IFRS 9, 15 and 16

Professional forum
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IFRS 15

Standards replaced

–Single standard (IFRS 15) replaces:

- IAS 11 *Construction Contracts*
- IAS 18 *Revenue*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 18 *Transfers of Assets from Customers*
- SIC-31 *Revenue – Barter Transactions Involving Advertising Services*

IFRS 15 applies to annual periods beginning on or after 1 January 2018

The Five Step Model – Overview

1. Identify the contract with a customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to performance obligations
5. Recognise revenue

Recognise Revenue as Performance Obligations Satisfied

‘Transfer of Control’ principle

- Recognise revenue as and when **control** of the good or service is transferred to a customer
- **Control** may be transferred over time or at a point in time
- Assessed from customer’s perspective and at the PO level

Performance Obligations is Satisfied over time if either:

1. Customer simultaneously receives and consumes the benefits as the entity performs.

   Routine or recurring services.

2. The customer controls the asset as the entity creates or enhances it.

   Asset built on customer's site.

3. The entity's performance does not create an asset for which the entity has an alternate use and there is a right to payment for performance to date.

   Asset built to order.

IFRS 15 Transition options

Approach	2016	2017	2018	Date of equity adjustment
Full retrospective – no practical expedients	IAS 11/18	IFRS 15	IFRS 15	1 January 2017
Full retrospective – practical expedients	IAS 11/18	Mixed requirements	IFRS 15	1 January 2017
Cumulative effect	IAS 11/18	IAS 11/18	IFRS 15	1 January 2018

Cumulative effect method: entity also needs to disclose revenue amounts that would have been presented under IAS 11/18

IFRS 9

Classification and measurement

- Similar categories:

IFRS 9	IAS 39
FVTPL	FVTPL
Amortised cost	Loans and receivables/HTM*
FVOCI	AFS*

*Significant changes in criteria for classifying assets.

FVTPL – Fair value through profit or loss
FVOCI – Fair value through other comprehensive income
HTM – Held to maturity
AFS – Available for sale

