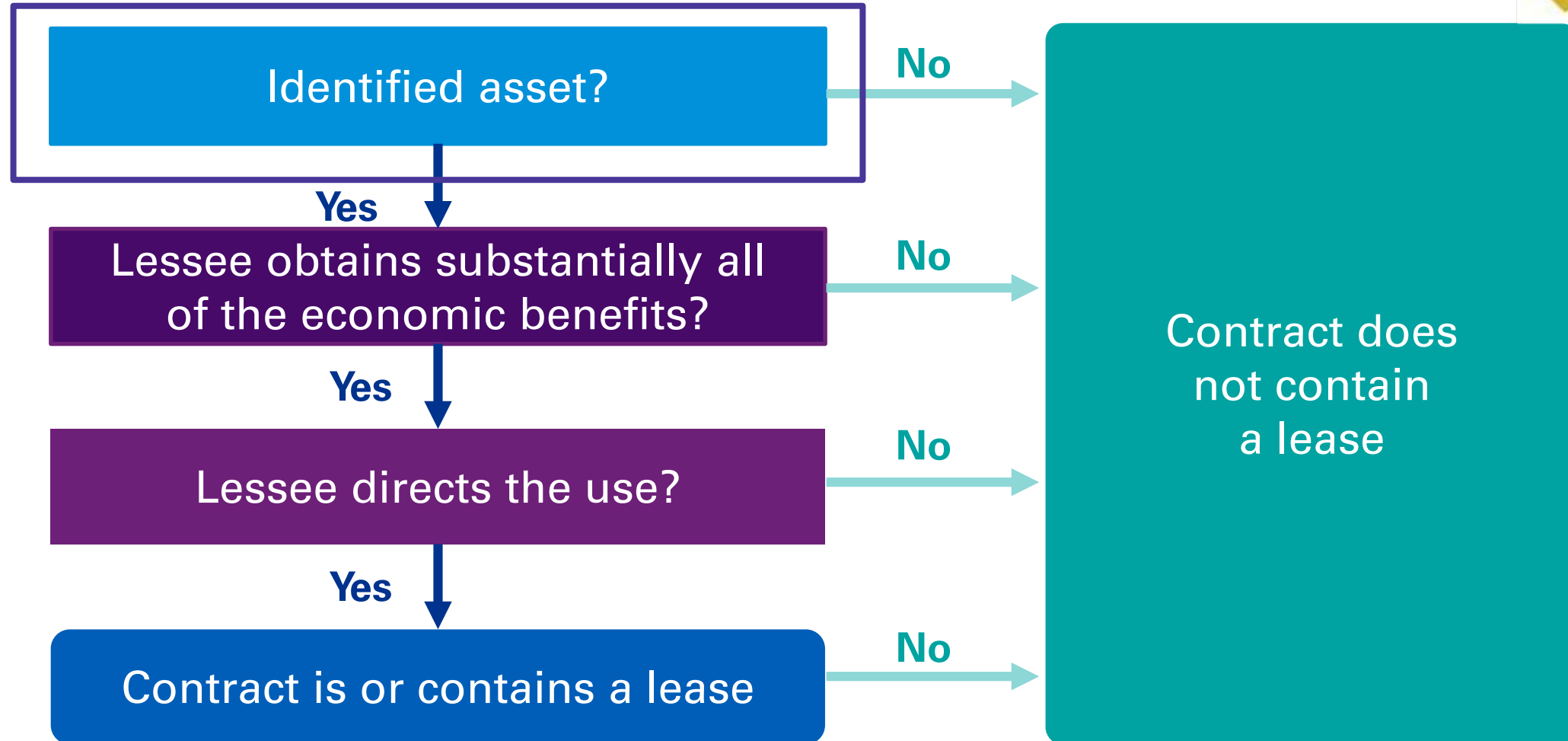


IFRS 16 - Leases

CPA Stephen Obock



Overview



Single lease accounting model



Balance sheet

Asset

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

Liability

= Obligation to make lease payments

P&L

Lease expense

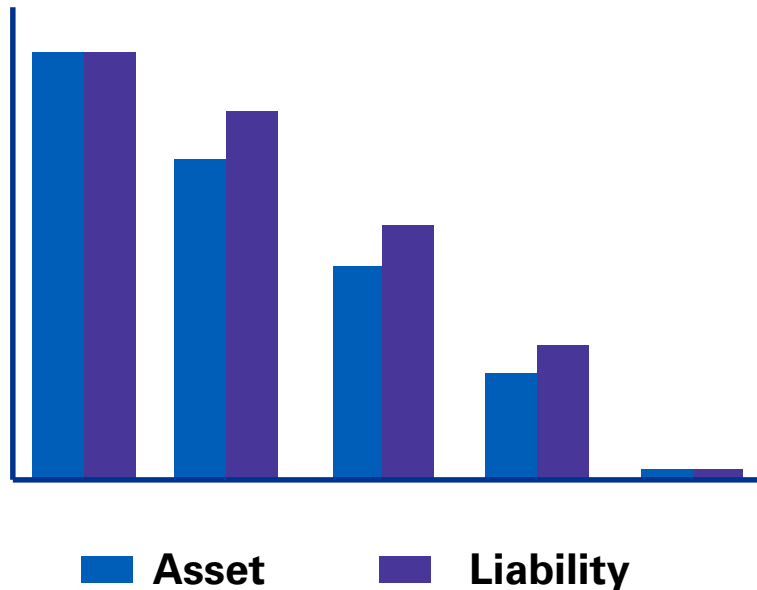
Depreciation

+ Interest

= Front-loaded total lease expense

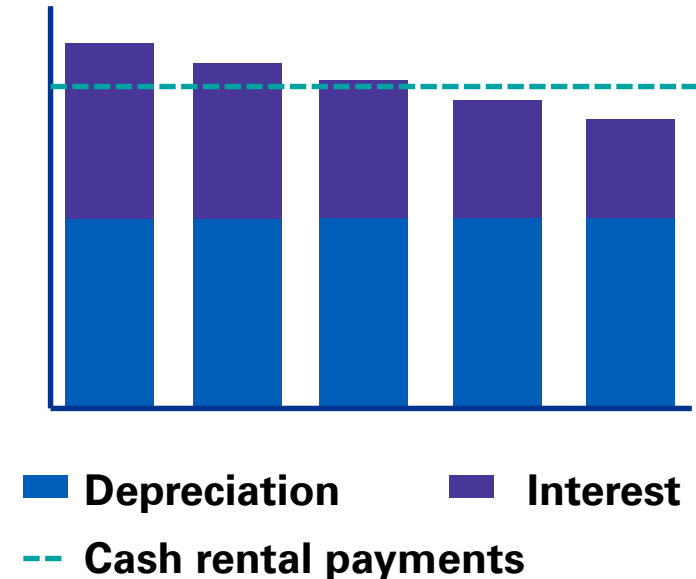
What's the impact?

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



Key inputs



Measuring the right-of-use (ROU) asset

ROU asset

=

Lease
liability

+

Initial direct
costs

+

Prepaid
lease
payments

+

Costs to
dismantle or
restore
(IAS 37)

