



Insights

**IFRS 16
Leases**

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IFRS 16 Leases – Overview

Why is this important



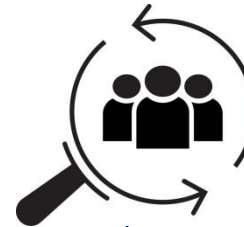
**Most companies
lease assets**



**Changes in the
system may be
required**






**Under IFRS 16
lessees will bring
leases on balance
sheet**



**Stakeholders will
want to
understand the
impact on your
business**

IFRS 16 Leases – Overview

Impact on Balance Sheet – Lessee

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Assets		-----	
Liabilities	\$\$\$\$	-----	\$\$\$\$
Off balance sheet rights/ obligations	-----	 ----- \$\$\$\$	-----

Recognition of ROU asset and lease liability

All leases will be recognised on balance sheet except short-term and low value lease assets

IFRS 16 Leases – Overview

Impact on Profit or Loss – Lessee

	IAS 17		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	\$\$\$\$	\$\$\$\$	\$\$\$\$
Operating costs (excluding depreciation and amortisation)	-----	Single lease expense	-----
EBITDA		-----	
Depreciation and amortisation	Depreciation	-----	▲▲ Depreciation
Operating profit			▲
Finance costs	Interest		Interest
Profit before tax			↔ *

