

# Implementing AASB 16 *Leases*

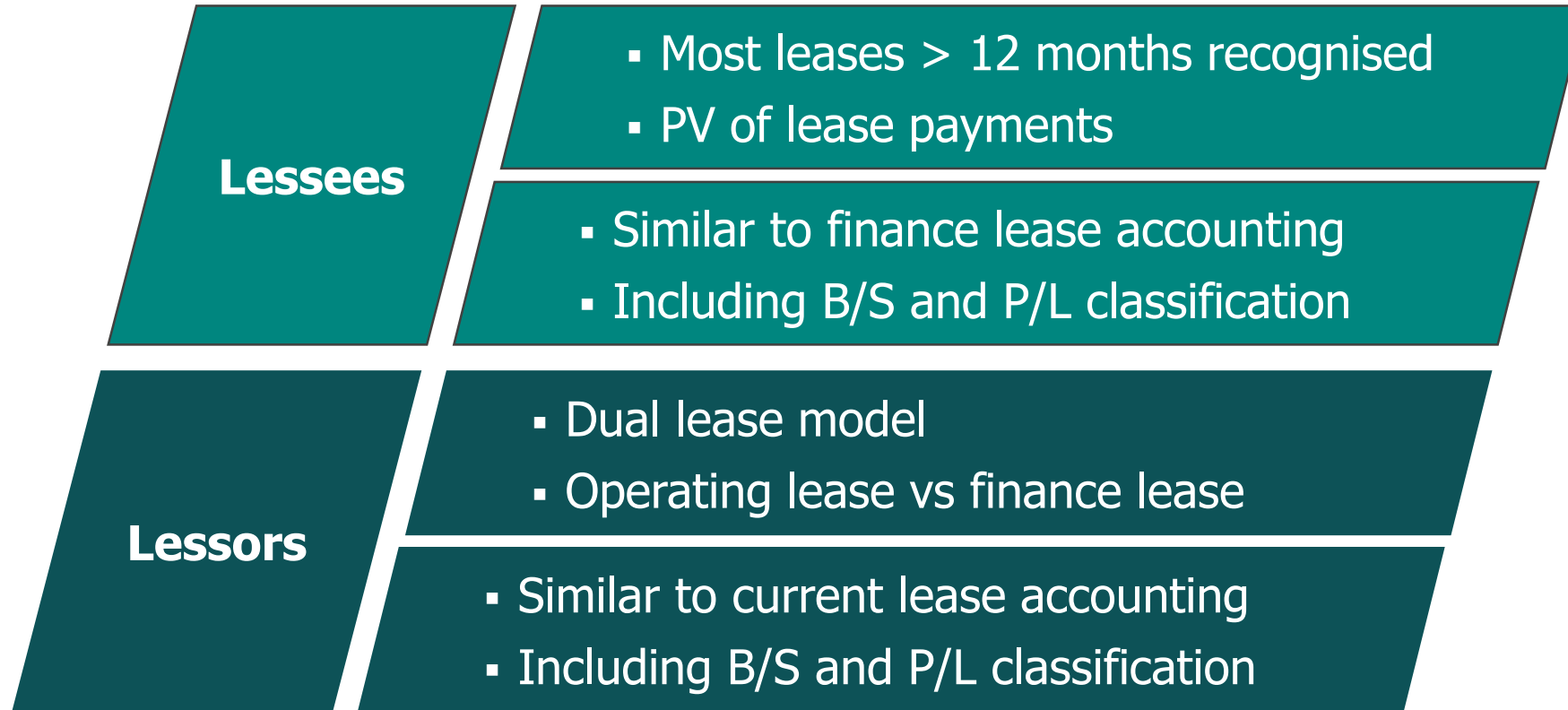
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# Agenda

- Overview of the AASB 16 lease model
- Application issues
  - Scope
  - Lease term
  - Lease payments
  - Discount rate
  - Remeasurements
  - Presentation
  - Not-for-profit entities
  - Transition
- Nexia's Lease Accounting Solutions

# Lease model: Overview



# Scope

Contracts that conveys the right to use an asset for a period of time in return for consideration

