 37 — A sublessor shall classify a sublease based on the right-of-use asset arising from the head lease, rather than on the underlying asset of the head lease.



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However, where the head lease is a short-term lease and the sublessor applies the simplified treatment in Article 32 of this Standard to the head lease, the sublessor shall classify the sublease as an operating lease.

### Section 2 — Accounting by the Lessor for Finance Leases

Article 38 — At the commencement date of a lease, a lessor shall recognize a finance lease receivable and derecognize the finance lease asset.

When initially measuring the finance lease receivable, the lessor shall use the net investment in the lease as the recorded amount of the finance lease receivable.

The net investment in the lease is the sum of the unguaranteed residual value and the present value of the lease payments receivable that have not been received at the commencement date of the lease, discounted using the interest rate implicit in the lease.

"Lease payments receivable" refers to the amounts that the lessor is entitled to collect from the lessee in exchange for conveying the right to use the leased asset during the lease term, including:

(1) Fixed payments and in-substance fixed payments to be paid by the lessee, less any lease incentives;

(2) Variable lease payments that depend on an index or a rate, which are determined at initial measurement based on the index or rate at the commencement date of the lease;

(3) The exercise price of a purchase option, provided that it is reasonably certain that the lessee will exercise the option;

(4) Payments to be made by the lessee for exercising a termination option, provided that the lease term reflects that the lessee will exercise the termination option;

(5) Residual value guarantees provided to the lessor by the lessee, a party related to the lessee, and an independent third party that is financially capable of performing the guarantee obligation.

In the case of a sublease, where the interest rate implicit in the sublease cannot be determined, the sublessor may use the discount rate of the head lease (adjusted for the initial direct costs related to the sublease) to measure the net investment in the sublease.

Article 39 — A lessor shall calculate and recognize interest income for each period during the lease term using a fixed periodic rate. The periodic rate is the discount rate adopted in accordance with Article 38 of this Standard, or the revised discount rate adopted in accordance with Article 44 of this Standard.

Article 40 — A lessor shall account for the derecognition and impairment of a finance lease receivable in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments and No. 23 — Transfer of Financial Assets.

Where a lessor classifies a finance lease receivable, or the disposal group in which it is included, as held for sale, it shall account for it in accordance with Accounting Standards for Business Enterprises No. 42 — Non-Current Assets Held for Sale, Disposal Groups and Discontinued Operations.

Article 41 — Variable lease payments received by a lessor that are not included in the measurement of the net investment in the lease shall be recognized in profit or loss for the current period when they are incurred.

Article 42 — For a finance lease where a manufacturer or dealer is the lessor, at the commencement date of the lease, the lessor shall recognize revenue at the lower of the fair value of the leased asset and the present value of the lease payments receivable discounted at a market rate of interest, and carry forward the cost of sales at the carrying amount of the leased asset less the present value of the unguaranteed residual value.

Costs incurred by a manufacturer or dealer lessor to obtain a finance lease shall be recognized in profit or loss for the current period at the commencement date of the lease.

Article 43 — Where a finance lease is modified and the modification meets both of the following conditions, the lessor shall account for the modification as a separate lease:

(1) The modification increases the scope of the lease by adding the right to use one or more underlying assets;

(2) The increased consideration is commensurate with the stand-alone price for the increase in scope, adjusted for the circumstances of the particular contract.

Article 44 — Where a modification of a finance lease is not accounted for as a separate lease, the lessor shall account for the modified lease separately in the following circumstances:

(1) Where, had the modification been effective at the inception date of the lease, the lease would have been classified as an operating lease, the lessor shall account for it as a new lease from the effective date of the lease modification, and use the net investment in the lease immediately before the effective date of the lease modification as the carrying amount of the leased asset;

(2) Where, had the modification been effective at the inception date of the lease, the lease would have been classified as a finance lease, the lessor shall account for it in accordance with the provisions of Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments on the modification or renegotiation of a contract.

### Section 3 — Accounting by the Lessor for Operating Leases

Article 45 — For each period during the lease term, a lessor shall recognize lease payments receivable under an operating lease as rental income using the straight-line method or another systematic and rational method. Where another systematic and rational method better reflects the pattern in which the economic benefits from the use of the leased asset are consumed, the lessor shall use that method.