Initial expense will be higher even though lease rentals are constant

Will impact on key financial ratios

* Over the lease term

IFRS 16 Leases – Overview

Exemptions



Short term leases

Lease term - Less than or equal to 12 months



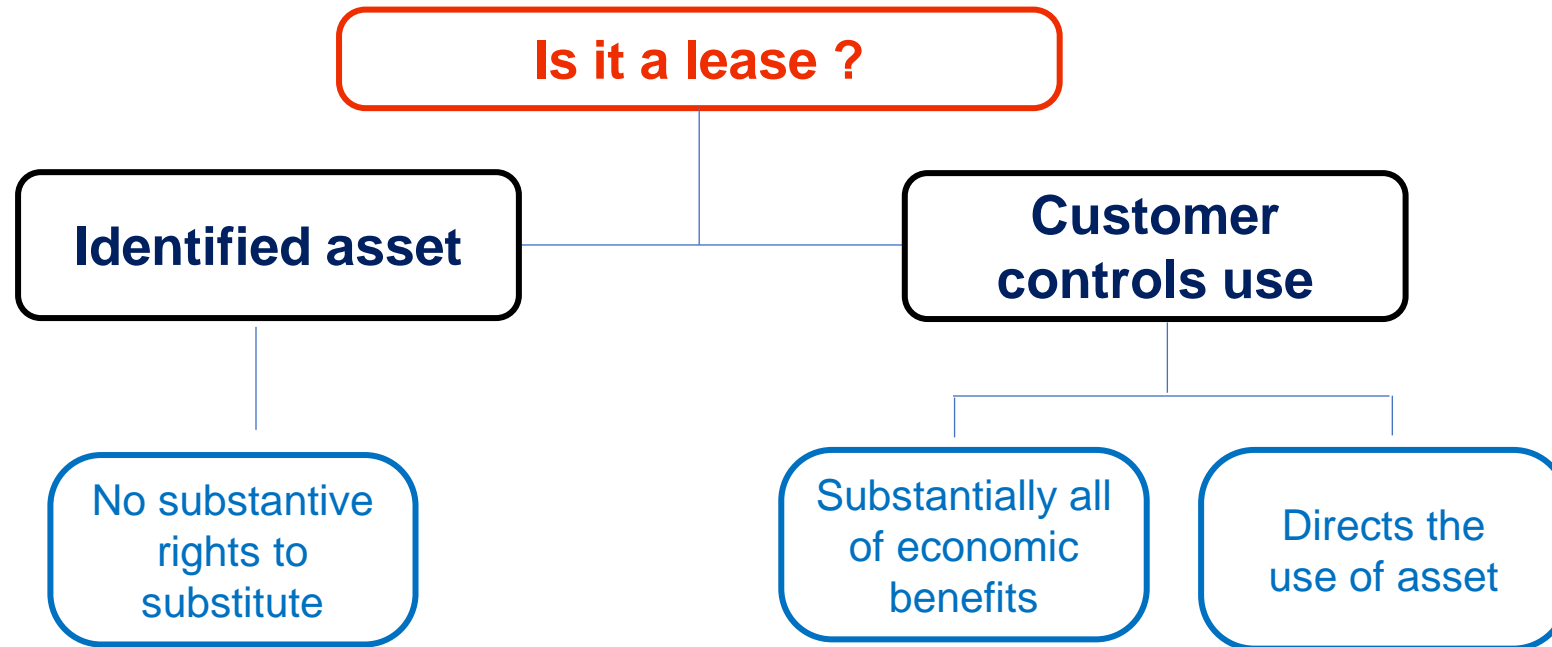
Leases of low value items

≤ USD 5,000 for example

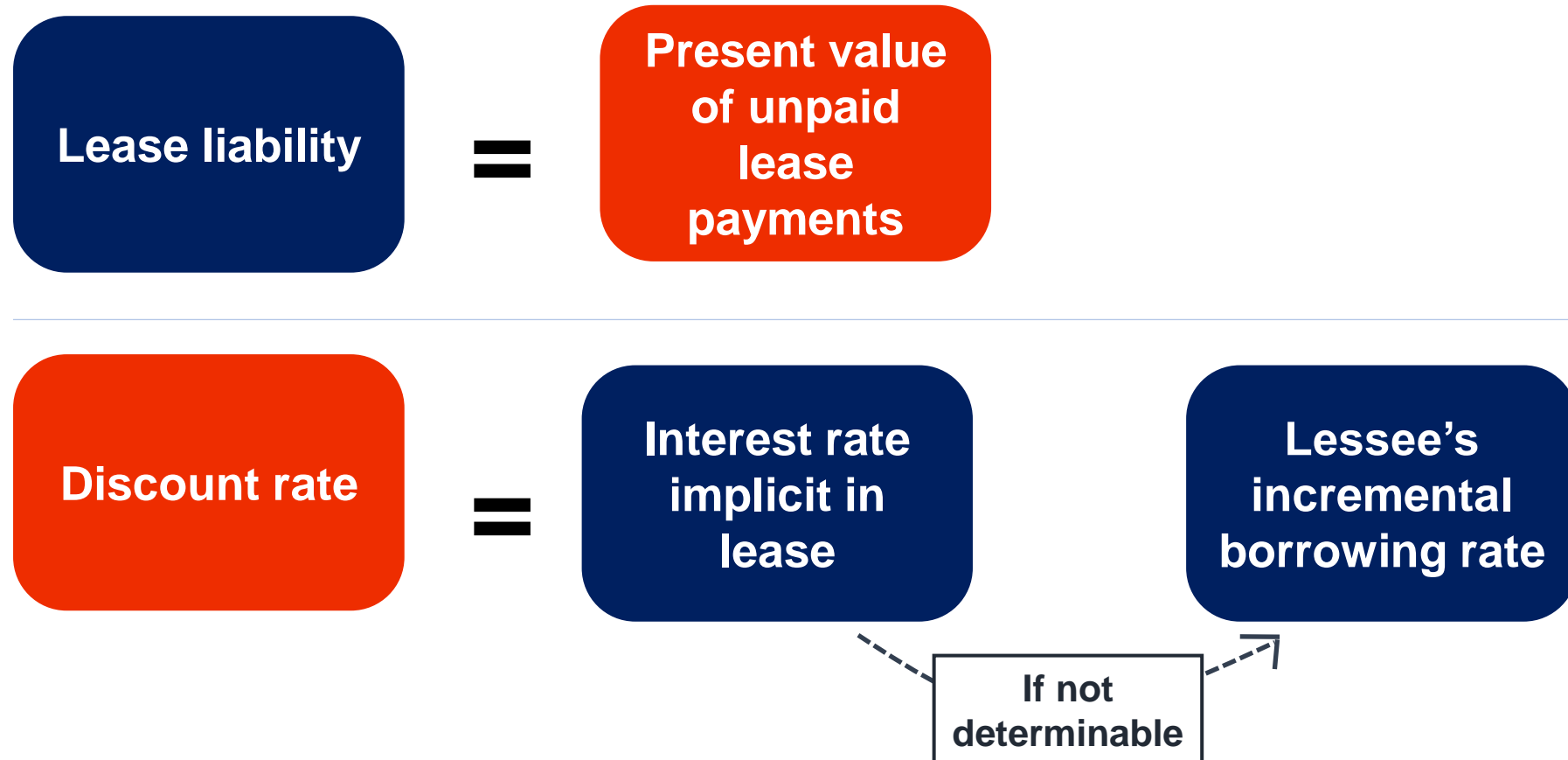
Two optional exemptions for short term and low value leases

