



Australian Government
Australian Accounting Standards Board

Leases update

Brief overview of the key aspects

- Lease accounting models
- Definition of a lease
- Lease vs service
- Lessee exceptions
- Key features of IFRS [16] lessee model
- Disclosure
- Transition





Lessee

Operating Lease

P&L

Single Model

B/S & P&L

Finance Lease

B/S & P&L

Lessor

Operating Lease

P&L

Finance Lease

B/S & P&L



IFRS [16] model (cont.)

All leases now on balance sheet
(ROU Asset and Lease Liability)

Substantially carried forward from
IAS 17

Lessee

Single Model

B/S & P&L

Lessor

Operating Lease

P&L

Finance Lease

B/S & P&L



AASB preferred outcome



AASB preferred single
derecognition model in
submission to IASB ED/2010/9



IFRS [16] model (cont.)



VS



Lessee

Single Model

B/S & P&L

B/S converged
P&L differences covered shortly

Lessor

Operating Lease

P&L

Finance Lease

B/S & P&L

IASB and FASB are converged



Definition is similar to IAS 17 but guidance is significantly expanded

Contract is,
or contains,
a lease



Fulfilment depends on the use of an identified asset



Conveys the right to control the use of the identified asset for a period of time in exchange for consideration



Consistent with AASB response to IASB ED/2013/6

IFRS [16] – Definition of a Lease

Definition is similar to IAS 17 but guidance is significantly expanded

Contract is,
or contains
a lease

Fulfilment depends on the use of an identified asset

Right of substitution

Portion of an asset

Consistent with AASB response to IASB ED/2013/6



Definition is similar to IAS 17 but guidance is significantly expanded

Contract is,
or contains,
a lease



Fulfilment depends on the use of an identified asset



Conveys the right to control the use of the asset for a period of time



Co
respo

“Control” in IFRIC 4 focuses on “benefits” element vs “power and benefits” elements of IFRS [16]

IFRS [16] – Definition of a Lease (cont.)

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VS



Contract is,
or contains,
a lease



Fulfilment depends on the use of an identified asset



Conveys the right to control the use of the identified asset for a period of time in exchange for consideration



Converged



Who has control over the use of the underlying asset?

Lease



Service

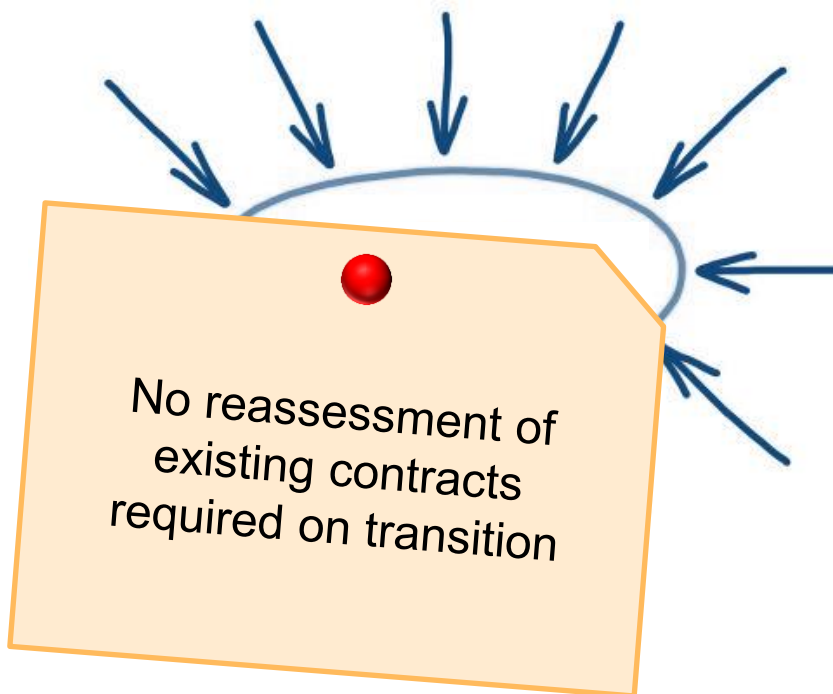


Who has control over the use of the underlying asset?

Lease



Service



Except when a lessee applies either of the following options

Accounting
policy choice



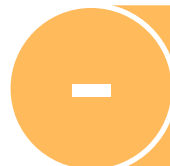
Short-term leases



Low-value leased assets



AASB previously disagreed in response to IASB ED/2013/6



New policy choice not previously exposed

IFRS [16] – Lessee Exceptions (cont.)



