

IFRS 16: LEASES

Why a new leasing standard?

Under IFRS 16, companies will bring these leases on balance sheet, using a common methodology



Agenda

1. Major impacts for lessees
2. New definition
3. New accounting
4. Multiple transition options
5. Next steps & how we can help
6. Key points to remember



Lessees face major changes

Leases on balance sheet

Balance sheet

Asset

= 'Right-of-use' of underlying asset

Liability

= Obligation to make lease payments

P&L

Lease expense

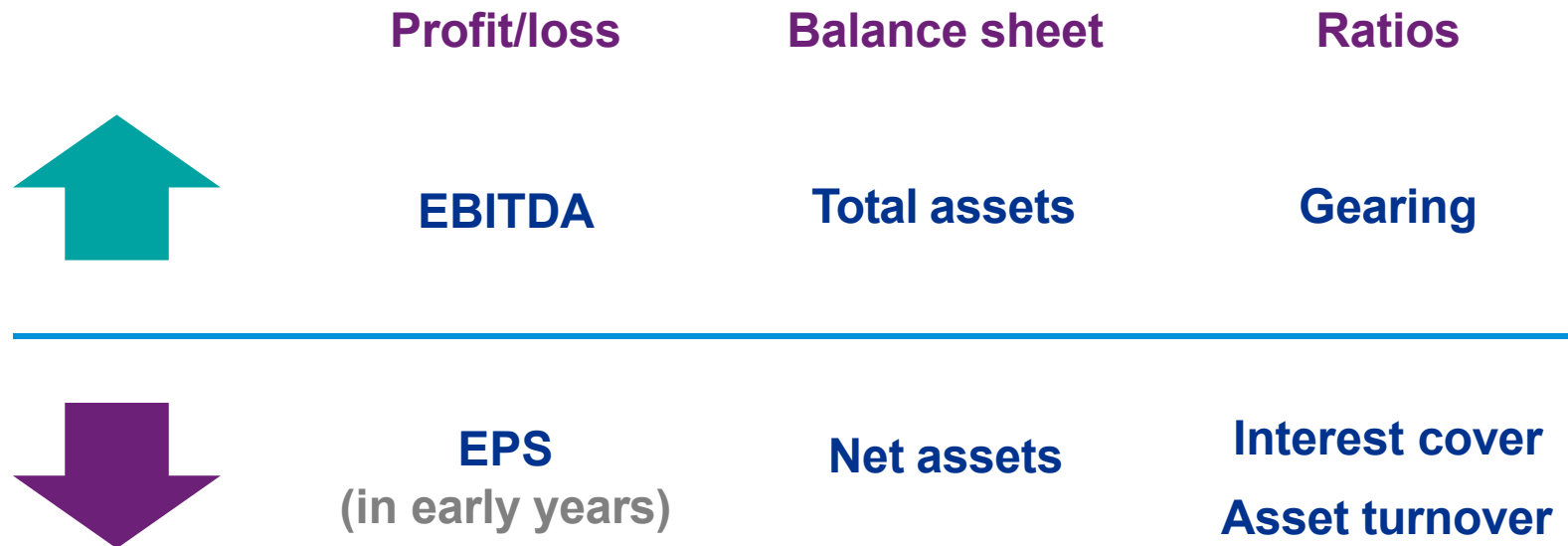
Depreciation

+ Interest

= Front-loaded total lease expense

Operating leases previously off-balance sheet will now be on balance sheet

Impact on financial ratios



Lease- definition

Contract, or part of a contract, that conveys the **right to use an asset** for a period of time in exchange for consideration.
(IFRS 16, Appendix A)

Identified Asset and Right of Use (ROU)

In a lease agreement, the **identified asset** is the piece of property—for example, an automobile, a floor of an office building, or a bulldozer—that is included in the lease.

The control—also known as **right to use**—is what is being conveyed in the arrangement. E.g., the lessor of a new BMW conveys to the lessee the right to drive said BMW over the course of the lease term as part of the agreement.