- Right to use a specified asset; and
- Within the scope of the customer's rights in the contract, the customer:
  - Obtains substantially all the benefits from use of the asset; and
  - Has the right to **direct the use** of the asset

# Scope: Use of a specified asset

## Arrangements in scope

- Explicitly specified asset
- Not explicitly specified but fulfilment is dependent upon identified asset with no substantive substitution rights
- Physically distinct asset or portion (floor of a building)

## Arrangements out of scope

- No specifically identified asset
- Asset identified but supplier has substantive substitution rights
- Not physically distinct portion of an asset
- Capacity portions (eg, fibre optic cable, pipeline, port capacity)
- Taking substantially all benefits or output (quantity) without power to direct use (different to IFRIC 4)

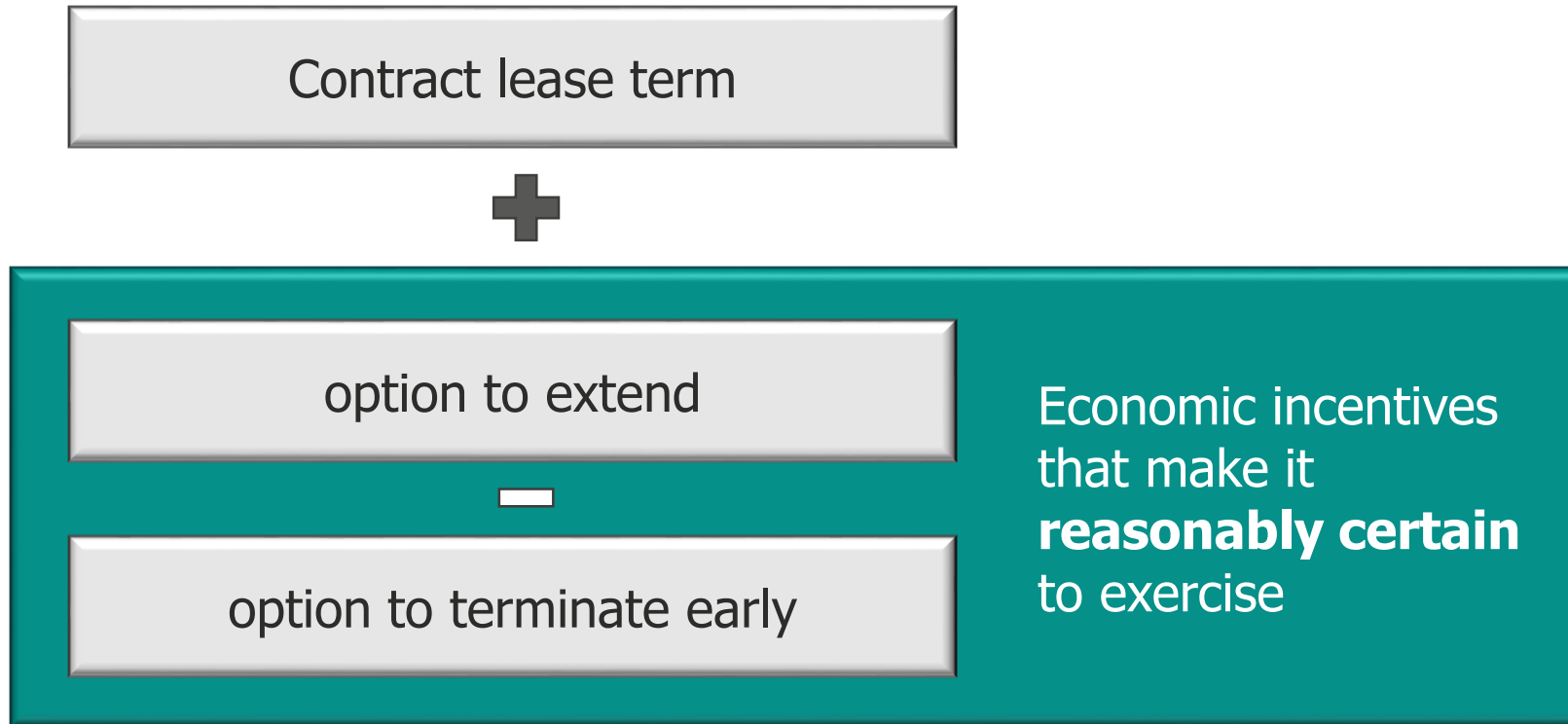
# Scope: Leases or service arrangements

- Use of assets incidental to delivery of service not a lease