Article 46 — Initial direct costs incurred by a lessor in connection with an operating lease shall be capitalized and allocated over the lease term on the same basis as rental income is recognized, and recognized in profit or loss for each period.

Article 47 — For fixed assets that are operating lease assets, a lessor shall depreciate them using a depreciation policy for similar assets; for other operating lease assets, the lessor shall amortize them using a systematic and rational method in accordance with the accounting standards for business enterprises applicable to those assets.

A lessor shall determine whether an operating lease asset is impaired and account for it accordingly in accordance with Accounting Standards for Business Enterprises No. 8 — Impairment of Assets.

Article 48 — Variable lease payments received by a lessor in connection with an operating lease that are not included in the lease payments receivable shall be recognized in profit or loss for the current period when they are incurred.

Article 49 — Where an operating lease is modified, the lessor shall account for it as a new lease from the effective date of the modification, and any prepaid or receivable lease payments related to the lease before the modification shall be treated as lease payments receivable of the new lease.

## Chapter V — Sale and Leaseback Transactions

Article 50 — A lessee and a lessor shall assess and determine, in accordance with Accounting Standards for Business Enterprises No. 14 — Revenue, whether the transfer of an asset in a sale and leaseback transaction is a sale.

Article 51 — Where the transfer of an asset in a sale and leaseback transaction is a sale, the lessee shall measure the right-of-use asset arising from the sale and leaseback at the proportion of the previous carrying



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amount of the asset that relates to the right of use retained through the leaseback, and recognize only the amount of any gain or loss that relates to the rights transferred to the lessor; the lessor shall account for the purchase of the asset in accordance with other applicable accounting standards for business enterprises, and account for the lease of the asset in accordance with this Standard.

Where the fair value of the consideration for the sale differs from the fair value of the asset, or the lessor does not collect rent at market prices, the enterprise shall account for any amount of the sale consideration below market prices as a prepayment of rent, and any amount above market prices as additional financing provided by the lessor to the lessee; at the same time, the lessee shall adjust the relevant gain or loss on sale by reference to fair value, and the lessor shall adjust rental income by reference to market prices.

In making the above adjustments, the enterprise shall base them on whichever of the following is more readily determinable: the difference between the fair value of the consideration for the sale and the fair value of the asset, or the difference between the present value of the payments under the lease and the present value of the payments calculated at market rental rates.

Article 52 — Where the transfer of an asset in a sale and leaseback transaction is not a sale, the lessee shall continue to recognize the transferred asset and, at the same time, recognize a financial liability equal to the transfer proceeds, and account for the financial liability in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments; the lessor shall not recognize the transferred asset, but shall recognize a financial asset equal to the transfer proceeds, and account for the financial asset in accordance with Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments.

## Chapter VI — Presentation

### Section 1 — Presentation by the Lessee

Article 53 — A lessee shall present right-of-use assets and lease liabilities separately in the balance sheet. Lease liabilities are generally presented separately as non-current liabilities and as non-current liabilities due within one year.

In the income statement, the lessee shall present the interest expense on lease liabilities and the depreciation expense on right-of-use assets separately. The interest expense on lease liabilities shall be presented under finance expenses.

In the cash flow statement, cash paid for repayment of the principal and interest of lease liabilities shall be included in cash outflows from financing activities, and payments for short-term leases and leases of low-value assets to which the simplified treatment in Article 32 of this Standard is applied, and variable lease payments not included in the measurement of lease liabilities, shall be included in cash outflows from operating activities.

Article 54 — A lessee shall disclose the following information related to leases in the notes:

(1) The opening balance, additions during the period and closing balance of each class of right-of-use assets, as well as the accumulated depreciation and impairment amounts;

(2) The interest expense on lease liabilities;

(3) Short-term lease expenses and lease expenses for low-value assets to which the simplified treatment in Article 32 of this Standard is applied that are recognized in profit or loss for the current period;

(4) Variable lease payments not included in the measurement of lease liabilities;

(5) Income from subleasing right-of-use assets;

(6) Total cash outflows related to leases;



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(7) Relevant gains or losses arising from sale and leaseback transactions;

(8) Other information about lease liabilities that should be disclosed in accordance with Accounting Standards for Business Enterprises No. 37 — Presentation of Financial Instruments.