Identified asset

The new definition increases focus on **who controls the asset** and may change which contracts are leases



The importance of control

The aspect of control of the asset being transferred in a lease agreement depends on:

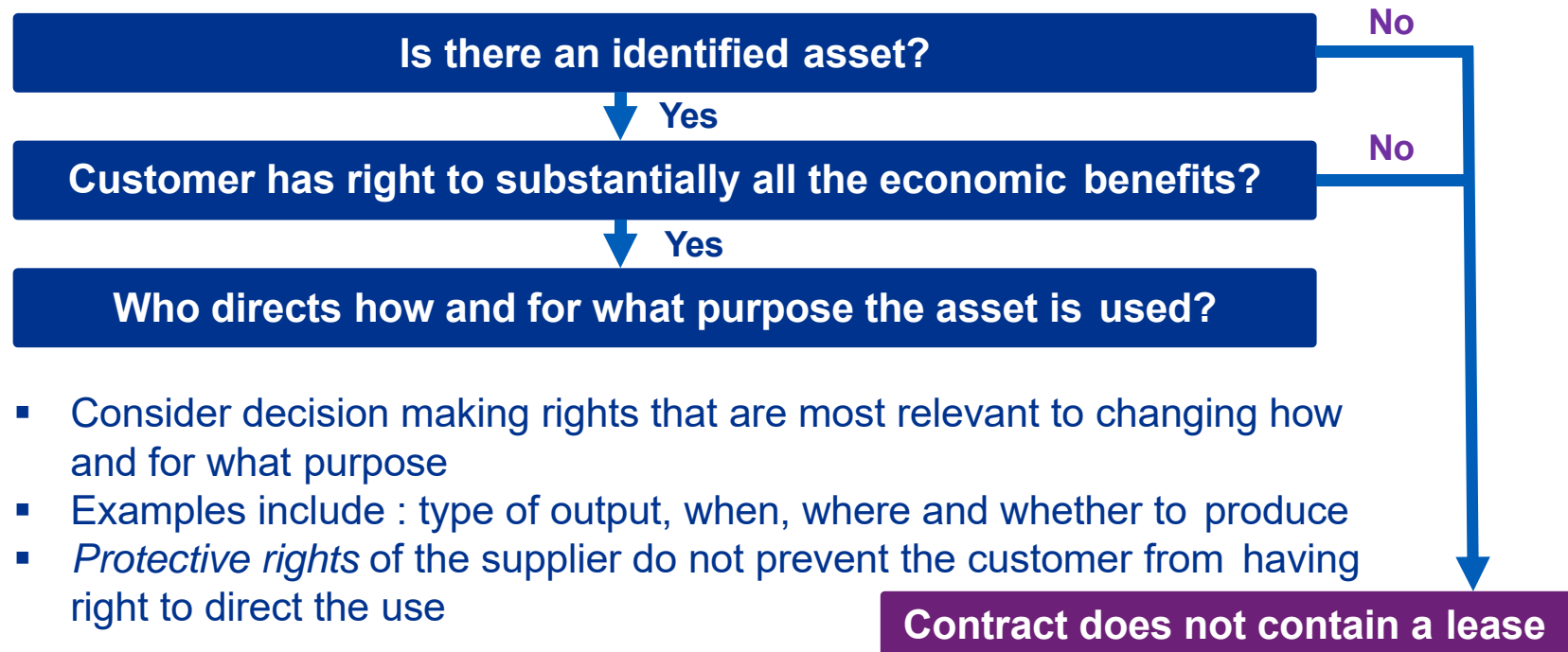
1. The right to obtain substantially all the economic benefits from use of the identified asset.
 2. The right to direct the use of the identified asset.
- Maintaining or operating an asset do **NOT** qualify as stand alone rights to control an asset.

If one party does not obtain both of these conditions, control of the asset has not been conveyed. And, under the new standard, if control is not conveyed, the arrangement will not be considered a lease.