Lease definition

Contract, or a part of a contract, that conveys the **right to use** an **asset** for a **period of time** in exchange of consideration

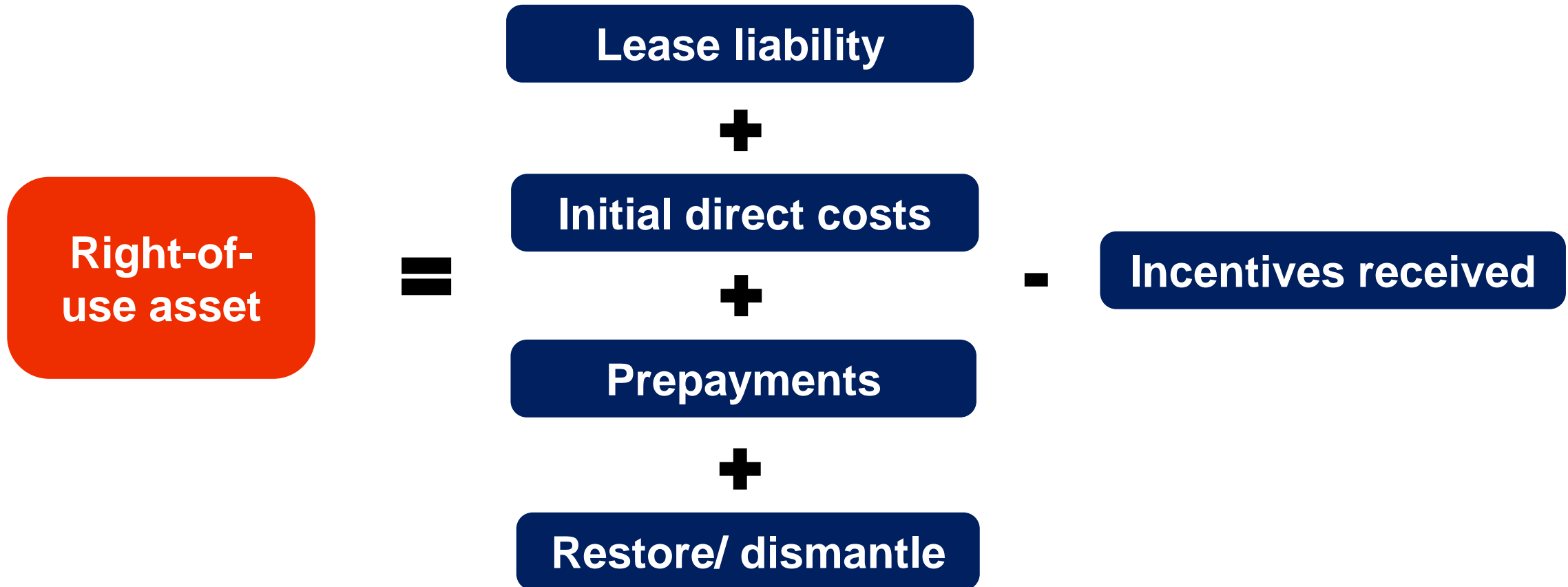


Measuring the lease liability



Lease liability is subsequently measured using an effective interest rate method

Measuring the Right-of-use asset



Lessor accounting

**No substantial
change in lessor
accounting**

Lease classification
test



Finance leases and
operating leases



Asymmetrical model for lease accounting
between lessee and lessor

Other changes



Remeasurement / Modification / Termination



Sub-lease



Sale and lease-back



Additional disclosures



Deferred tax implications

Transition options

IFRS 16 Leases

Retrospective approach



Restate comparatives

- Apply full retrospective approach to each prior period presented as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- Entities need to adjust equity at the beginning of the earliest comparative period presented.

Modified retrospective approach



Do not restate comparatives

Option A:

Measure asset as if IFRS 16 has been applied since commencement date; but using incremental borrowing rate at the date of initial application.