VS



Accounting
policy choice



Short-term leases



Low-value leased assets



Converged



Not converged



Key features of IFRS [16] Lessee model Balance Sheet

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1

Single Model

Measurement

ROU Asset

=

± Lease liability

Presentation

PPE

OR

Own Line Item



Key features of IFRS [16] Lessee model

Balance Sheet

16

1

Single Model

Measurement

ROU Asset

=

± Lease

Presentation

PPE

OR

Own Line Item

Exclude most variable lease payments except if linked to index or rate



Key features of IFRS [16] Lessee model Profit or Loss

	IASB	FASB Type A	FASB Type B
Amortisation amount	Typically straight-line	Typically straight-line	Typically increasing*
Presentation			
Operating costs	Amortisation	Amortisation	Single expense
Finance costs	Interest	Interest	-

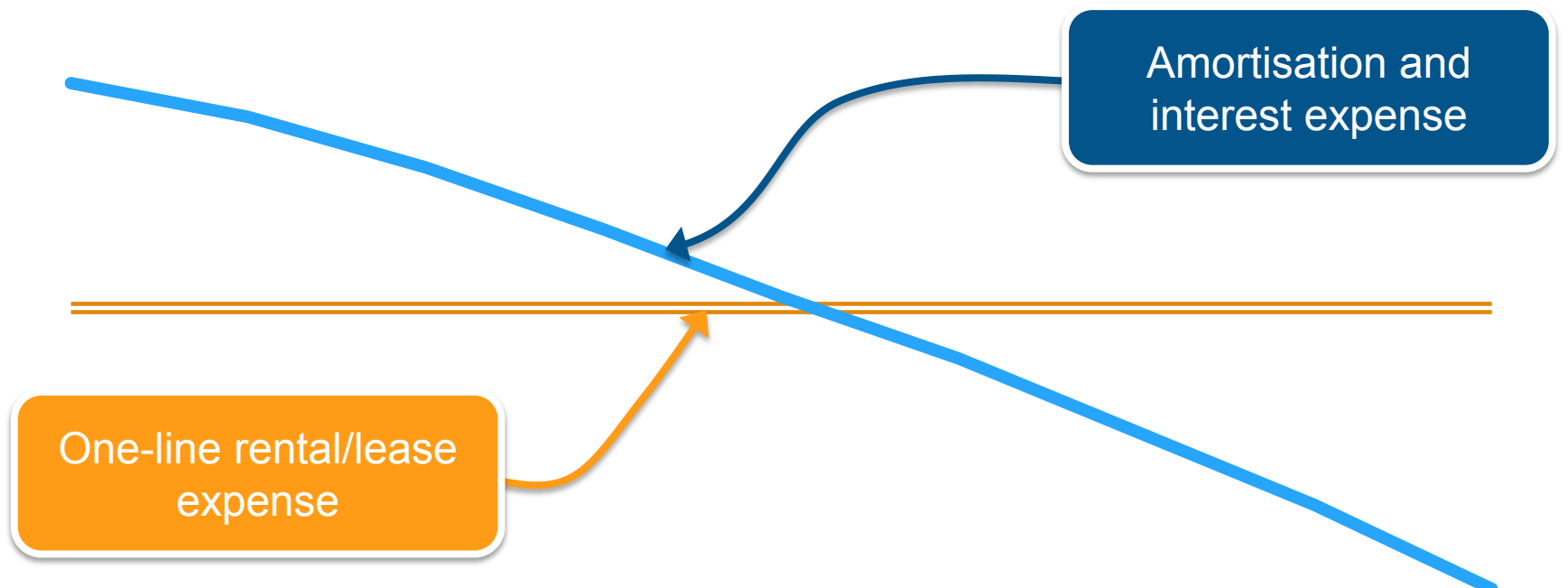
IAS 17 recognises only a straight-line rental expense in P&L for operating leases

IAS 17 accounting for finance leases is broadly carried forward to IFRS [16] as the single lessee model

* Amortisation is calculated to achieve a straight-line expense in the P&L

Key features of IFRS [16] Lessee model Profit or Loss (cont.)

Operating Lease Profit or Loss Profile



== IAS 17 and FASB Type B — IFRS [16]

Net result over life of lease is expected to be roughly similar



Key features of IFRS [16] Lessee model Profit or Loss (cont.)

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Aligned except FASB Type B lease assets (being existing off balance sheet leases) are amortised at an amount that achieves a straight line lease expense in P&L



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Quantitative information

- **amortisation expense of ROU asset by class of underlying asset**
- interest expense on lease liabilities
- **expense relating to short-term leases where entity has applied exemption**
- **expense relating to leases of low-value assets where entity has applied exemption**
- variable lease payment expenses not included in lease liability
- income from subleasing ROU assets
- **total cash outflow for leases**
- additions to ROU assets

- gains/losses arising from sale and leaseback transactions
- carrying amount of ROU assets at end of reporting period by class of underlying asset

Quantitative and qualitative information

- nature of leasing activities
- **future cash outflows entity is potentially exposed to but not reflected in lease liability**
- restrictions or covenants imposed by leases
- sale and leaseback transactions
- **IFRS 7 disclosures**