-

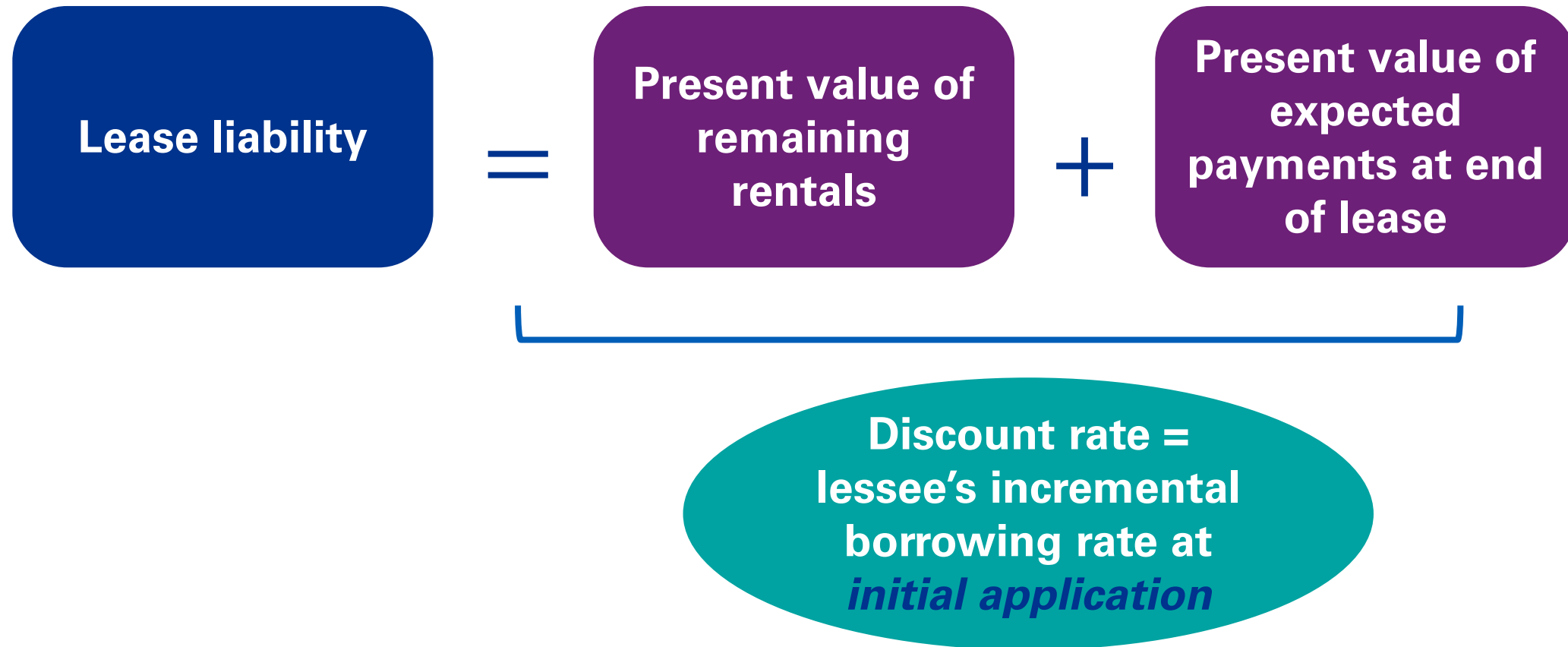
Lease
incentives

IAS 17 to IFRS 16 – transition impact

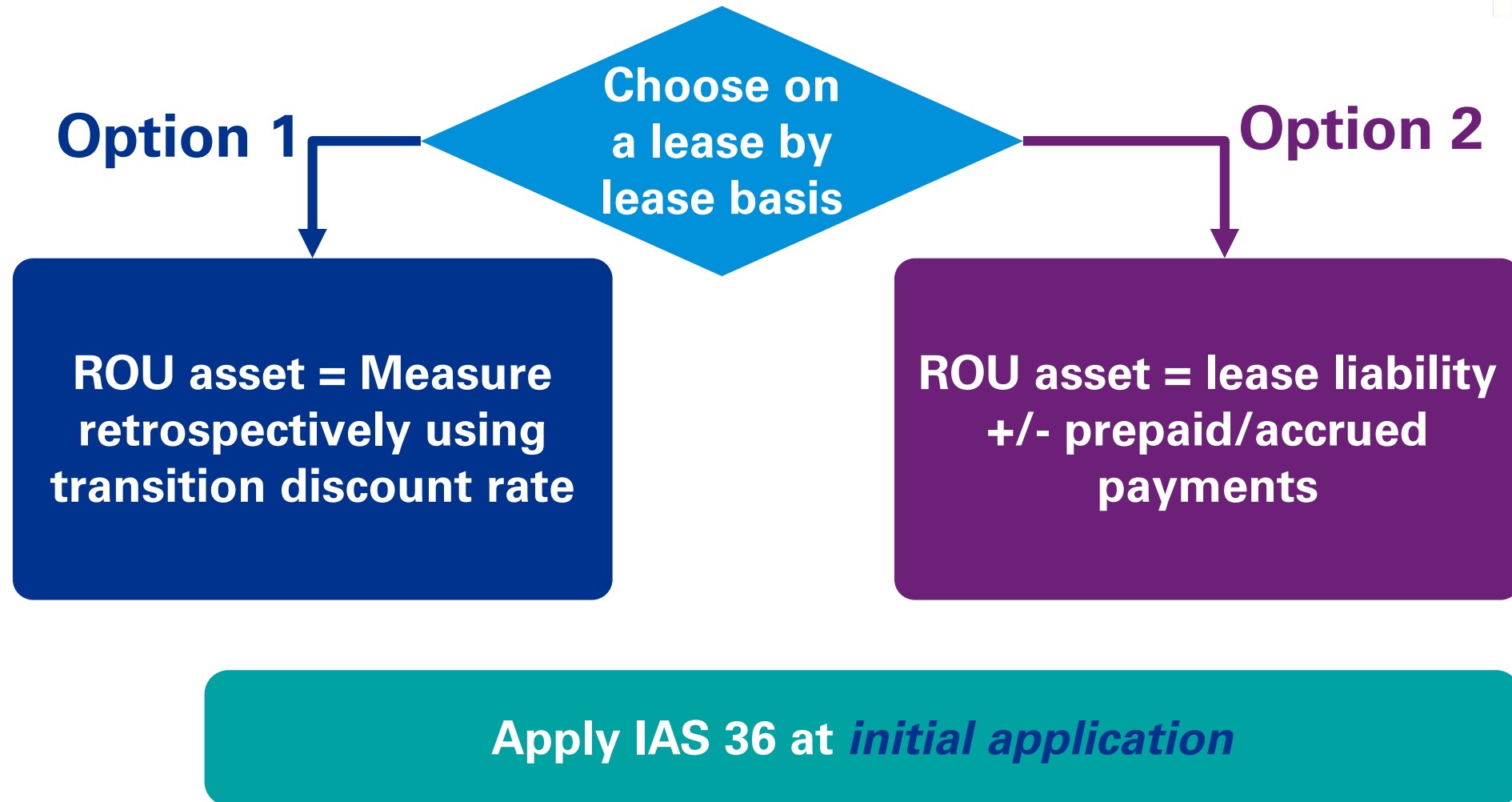
Lessee operating lease	Lessee finance lease	Lessor operating lease	Lessor finance lease
Full retrospective	Full retrospective	No adjustment	
Modified retrospective with practical	Modified retrospective		
High	Medium	Low	