  - Use of asset inseparable and non-distinct part of overall service is not a lease
  - Asset has no separate value or can't be used independently from service
  - Eg, some outsourcing arrangements – IT, cloud services, wet hire
- Account for lease and non-lease components separately
  - Option to account as whole arrangement as a lease
- Election not to revisit scope for existing arrangements
  - Only apply to contracts previously in AASB 117
  - Need to assess for any new arrangements

# Scope: Lessee elections

- Short-term leases
  - Lease term (as defined) < 12 months
  - Class-of-asset election
- Leases of low-value assets
  - Absolute value, not relative to entity size
  - Phones, laptops, small equipment, but not cars
  - Guidance: assets <\$5,000 when new
  - Lease-by-lease election

# Lease term



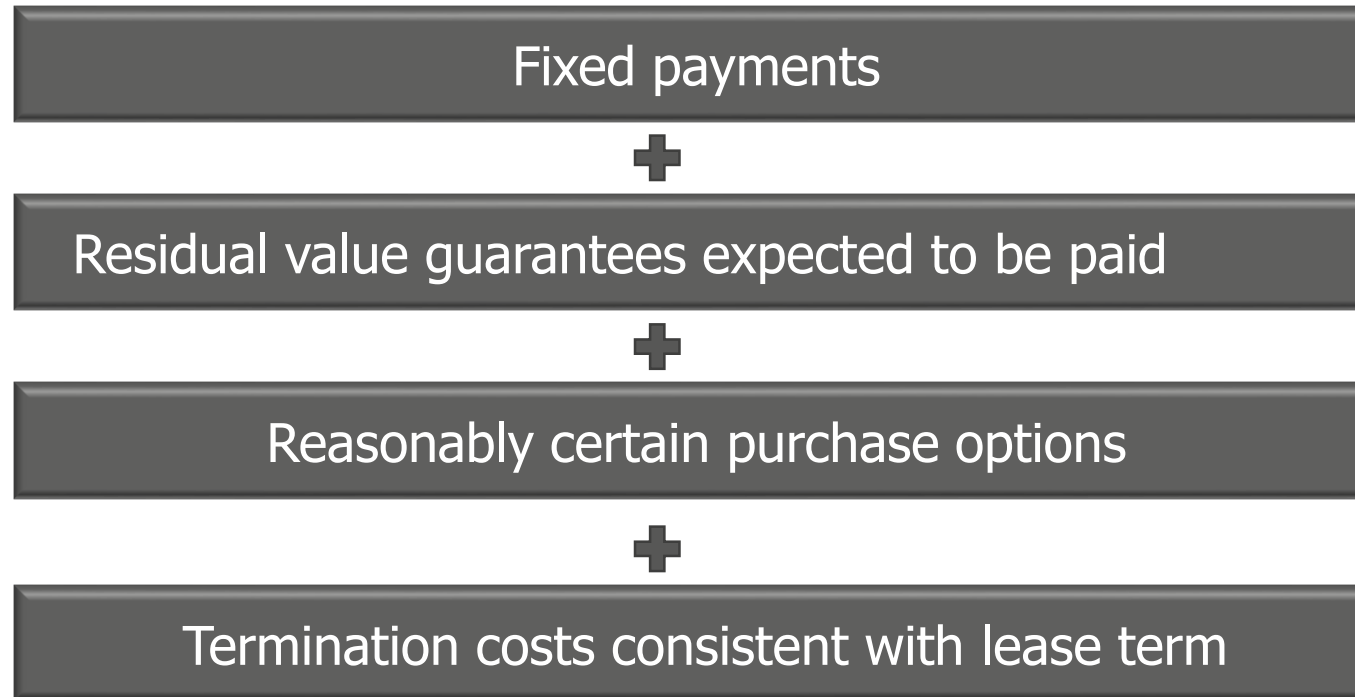
Nature of asset – eg, specialised  
Relocation, restoration, termination costs

