



# INTERNATIONAL FINANCIAL REPORTING STANDARD 16: LEASES

Jim McFie  
Convenor, Membership & Quality Assurance  
Committee, ICPAK  
Thursday, 5<sup>th</sup> December 2019

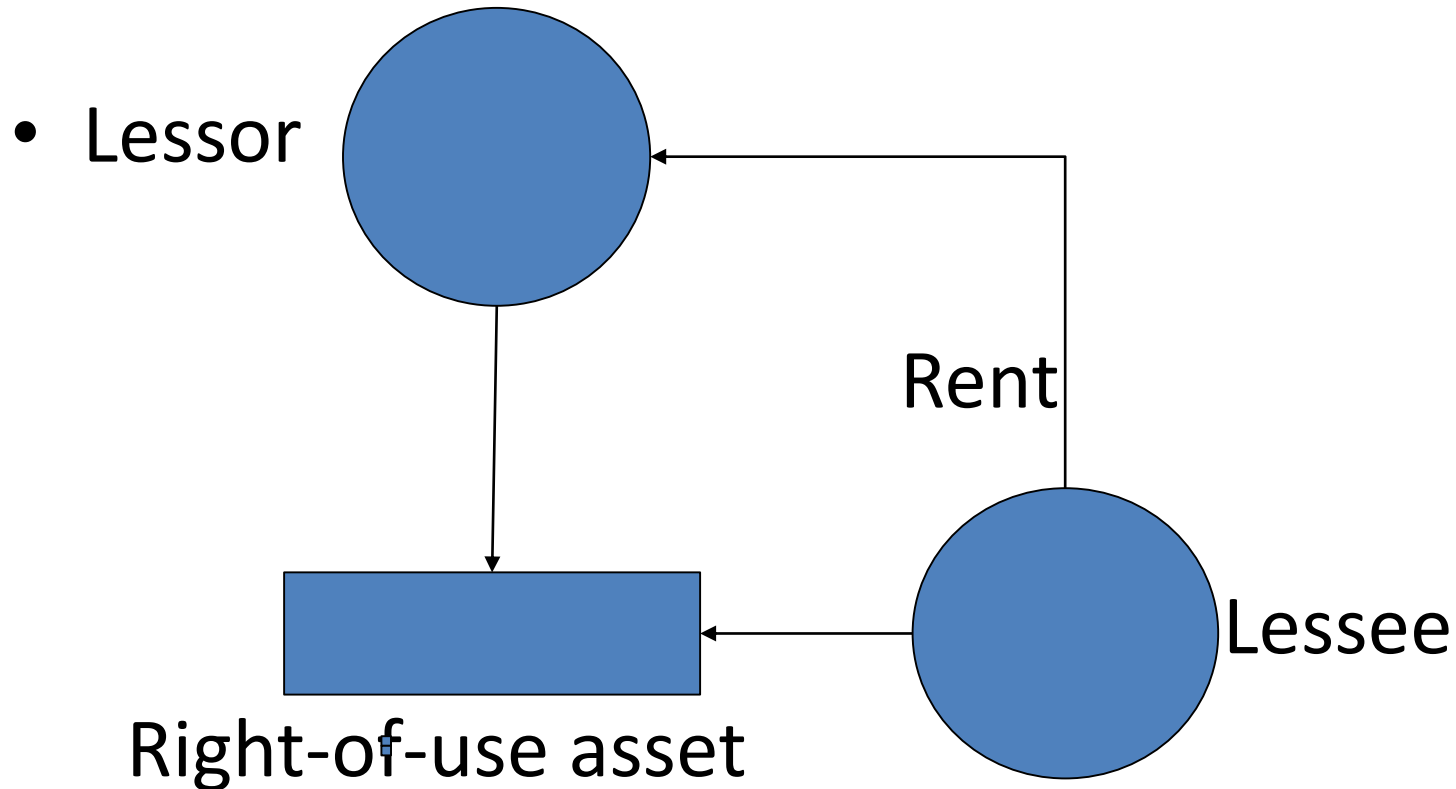
Uphold public interest

# Effective date



- IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

# A lease



# Lessees



- C5 A lessee shall apply this Standard to its leases either:
- (a) retrospectively to each prior reporting period presented applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
- (b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application.

# What is a lease?



- §9 At the inception of a contract, an entity 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 an **identified asset** for a period of time in exchange for consideration.
- An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

# Lease term



- An entity shall determine the lease term as the non-cancellable period of a lease, together with both:
- (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

# Lessee: Recognition & measurement



- At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.
- Initial measurement of the right-of-use asset:
- At the commencement date, a lessee shall measure the right-of-use asset at cost.
- A right-of-use asset is an asset that represents a lessee's right to use an **underlying asset** for the lease term.

# “The cost” of the right-of-use asset (1)



- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the lessee; and



# The cost of the right-of-use asset (2)



(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset for a particular period.