Option B:

Measure asset at amount equal to liability (adjusted for accruals and prepayments).

Rent concession amendment – COVID 19 (1/2)

Definition of lease modifications

IFRS 16 defines lease modification as a change in the

- scope of lease, or a
- consideration of lease,
- that was not part of original terms and conditions of the lease.

A lessee is required to remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

Practical expedient

Permit lessees not to assess whether rent concessions that occur as a direct consequence of COVID 19 pandemic and meet specified conditions are lease modifications, instead account for those modifications as if they were not lease modifications.

Effective date – The amendments are effective for reporting periods beginning after 1 June 2020 / 1 April 2020 with early application permitted. Applying practical expedient is optional.

Rent concession amendment – COVID 19 (2/2)

Conditions to be complied

Is rent concession a direct consequence of the COVID 19 pandemic ?

↓ Yes

Is the revised consideration for the lease substantially the same as, or less than, the consideration for the lease immediately preceding the change ?

↓ Yes

Does the rent concession affects only lease payments originally due on or before 30 June 2021 ?

↓ Yes

No substantive changes to the other terms and conditions of the lease ?

↓ Yes

Practical expedient available

Case studies

Case study 1 – Lease abatement

On 1 April 2020, Company received a 6-month lease abatement from its landlord, starting 1 April and expiring 30 September 2020. Company incremental borrowing rate was 4% at lease inception; it is now 6% because its credit rating has fallen. Payments were CU 10,000 per month, expiring in 30 June 2021. Renegotiated payments remain consistent. Payments are in arrears. At 1 April 2020, the balance of the right-of-use asset was CU 150,000. The Liability balance was CU 140,607.

Month	Original payment	New payment
Apr 2020	10,000	-
May 2020	10,000	-
Jun 2020	10,000	-
Jul 2020	10,000	-
Aug 2020	10,000	-
Sep 2020	10,000	-
Oct 2020	10,000	10,000
Nov 2020	10,000	10,000
Dec 2020	10,000	10,000

Month	Original payment	New payment
Jan 2021	10,000	10,000
Feb 2021	10,000	10,000
Mar 2021	10,000	10,000
Apr 2021	10,000	10,000
May 2021	10,000	10,000
Jun 2021	10,000	10,000
PV of CFs	CU 146,070	CU 87,790
Change +/-	(CU 58,280)	

Dr	Lease liability	CU 58,280
Cr	Right-of-use asset	CU 58,280
To adjust lease accounting for lease abatement		

Case studies

Case study 2 – Accounting for forgiven lease payments

A lessee is paying monthly lease payments of CU 10,000. The lessor has agreed to forgive 6 months of payments in 2020 with no adjustment to future rentals. Assume interest accrues at CU 800 per month. Monthly depreciation is CU 1,000.

During the period of deferral of payments – monthly journal

Dr	Lease liability	CU 10,000
Cr	Profit or loss	CU 10,000
Representing the forgiven payments		

Dr	Interest in the P&L	CU 800
Cr	Lease liability	CU 800
Representing the interest charged for the period		

Dr	Amortisation expense	CU 1,000
Cr	Right-of-use asset	CU 1,000
Representing the amortisation charged for the period		

Disclosure

- Fact that company has applied practical expedient
- Amount in P&L for the reporting period that reflects the change in lease payments arising from rent concession

Case studies

Case study 3 – Accounting for payments deferred and then increased at a future date

A lessee is paying monthly lease payments of CU 10,000. The lessor has agreed to defer 6 months of lease payments from 2020 to 2021 as a result of COVID-19. Assume interest accrues at CU 800 per month and the 6 months increased lease payments of CU 20,000 commence on 1 April 2021 and continue until 30 September 2021.

During the period of deferral of payments – monthly journal

Dr	Lease liability	CU Nil
Cr	Bank	CU Nil
Representing the cash payments made		

Dr	Interest in the P&L	CU 800
Cr	Lease liability	CU 800
Representing the interest charged for the period		

During the period of increased payments

Dr	Lease liability	CU 20,000
Cr	Bank	CU 20,000
Representing the amortisation charged for the period		

IFRS 16 – Key challenges faced by Industry



Collecting lease data – is the underlying data complete and accurate?