- Market factors – eg, market rates
- Significant leasehold improvements



# Lease payments

- Consistent with the lease term



Separate other services and outgoings, if possible

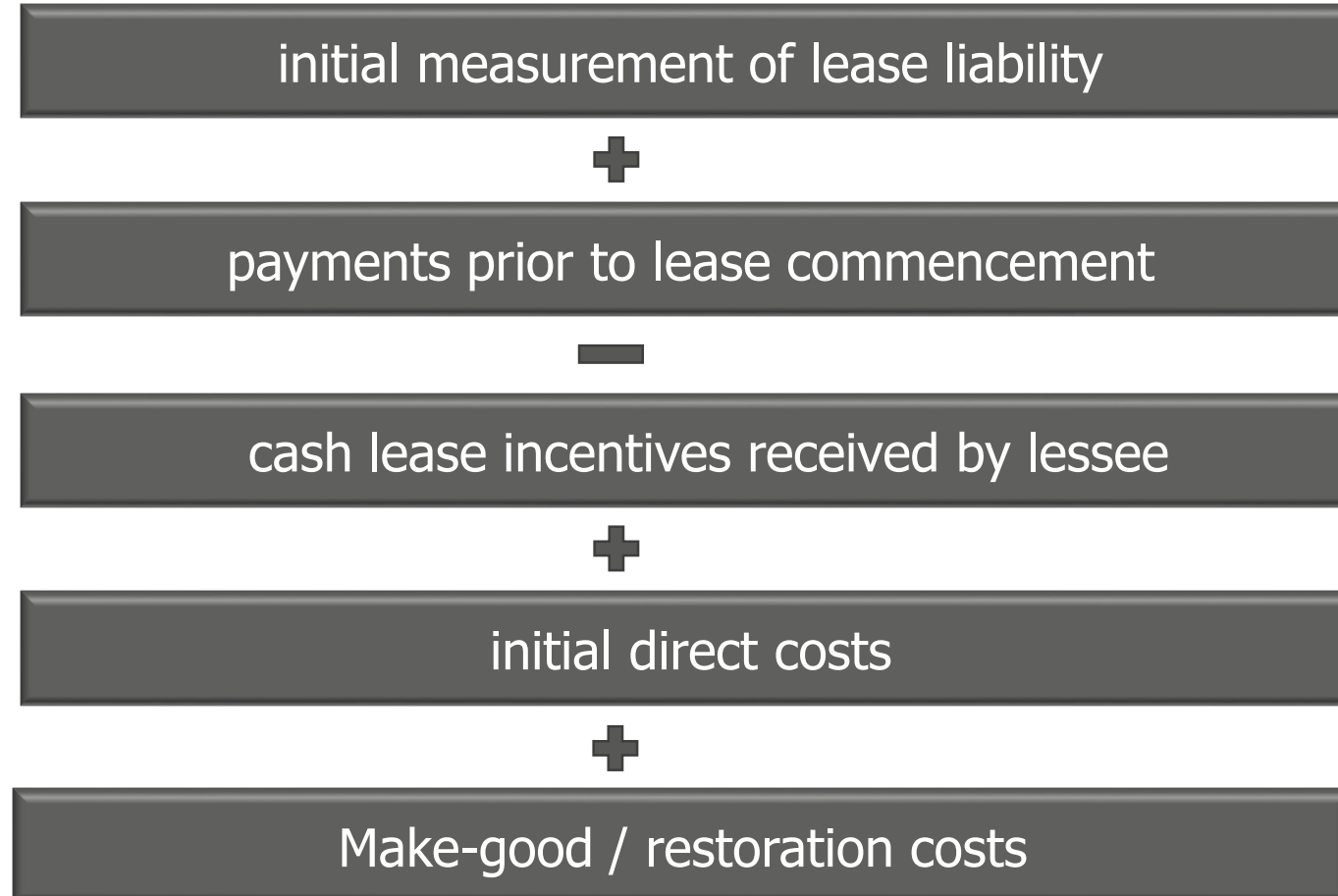
# Lessee accounting – initial measurement

