

# IFRS 16 LEASES

## RECOGNITION EXEMPTION

- Short-term - < 12 months
- Low Value Asset
- Lease payments are then straight lined over the period.

## INITIAL MEASUREMENT

- Right of Use asset:
- PV of Lease Liability, PLUS
  - Lease payments before start, LESS
  - Lease incentives, PLUS
  - Initial Direct Cost, Plus
  - Dismantely Provision

## IDENTIFYING A LEASE

- Right to control the use
- Of an identified asset
- For a period of time
- In exchange for consideration.

## PU OF LEASE

- PV of the lease payments not yet paid
- Interest Rate = Implicit interest rate / Incremental borrowing rate.

## LEASE TERM

- Non-cancellable period with taking in account reasonably certain exercising of:
- Option to extend
- Option to terminate

## LEASE PAYMENTS

- Payments includes:
- Fixed payments - incentives
  - Variable (depending on an index / rate)
  - Residual Value Guarantees

**APPLY IAS16 /  
IAS40 TO RIGHT OF  
USE ASSETS**

**SUBSEQUENT MEASUREMENT**

Right of Use Asset:

- Cost less Accumulated Depreciation & Impairment losses.
- Adjusted for remeasurement of lease liabilities

**REASSESSMENT**

Revised Discount Rate:

- Change lease term
- Change in option

Initial Discount Rate:

- Change in residual value guarantee
- Change in index / rate used for future payments

**IFRS16  
LEASES**

**SUBSEQUENT MEASUREMENT**

Lease Liability:

- Increased by interest
- Decreased by payments
- Adjusted for modifications

**LEASE MODIFICATION**

Separate Lease if:

- Add asset
- Consideration increase inline with stand-alone selling price of asset.

Otherwise:

- Use a revised discount rate.

**CALCULATING IMPLICIT I/Y**

- $PV = FV$  of asset on receipt date
- $PMT =$  Lease Payments
- $N =$  Term
- $FV =$  Residual Value Guarantees
- Compute  $I/Y$

**CALCULATING PV**

- $FV =$  Residual Value Guarantee
- $PMT =$  Payments
- $N =$  Term
- $I/Y =$  Interest rate
- Compute  $PV$

# IFRS 16 LESSOR

### CLASSIFICATION

Finance Lease:

- Lease transfers substantially all the risk and rewards incidental to ownership of an underlying asset

Operating Lease:

- Opposite of finance lease

### DEALORS

- Revenue = Lower of FV of underlying Asset OR PV of lease payments @ Market interest
- COS = Cost - PV (unguaranteed residual value)

### INDICATORS OF FINANCE LEASES

- Ownership transfers at end of lease term
- Purchase option price < then FV at inception date
- Term = major part of economic life of asset
- PV of lease at inception = FV of asset
- Only lessee can use it

### OPERATING LEASE

- Straight - line lease payments received
- Asset is NOT derecognized
- Not a sale therefore normal IFRS's / IAS's are applied to the asset

### INITIAL MEASUREMENT

Finance Lease:

- Gross Investment (A) = Lease Payments to be received
- Unearned Finance Cost = (A-B)
- Net Investment (B) = PV (Gross Investment) @ Implicit Rate

### TOP TIP

Always use an Amortisation Table and use the AMORT function on the calculator to populate the Amortisation Table.