Impairment – the new model

Expected credit loss model

=

Past events

+

Current conditions

+

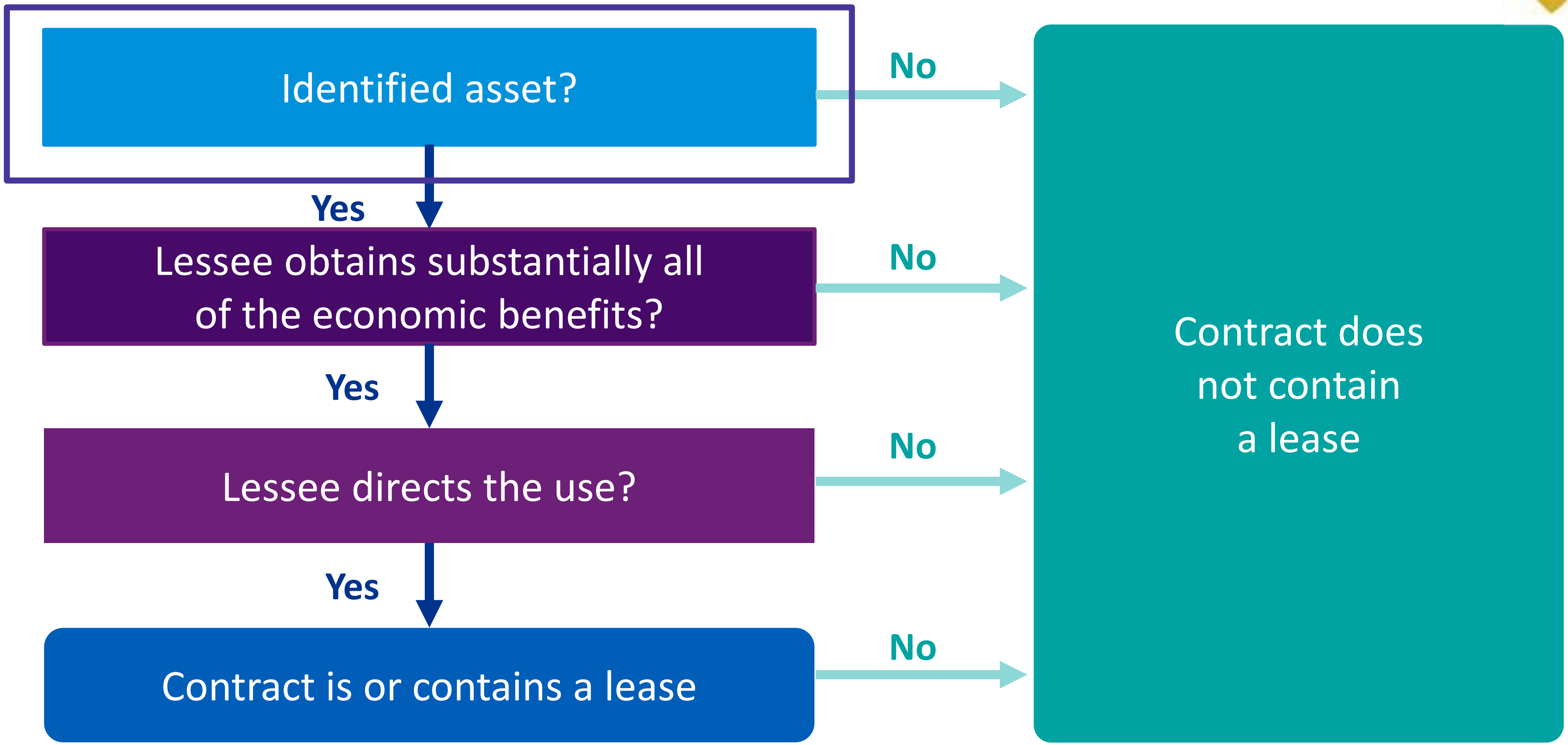
Forecast of future economic conditions

IFRS 9 Transition options

Retrospective application	**Cumulative effect method**
• Cumulative effect of applying IFRS 9 at the start of the earliest comparative period presented. • Only allowed to restate if this is possible without the use of hindsight.	• Cumulative effect recognised at the date of initial application • No restatement of the comparative periods presented • The comparative periods are presented in accordance with IAS 39.

IFRS 16

Overview


Identified asset?
No
Yes
Lessee obtains substantially all of the economic benefits?
No
Yes
Lessee directs the use?
No
Yes
Contract is or contains a lease
No
Contract does not contain a lease