Lease liability – modified retrospective



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

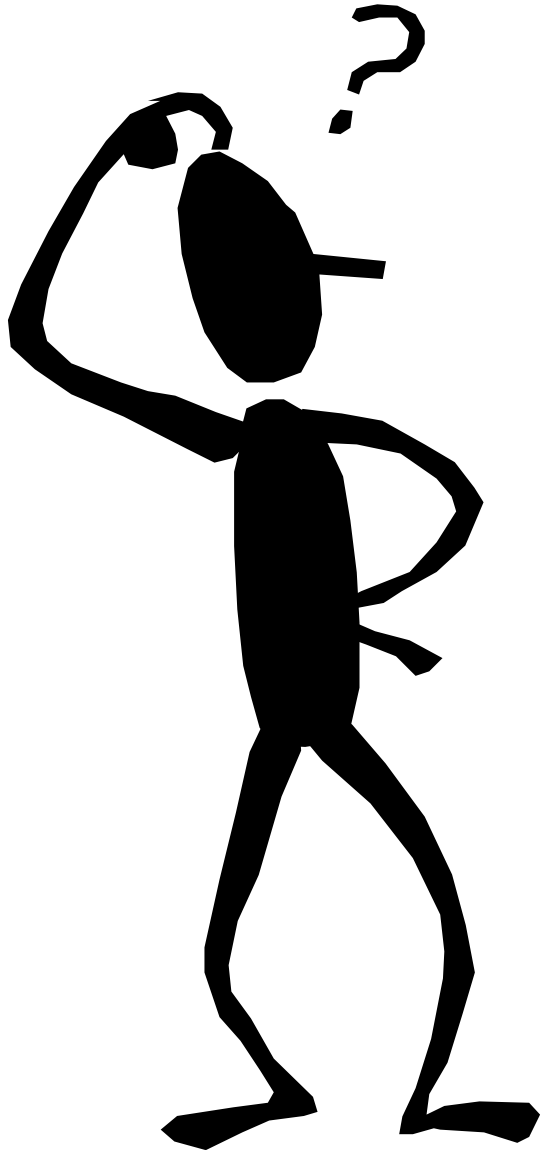


Case studies



- ABC Bank Plc entered a lease of office space for its head office in Nairobi CBD from XYZ Limited, a real estate company effective 1 January 2016 for a period of 5 years.
- Rent is paid in arrears on an annual basis at an amount of KES 167,040,000 per year and is inclusive of VAT at 16% and increases at a rate of 5% every year.
- In addition to the quarterly rent, the contract requires ABC Bank to pay a service charge of KES 12 million per year paid together with the rent.
- ABC has an option to extend the lease for another 5 years by giving a 3-months notice to XYZ prior to the end of the lease.
- ABC Bank incurred a cost of KES 105 million to partition the office and expects to incur an additional KES 80 million to dismantle the partitions which it has provided for per IAS 37.
- ABC financial year end is 31 December and its IBR is 12%

Determine: (1) The right of use asset, (2) Lease liability, (3) depreciation and interest expense on 31 December 2019.



Questions and discussions