## Lease liability

- Present value of lease payments over the lease term
- Discount at the rate charged by lessor or lessee's incremental borrowing rate
  - to finance similar amount; term; security
- Estimating this rate ?
  - Ability to access finance
  - Current borrowings
  - Commercial bond rate of similar credit risk and maturity
  - Overdraft rate
  - Benchmark borrowing rates

# Lessee accounting – initial measurement

- Right-of-use asset =



# Lease remeasurement

Change in assessment of :

- lease term
- purchase option
- future lease payments

**Change to existing lease**

- Remeasure lease liability
- Adjust lease asset

- Change in scope
- Change in assets being leased

**New lease**

# Remeasurements

- Discount rate

Change to future lease payments caused by:

- amounts payable under residual value guarantees
- change in index or rate, or market reviews

- Use original discount rate

Change in assessment of:

- lease term
- renewal options
- purchase option

- Revise discount rate

# Presentation

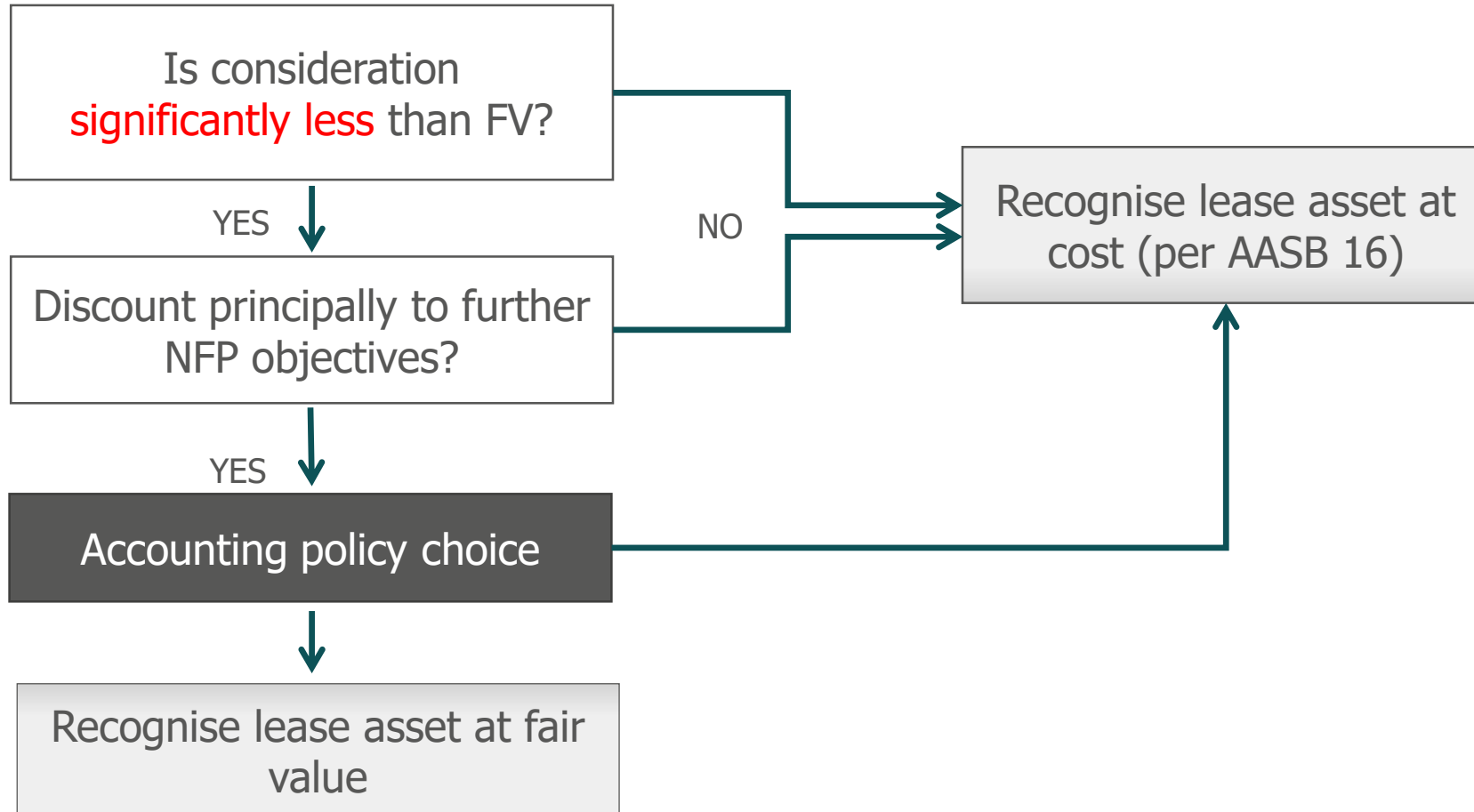
- Balance sheet
  - Asset shown separately or in the notes
  - Liability - Current vs non current classification
- Income Statement
  - Interest and amortisation presented separately
- Cash Flow Statement
  - Principal repayment of liability – financing activity
  - Interest paid – financing /operating per AASB 107
  - Variable lease payments – operating activity