Single lease accounting model

Balance sheet

Asset

= 'Right-of-use' (ROU) of underlying asset

Liability

= Obligation to make lease payments

P&L

Lease expense

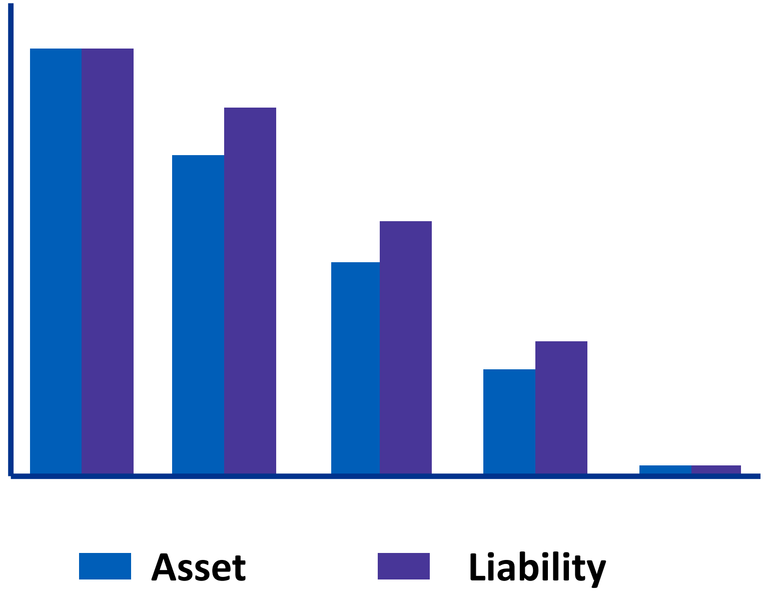
Depreciation

+ Interest

= Front-loaded total lease expense

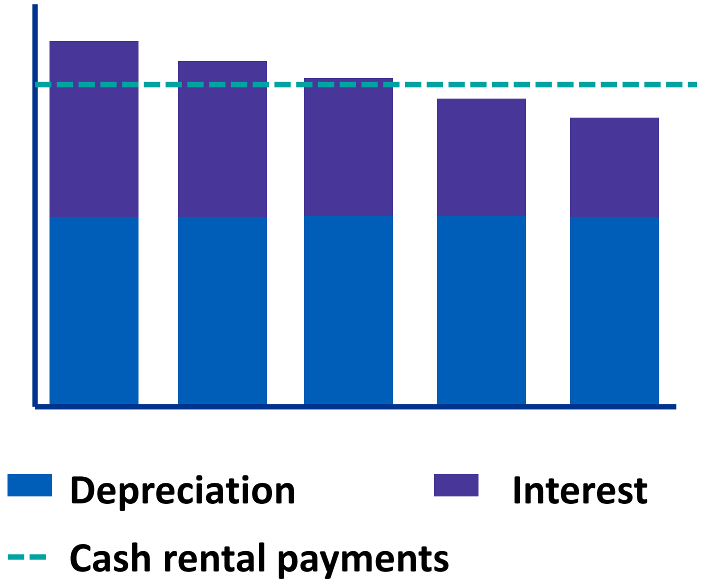
What’s the impact?

Balance sheet



- Airline appears to be more ***asset-rich***, but also more ***heavily indebted.***

Profit/loss



- Total lease expense is ***front-loaded*** even when cash rentals are constant.

Measuring the lease liability

Lease liability = Present value of lease rentals + Present value of expected payments at end of lease

Key inputs

- Lease term
- Lease payments
- Discount rate

Measuring the right-of-use (RO asset

ROU asset

=

Lease liability + Initial direct costs + Prepaid lease payments + Costs to dismantle or restore (IAS 37) − Lease incentives

IAS 17 to IFRS 16 – transition impact

Lessee operating lease	Lessee finance lease	Lessor operating lease	Lessor finance lease
Full retrospective	Full retrospective	No adjustment	
Modified retrospective with practical expedients	Modified retrospective		
High	Medium	Low	

what's THE IMPACT ?

Lease liability – modified retrospective

Lease liability = **Present value of remaining rentals** + **Present value of expected payments at end of lease**

Discount rate = lessee's incremental borrowing rate at *initial application*

Right-of-use (ROU) asset – modified retrospective

Choose on a lease by lease basis

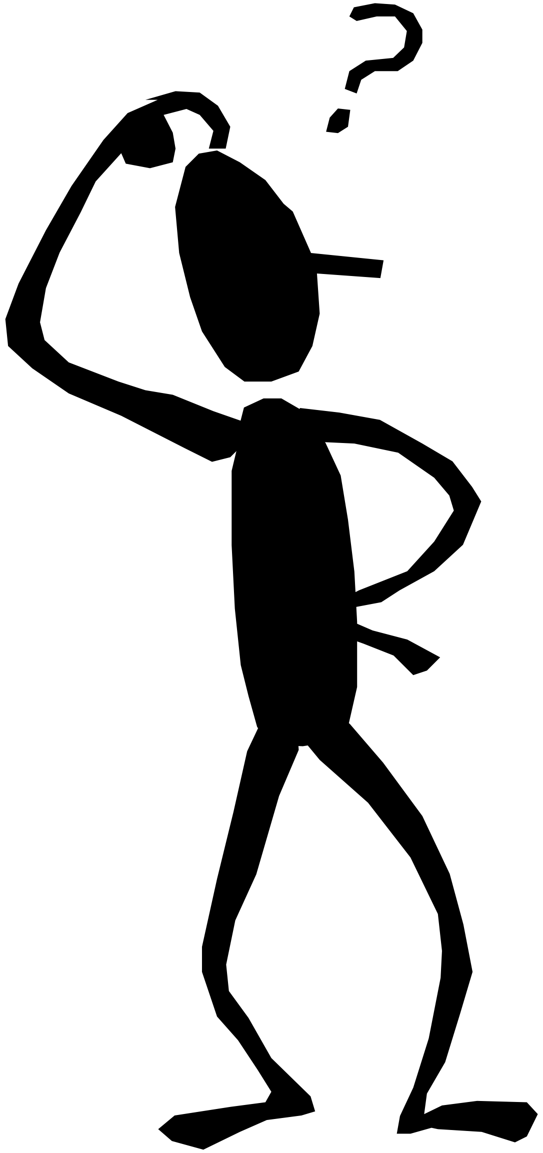
Option 1

ROU asset = Measure retrospectively using transition discount rate

Option 2

ROU asset = lease liability +/- prepaid/accrued payments

Apply IAS 36 at *initial application*



Questions and feedback ?