Where a lessee applies the simplified treatment in Article 32 of this Standard to short-term leases and leases of low-value assets, it shall disclose that fact.

Article 55 — A lessee shall disclose other qualitative and quantitative information about its leasing activities as necessary for understanding the financial statements. Such information includes:

(1) The nature of its leasing activities, such as a description of the basic circumstances of its leasing activities;

(2) Future potential cash outflows not included in the measurement of lease liabilities;

(3) Restrictions or commitments arising from leases;

(4) Information about sale and leaseback transactions other than paragraph (7) of Article 54;

(5) Other relevant information.

### Section 2 — Presentation by the Lessor

Article 56 — A lessor shall present operating lease assets in the balance sheet according to the nature of the assets.

Article 57 — A lessor shall disclose the following information related to finance leases in the notes:

(1) Selling profit or loss, finance income on the net investment in the lease, and income related to variable lease payments not included in the net investment in the lease;

(2) The undiscounted lease payments receivable in each of the five consecutive accounting years following the balance sheet date, and the total undiscounted lease payments receivable in the remaining years;

(3) A reconciliation of the undiscounted lease payments receivable to the net investment in the lease.

Article 58 — A lessor shall disclose the following information related to operating leases in the notes:

(1) Lease income, separately disclosing income related to variable lease payments not included in lease payments receivable;

(2) Operating lease fixed assets presented separately from fixed assets held by the lessor for its own use, and the information required to be disclosed by Accounting Standards for Business Enterprises No. 4 — Fixed Assets by class of operating lease fixed asset;

(3) The undiscounted lease payments receivable in each of the five consecutive accounting years following the balance sheet date, and the total undiscounted lease payments receivable in the remaining years.

Article 59 — A lessor shall disclose other qualitative and quantitative information about its leasing activities as necessary for understanding the financial statements. Such information includes:

(1) The nature of its leasing activities, such as a description of the basic circumstances of its leasing activities;

(2) Its risk management of the rights it retains in the leased assets;

(3) Other relevant information.

## Chapter VII — Transitional Provisions

Article 60 — For contracts existing before the date of first application, an enterprise may elect not to reassess at the date of first application whether they are, or contain, leases. Where the enterprise elects not



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to reassess, it shall disclose that fact in the notes to the financial statements and apply it consistently to all the aforesaid contracts.

Article 61 — A lessee shall elect one of the following methods for the transitional accounting treatment of leases and apply it consistently to all leases in which it is the lessee:

(1) Apply the retrospective adjustment method in accordance with Accounting Standards for Business Enterprises No. 28 — Changes in Accounting Policies and Estimates and Correction of Errors.

(2) Adjust retained earnings and the amounts of other relevant items in the financial statements at the beginning of the year of first application based on the cumulative effect of first applying this Standard, without adjusting comparative information. When this method is adopted, the transitional treatment shall be made in accordance with the following provisions:

For a finance lease existing before the date of first application, the lessee shall measure the right-of-use asset and the lease liability at the date of first application at the previous carrying amounts of the asset acquired under the finance lease and the finance lease payable.

For an operating lease existing before the date of first application, the lessee shall measure the lease liability at the date of first application at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of first application, and measure the right-of-use asset for each lease at one of the following two amounts:

(1) The carrying amount as if this Standard had been applied since the commencement date of the lease (using the lessee's incremental borrowing rate at the date of first application as the discount rate);

(2) An amount equal to the lease liability, adjusted by any prepaid rent.

At the date of first application, the lessee shall perform an impairment test on the right-of-use asset in accordance with Accounting Standards for Business Enterprises No. 8 — Impairment of Assets and account for it accordingly.