# Not-for-profit issues

AASB 1058 + AASB 16

# AASB 1058 - Donation elements

- Below market leases – AASB 16 Recognising the lease asset





# Below market leases - example

- NFP enters a ten year lease for the use of a building. The lease contract specifies fixed lease payments of \$1 per annum. At the inception of the lease, the fair value of the right to use the leased property for ten years is \$860,000.

NFP recognises:

- Lease liability of \$8 (PV of \$1pa for 10 yrs) and either:

Fair value basis	Cost basis
• lease asset at its fair value of \$860,000; and	• lease asset at cost - \$8; and
• income at lease commencement of \$859,992	• income at lease commencement - \$ nil

# Transition and Implementation

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# Transition

## 1. Full retrospective

- as if always applied since lease inception;
- incremental borrowing rate at lease commencement date

## 2. Apply retrospectively from date of initial application

- Measurement of lease liability
  - Remaining lease payments
  - Incremental borrowing rate at transition date
- ROU asset (choice of measurement). Either:
  - a) Equal to the lease liability at transition (simplified method); or
  - b) As if applied since inception (ie, option 1) but discounted at incremental borrowing rate @ transition date (modified retrospective method)
    - Effect is same liability value but different asset values
- Other expedients also available

# Transition choices

## Example

Company A leases office space with the following terms:

- Lease commencement: 1 October 2015
- Lease term: 10 years
- Lease expiry: 30 September 2025
- Initial lease payments: \$15,000pm (\$180,000pa)
- Fixed annual increases: 3%
- (10 yr) borrowing rate at 1/10/15: 5.3%
- (6 yr) borrowing rate at 1/7/19: 4.1%

Company A's balance date is 30 June.

What are the effects on transition at 1/7/2019?

# Example - Transition choices

## At 1 July 2019

		Full Retrospective *	Modified Retrospective	Simplified
Lease asset		997,017	1,053,692	1,199,508
Lease liability		1,158,512	1,199,508	1,199,508
Net asset adj – AASB 16		(161,495)	(145,816)	-
Retained Earning adjustments	- AASB 16	*	(145,816)	-
	- AASB 117	*	70,737	70,737
Post 1/7/19 cumulative P/L effect		1,198,123	1,213,802	1,359,618