Cross-functional involvement - you need more than accountants in your team



Estimation of key terms e.g. lease term, discount rate etc.



Accounting for modification and termination



Maintaining calculations, JVs and disclosures in MS Excel

LeazeOn Software demo

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IFRS 16 Lease Accounting & Management Software

LeazeOn is an end-to-end lease accounting, reporting and management software for IFRS 16 Leases compliance requirements.

It provides automated solution for transition accounting, handling large volumes of leasing contracts, reporting and disclosure requirements.

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LeazeOn Software – Key features



**Transition accounting – Impact analysis
Retrospective / Modified retrospective**



**Interest free lease security deposit
discounting calculations**



Calculates Right-of-Use Asset / liabilities



**Maker-checker in-built feature to ensure
accuracy**



**Accounting for leases re-measurement,
modification and termination**



**Automated journal entries relating to
lease accounting**

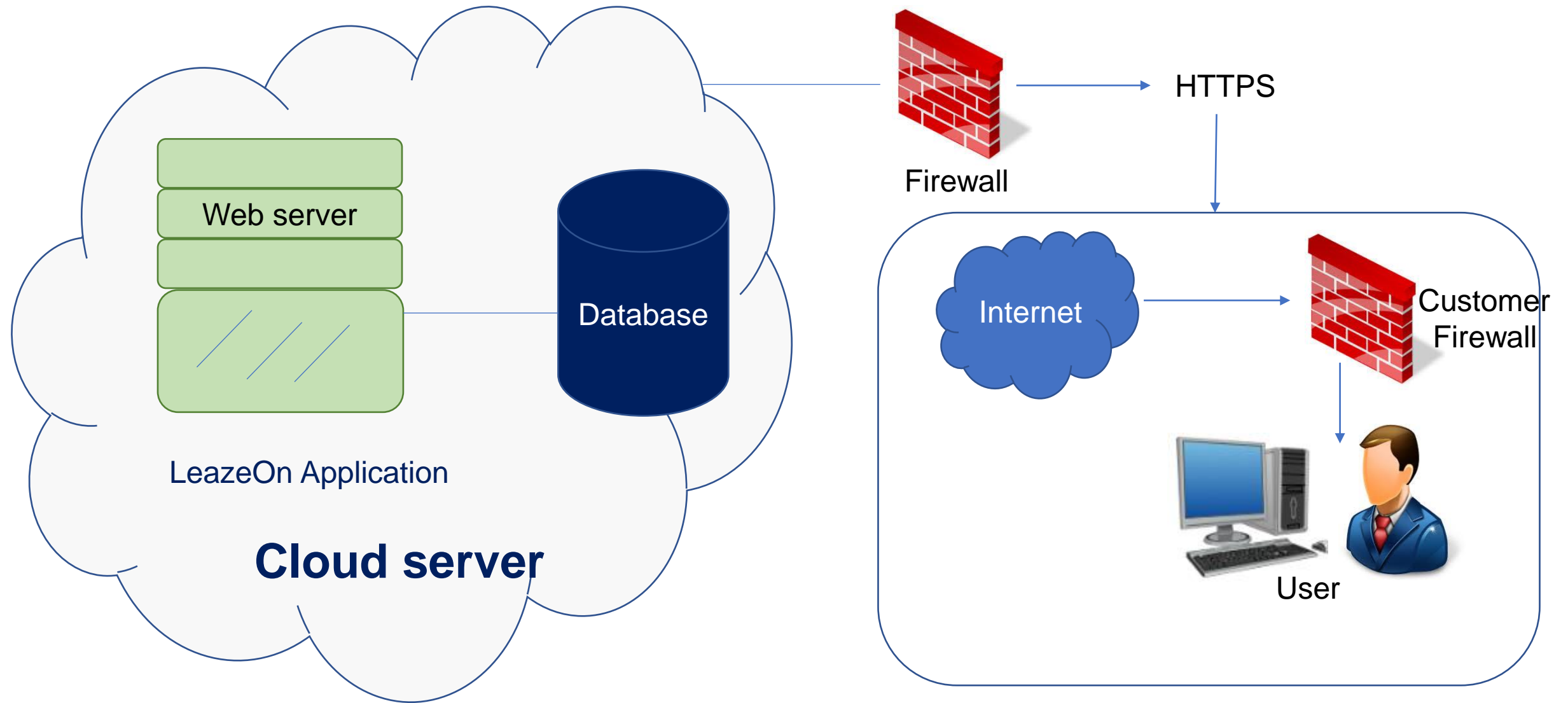


**Provides disclosure reports as per
IFRS 16 Leases**

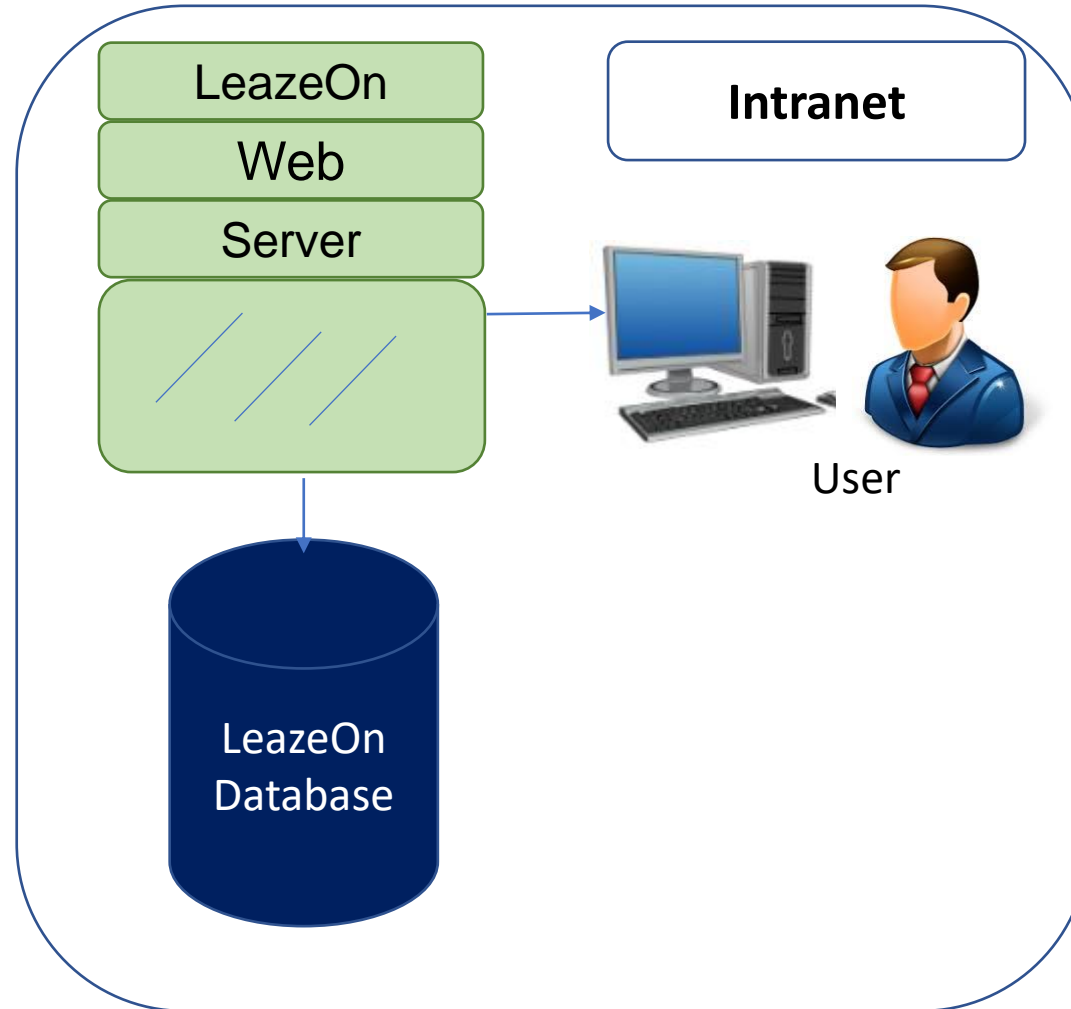


**Automated depreciation and dismantling
provision related calculations**

Implementation options (SaaS model)



Implementation options (On Premises)



Our credentials

International customers



Australia



Saudi Arabia



United Arab Emirates

Our select Indian customers



All product names, logos and brands are property of their respective owners



Questions and answers



Thank you

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