# Initial measurement of the lease liability (1)



- §26 At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

# Initial measurement of the lease liability (2)



- At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:
- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;

# Initial measurement of the lease liability (3)



- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in paragraph 28);
- (c) amounts expected to be payable by the lessee under residual value guarantees;
- (d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors described in paragraphs B37–B40); and
- (e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

# Subsequent measurement of the right-of-use asset



- After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models described in paragraphs 34 and 35

# Cost model



- § 30 To apply a cost model, a lessee shall measure the right-of-use asset at cost:
- (a) less any accumulated depreciation and any accumulated impairment losses; and
- (b) adjusted for any re-measurement of the lease liability specified in paragraph 36(c).

# Depreciation of the asset



- §31 A lessee shall apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements in paragraph 32.

# Land



## Statement of Financial Position

At 31 December 2018

### ASSETS

	2018	2017
	KShsM	KShsM
Prepaid operating lease rentals	238	241

Note 28: Prepaid operating lease rentals in respect of leasehold land is recognized as an asset and amortised over the lease period.



# Ownership passes?



§32 If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

# Ownership does not pass



Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

§33 A lessee shall apply IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

# Other measurement models



§34 If a lessee applies the fair value model in IAS 40 Investment Property to its investment property, the lessee shall also apply that fair value model to right-of-use assets that meet the definition of investment property in IAS 40.

§35 If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

# Subsequent measurement of the lease liability



§36 After the commencement date, a lessee shall measure the lease liability by:

- (a) increasing the carrying amount to reflect interest on the lease liability;
- (b) reducing the carrying amount to reflect the lease payments made; and
- (c) remeasuring the carrying amount to reflect any reassessment or lease modifications specified in paragraphs 39–46, or to reflect revised in-substance fixed lease payments (see paragraph B42).

# Interest



§38 After the commencement date, a lessee shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:

- (a) interest on the lease liability; and
- (b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

# Reassessment of the lease liability



§39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

# Remeasure the lease liability



§40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

- (a) there is a change in the lease term, as described in paragraphs 20–21. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
- (b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

# Remeasure how? (1)



§41 In applying paragraph 40, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.



# Remeasure how? (2)



§42 A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

- (a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

# Remeasure how? (3)



(b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

# Discount rate



- §43 In applying paragraph 42, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.
- In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

# Lease modifications



§44 A lessee shall account for a lease modification as a separate lease if both:

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

# Presentation (1)



§47 A lessee shall either present in the statement of financial position, or disclose in the notes:

- (a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:
  - (i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and

# Presentation (2)



(ii) disclose which line items in the statement of financial position include those right-of-use assets.

§48 The requirement in paragraph 47(a) does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

# Presentation (3)



§47 A lessee shall either present in the statement of financial position, or disclose in the notes:

- (b) lease liabilities separately from other liabilities.

If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

# Statement of profit or loss



§49 In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset.

Interest expense on the lease liability is a component of finance costs, which paragraph 82(b) of IAS 1 Presentation of Financial Statements requires to be presented separately in the statement of profit or loss and other comprehensive income.



# Statement of Cash Flows



§50 In the statement of cash flows, a lessee shall classify:

- (a) cash payments for the principal portion of the lease liability within financing activities;
- (b) cash payments for the interest portion of the lease liability applying the requirements in IAS 7 Statement of Cash Flows for interest paid; and
- (c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

# Disclosure (1)



§51 The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.

# Disclosure (2)



§52 A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross-reference in the single note or separate section about leases.

# Disclosure (3)



§53 A lessee shall disclose the following amounts for the reporting period:

- (a) depreciation charge for right-of-use assets by class of underlying asset;
- (b) interest expense on lease liabilities;
- (c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;

# Disclosure (4)



(d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c);

(e) the expense relating to variable lease payments not included in the measurement of lease liabilities;

(f) income from subleasing right-of-use assets;

# Disclosure (5)



(g) total cash outflow for leases;  
(h) additions to right-of-use assets;  
(i) gains or losses arising from sale and leaseback transactions;  
and (j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

§54 A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.

# Lease commitments



§55 A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.

# Revaluation



§56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IAS 40. In that case, a lessee is not required to provide the disclosures in paragraph 53(a), (f), (h) or (j) for those right-of-use assets.

§57 If a lessee measures right-of-use assets at revalued amounts applying IAS 16, the lessee shall disclose the information required by paragraph 77 of IAS 16 for those right-of-use assets.



# Maturity analysis



- §58 A lessee shall disclose a maturity analysis of lease liabilities applying paragraphs
- 39 and B11 of IFRS 7 Financial Instruments: Disclosures, separately from the maturity analyses of other financial liabilities.

# Short-term or low-value asset lease



§5 A lessee may elect not to apply the requirements in paragraphs 22–49 to:

(a) short-term (a lease term of 12 months or less) leases; and

(b) leases for which the underlying asset is of low value.

§60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.

# Lessor: Classification of leases



§61 A lessor shall classify each of its leases as either an operating lease or a finance lease.

§62 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.