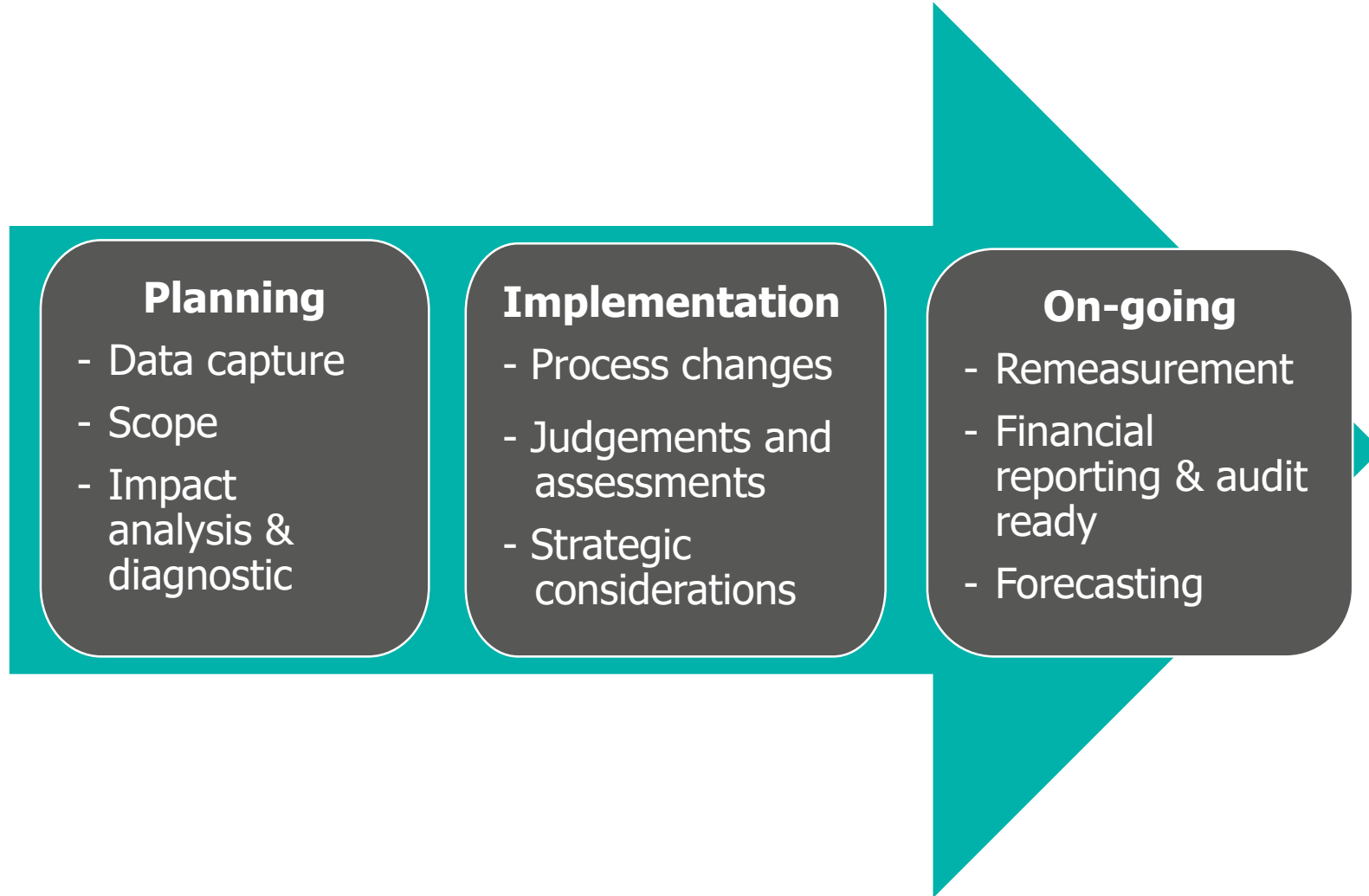
\* Net RE adjustment of \$74.4k dr occurs at 1/7/18 and changes FY 2018 comparatives

# In summary ...

## Application issues

- Scope
  - Outsourcing & bundled arrangements
  - Low value assets
  - Short-term leases
- Identify lease term
  - Option periods
  - Early termination
- Identify lease payments
  - Variable payments / turnover
  - CPI, market reset adjustments
  - Lease remeasurment
  - Data capture & calculations
- Determining the borrowing rate
- NFP below-market leases
  - Accounting policy choice
- Sub-lease arrangements
- Accounting policy choices
  - Transition
  - Elections
  - Revaluation of lease asset
- Management sign-off on assumptions / inputs / choices
- Audit process

# Next Steps



# Nexia's Lease Accounting Solution

1. Technical Accounting advice
  - diagnostics, impact assessments and transition assistance
2. AASB 16 lease accounting and reporting
  - managing your on-going AASB 16 compliance
  - regular reporting of asset, liability, amortisation and journals

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