Quantitative information

Finance leases

- selling profit or loss on commencement
- finance income on the net investment
- **lease income relating to variable lease payments no included in lease receivable**

Operating leases

- lease income
- **lease income relating to variable payments not depending on an index or rate**

Generally

- **IFRS 7 disclosures**

Quantitative and qualitative information

Finance leases

- explanation of significant changes in carrying amount
- maturity analysis

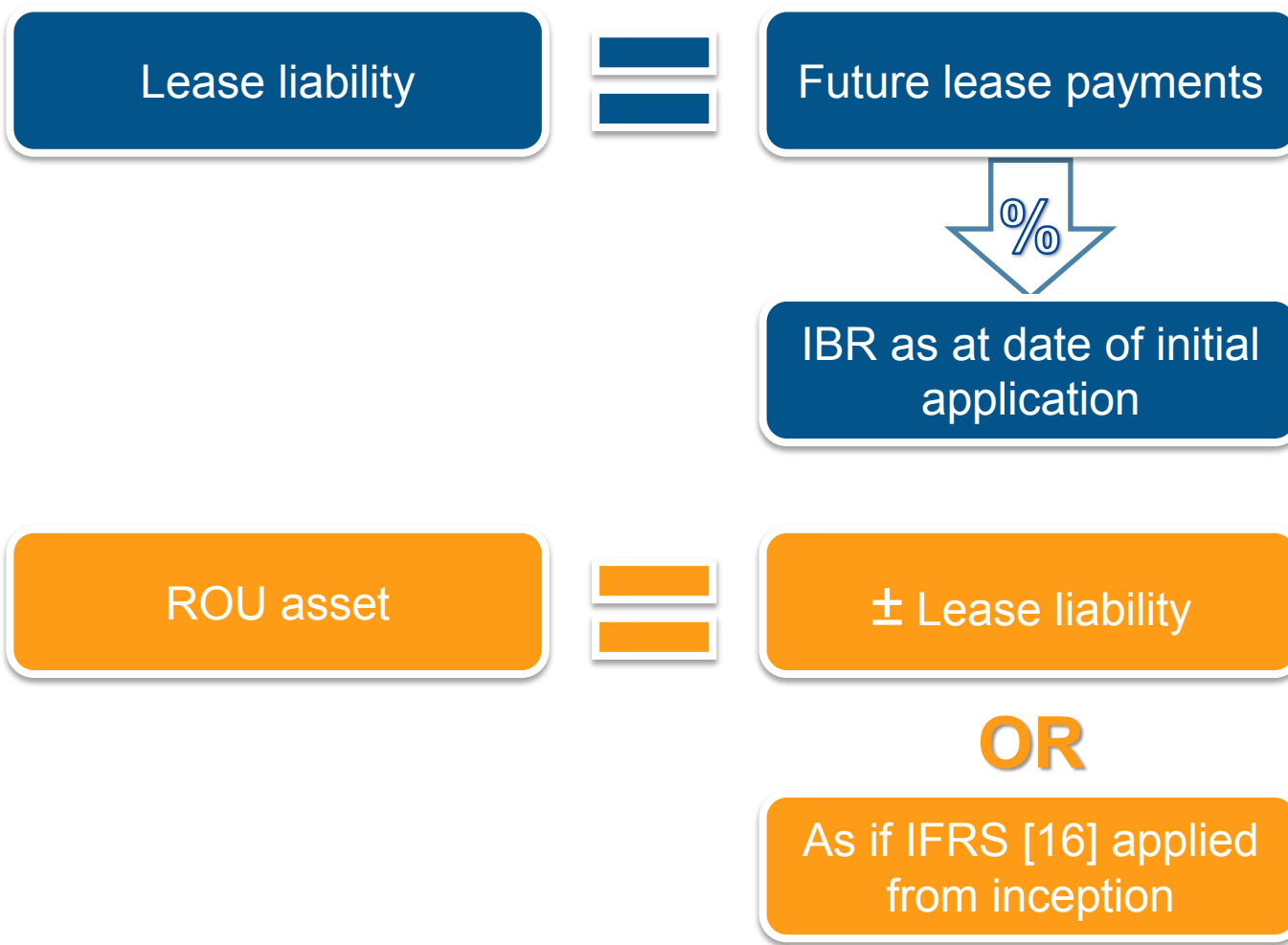
Operating leases

- disclosures, where appropriate, of:
 - IAS 16 (PPE)
 - IAS 36 (Impairment)
 - IAS 40 (Investment Property)
 - IAS 41 (Biological Assets)
- maturity analysis



Except for leases with less than 12 months remaining, which are accounted for as short-term leases

IFRS [16] – Lessee transition (cont.)



○ No adjustments on transition

Except...

○ Intermediate lessors will need to reassess leases on a prospective basis