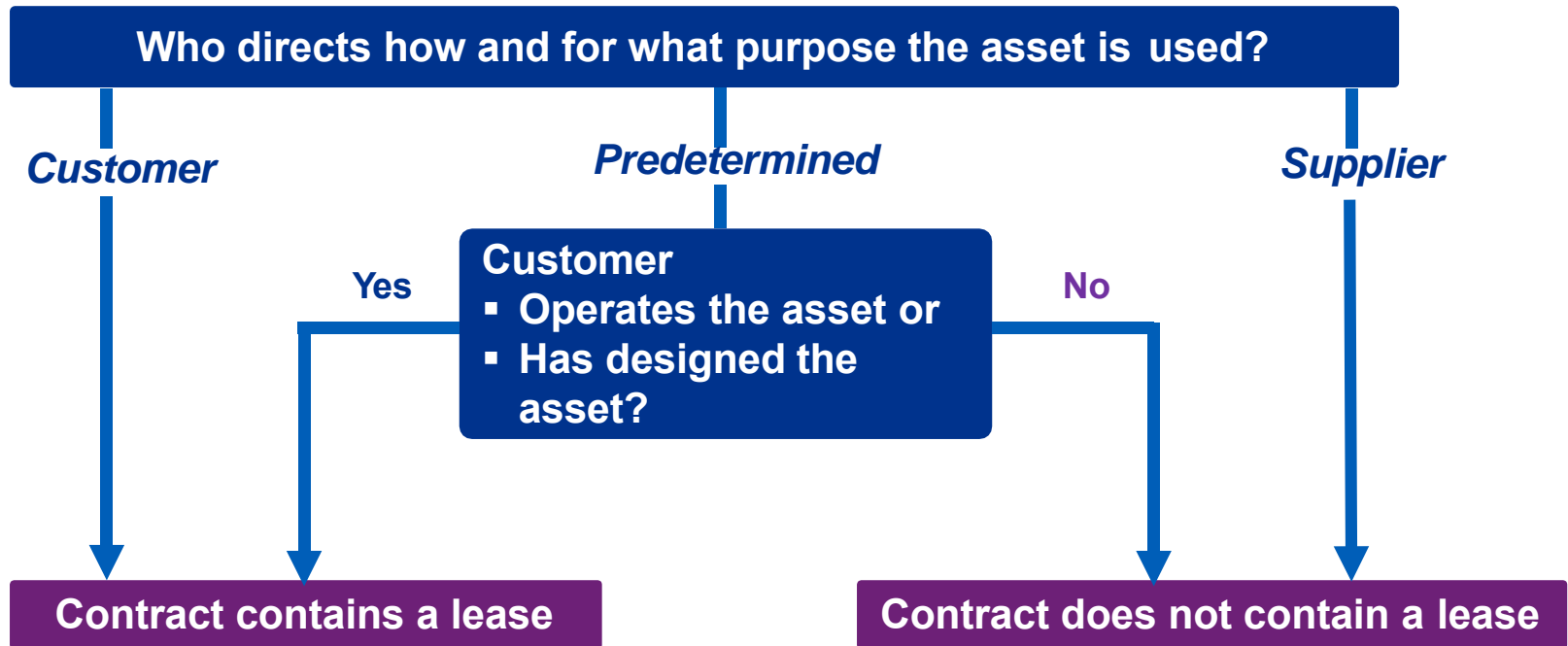
Control



Control



Control



Lease recognition exemptions

Two major optional exemptions make the standard easier to apply



Short term leases

≤ 12 months



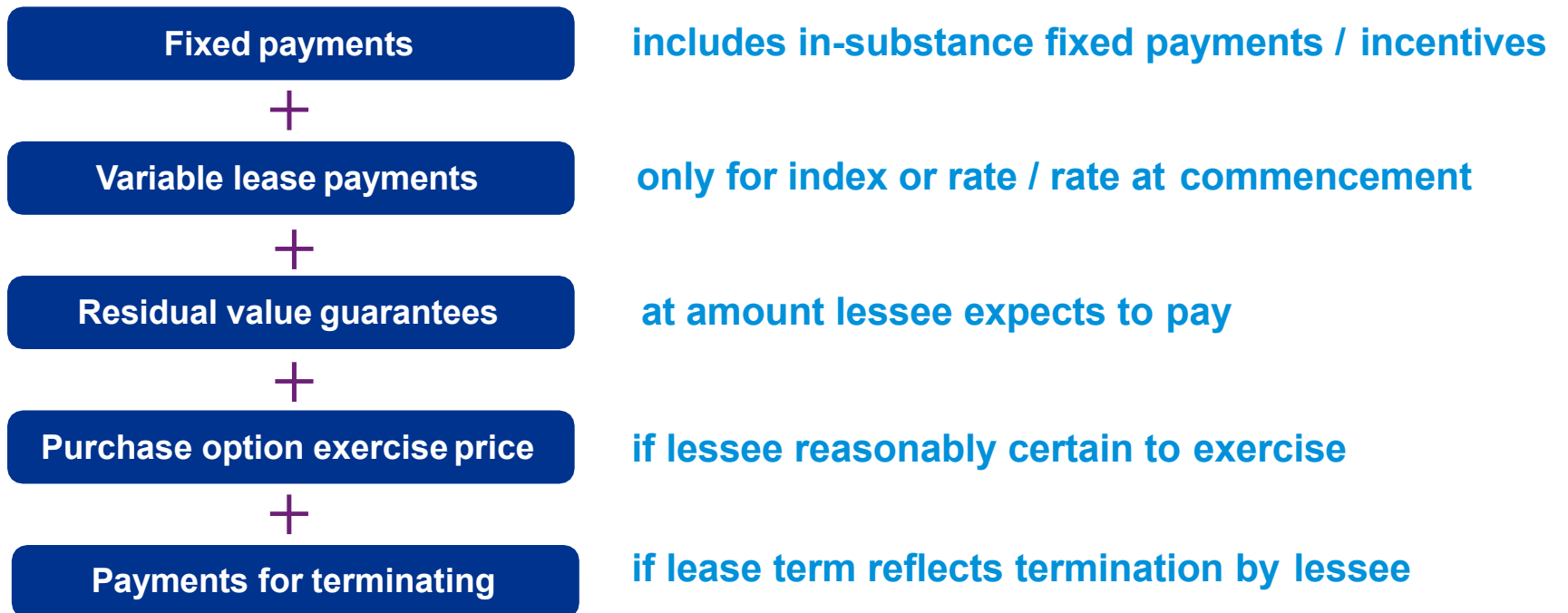
Leases of low value items

≤ USD 5,000 for example

Measuring the lease liability

$$\text{Lease liability} = \text{Present value of lease rentals} + \text{Present value of expected payments at end of lease}$$

Lease payments



Variable lease payments are defined as the portion of payments made by a lessee to a lessor for the right to use an underlying asset during the lease term that varies because of a change in factors or circumstances occurring after the commencement date, other than the passage of time.

How to treat the variable lease payments?

It depends on what how they are determined.

Basically, the variable lease payment may depend on:

1. Index, or a rate – like inflation rate, benchmark interest rate (e.g. LIBOR), consumer price index, etc., or
2. Future sales, use of underlying asset or other items unrelated to index/rate.

Variable lease payments

Which variable lease payments are included in the lease liability?

**Payments based on an
index or rate**

**Payments based on
turnover or usage**

Variable lease payments

Which variable lease payments are included in the lease liability?