Article 62 — For an operating lease existing before the date of first application, where the leased asset is a low-value asset and the lessee elects, in accordance with Article 32 of this Standard, not to recognize a right-of-use asset and a lease liability, the lessee need not adjust the operating lease in accordance with the transitional provisions, and shall account for it in accordance with this Standard from the date of first application.

Article 63 — Where a lessee adopts paragraph (2) of Article 61 of this Standard for transitional accounting treatment, for operating leases existing before the date of first application, it may adopt one or more of the following simplified treatments for each lease:

A lease that will be completed within 12 months after the date of first application may be treated as a short-term lease.

In measuring lease liabilities, a single discount rate may be used for leases with similar characteristics; the measurement of the right-of-use asset may exclude initial direct costs.

Where there is a renewal option or a termination option, the lessee may determine the lease term based on the actual exercise of the option before the date of first application and other latest circumstances, without the need to estimate whether it was reasonably certain to exercise a renewal option or a termination option in each period before the date of first application.

As an alternative to an impairment test on the right-of-use asset, the lessee may assess, in accordance with Accounting Standards for Business Enterprises No. 13 — Contingencies, whether a contract containing a lease was an onerous contract before the date of first application, and adjust the right-of-use asset by the amount of the onerous provision recognized in the balance sheet before the date of first application.



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Where a lease modification occurred before the beginning of the year of first application of this Standard, the lessee need not make a retrospective adjustment to the lease modification in accordance with Articles 28 and 29 of this Standard, but shall account for it in accordance with this Standard based on the final arrangement of the lease modification.

Article 64 — Where a lessee adopts the simplified treatments prescribed in Article 63 of this Standard, it shall disclose in the notes to the financial statements the simplified treatments adopted and a qualitative analysis, to the extent reasonably practicable, of the estimated effect of adopting each simplified treatment.

Article 65 — For a sublease that was classified as an operating lease before the date of first application and that remains outstanding after the date of first application, the sublessor shall reassess it at the date of first application based on the remaining contractual terms and conditions of the head lease and the sublease, and classify it in accordance with this Standard. Where it is reclassified as a finance lease in accordance with this Standard, it shall be accounted for as a new finance lease.

Except for the circumstances described in the preceding paragraph, a lessor need not adjust the leases in which it is the lessor in accordance with the transitional provisions, and shall account for them in accordance with this Standard from the date of first application.

Article 66 — For a sale and leaseback transaction existing before the date of first application, the enterprise shall not reassess at the date of first application whether the transfer of the asset meets the provisions of Accounting Standards for Business Enterprises No. 14 — Revenue for accounting treatment as a sale.

For a sale and leaseback transaction that should be accounted for as a sale and finance lease before the date of first application, the seller (lessee) shall account for the leaseback in the same manner as other finance leases existing at the date of first application, and continue to amortize the relevant deferred gain or loss over the lease term.

For a sale and leaseback transaction that should be accounted for as a sale and operating lease before the date of first application, the seller (lessee) shall account for the leaseback in the same manner as other operating leases existing at the date of first application, and adjust the right-of-use asset by the relevant deferred gain or loss recognized in the balance sheet before the date of first application.

Article 67 — Where a lessee elects to apply paragraph (2) of Article 61 of this Standard for the transitional accounting treatment of leases, it shall also disclose the following information at the date of first application:

(1) The weighted average of the lessee's incremental borrowing rate applied to the lease liabilities recognized in the balance sheet at the date of first application;

(2) The difference between the present value of the undiscounted minimum lease payments of significant operating leases disclosed at the end of the annual reporting period before the date of first application, discounted using the lessee's incremental borrowing rate at the date of first application, and the lease liabilities recognized in the balance sheet at the date of first application.

## Chapter VIII — Supplementary Provisions

Article 68 — This Standard shall become effective on January 1, 2019.

Disclaimer: This is an unofficial English translation of Accounting Standard for Business Enterprises No. 21 — Leases (2018), provided by Dan Young Business Consultancy for informational and reference purposes only. It is not an official translation and carries no legal effect. In the event of any discrepancy between this translation and the original Chinese text, the original Chinese version shall prevail. This translation does not constitute accounting, tax, or legal advice and should not be relied upon as a substitute for professional counsel.