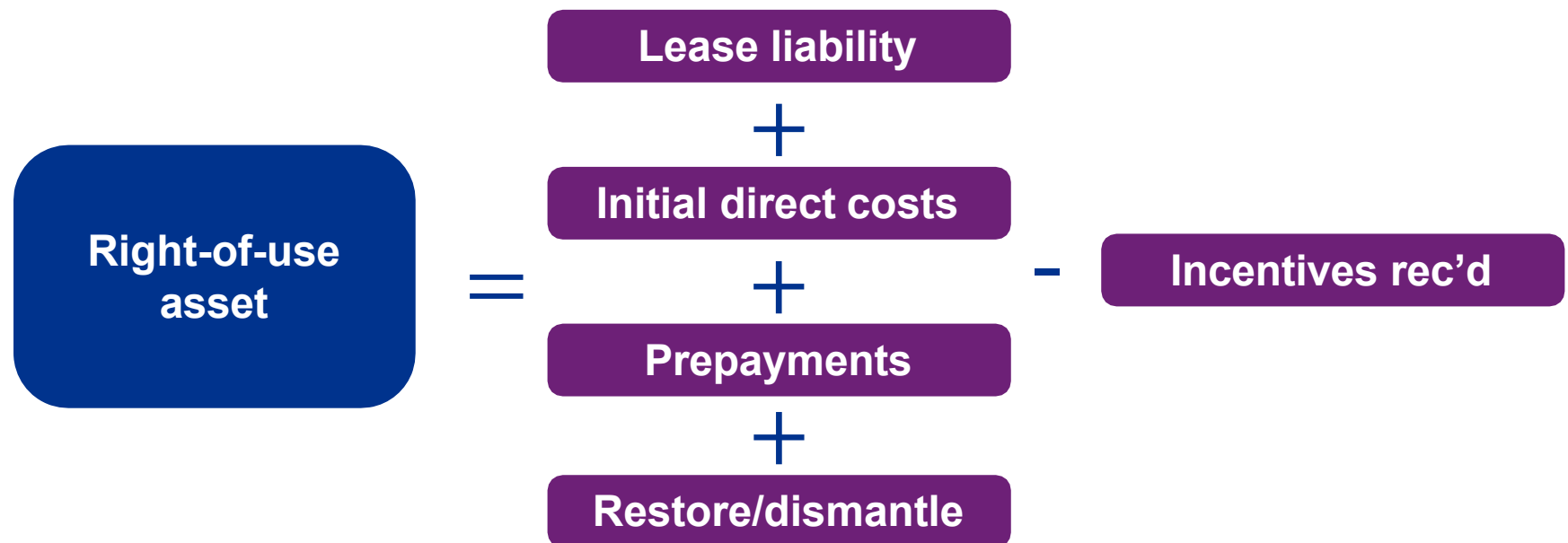
**Payments based on an
index or rate**

**Payments based on
turnover or usage**

Measurement of the lease liability

- **Discount rate**
- Discount rates under IFRS 16 Leases. The standard IFRS 16 says that the lessee should discount the lease payments using: The interest rate implicit in the lease, or. The lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined

Measuring the right-of-use asset



Lessor accounting

Lessor accounting remains similar to current practice...

but lacks consistency with new lessee accounting model

Lease classification test



Finance leases and operating leases



Consistent accounting model for lessors and lessees

Applying the new standard

A lessee can choose to apply the standard...

Retrospectively to all accounting periods

OR

As a 'big bang' at the date of initial application

Cost



Comparability



Disclosures for lessees

Quantitative information

a) Relating to the statement of financial position

- Additions to the right-of-use assets
- Year-end carrying amount of right-of-use assets by class of underlying asset and (if they are not presented separately) the corresponding line items in the statement of financial position
- Lease liabilities and the corresponding line items in the statement of financial position if lease liabilities are not presented separately
- Maturity analysis for lease liabilities

Disclosures for lessees

Quantitative information - continued

b) Relating to the statement of profit or loss and other comprehensive income (including amounts capitalised as part of the cost of another asset)

- Depreciation charge for right-of-use assets by class of underlying asset
- Interest expense on lease liabilities
- Expense relating to short-term leases for which the recognition exemption is applied (leases with a lease term of up to one month can be excluded)
- Expense relating to leases of low-value items for which the recognition exemption is applied
- Expense relating to variable lease payments not included in lease liabilities
- Income from sub-leasing right-of-use assets
- Gains or losses arising from sale-and-leaseback transactions

Disclosures for lessees

Quantitative information - continued

Relating to the statement of cash flows

- Total cash outflow for leases

Other

- Amount of short term lease commitments if current short-term lease expense is not representative for the following year

Qualitative information

- Description of how liquidity risk related to lease liabilities is managed
- Use of exemption for short-term leases and/or low-value term leases

Disclosures for lessors

Finance lease

Quantitative factors

- Selling profit or loss
- Finance income on the net investment in the lease
- Lease income relating to variable lease payments not included in the net investment in the lease
- Significant changes in the carrying amount of the net investment in the lease
- Detailed maturity analysis of the lease payments receivable

Qualitative factors

- Significant changes in the carrying amount of the net investment in the lease

Disclosures for lessors - continued

Operating lease

Quantitative factors

- Lease income relating to variable lease payments that do not depend on an index or rate
- Other lease income
- Detailed maturity analysis of the lease payments receivable
- If applicable, disclosures in accordance with IAS 16 (separately from other assets), IAS 36, IAS 38, IAS 40 and IAS 41 Agriculture

Qualitative factors

- N/A

What questions do you have?

Ask
Answer
Who
Why
Where
What
When
How
Understand
Query
Questions
Question
Answers
Apply

Thank you

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