

# IFRS 16 – Leases

Lease is becoming a preferred solution to resolve fixed asset requirements vs. purchasing the asset. On January 13, 2016, IASB issued IFRS 16 in replacement to IAS 17 which is effective for periods beginning on or after January 01, 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.

## Lessor Accounting

### (Operating and Finance Lease)

IFRS 16 does not change substantially how a lessor accounts for leases.

A lessor will continue to classify leases as either finance leases or operating leases applying IFRS 16, and account for those two types of leases differently.

Compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

### Key ratios and metrics reset

- 01 > Gearing/leverage EBITDA/EBIT
- 02 > Return on equity/ROCE
- 03 > EPS/Net income
- 04 > Operating & financing cash flows

### Entities most likely to be affected by the changes

Metals and mining entities	Retail & consumer Product entities	Oil and gas entities
Banking and other financial services	Insurance entities	Telecommunications entities

## Lessee Accounting

### Former off-balance sheet leases (Operating Leases)

IFRS 16 changes significantly how a company accounts for leases that were off-balance sheet applying IAS 17, other than short-term leases (leases of 12 months or less) and leases of low-value assets (such as personal computers and office furniture).

### Applying IFRS 16, in essence for all leases, a company is required to:

- Recognize lease assets and lease liabilities in the balance sheet, initially measured at the present value of unavoidable future lease payments;
- Recognize depreciation of lease assets and interest on lease liabilities in the income statement over the lease term; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the cash flow statement.

**IFRS 16 is expected to change the balance sheet, income statement and cash flow statement for companies with material off-balance sheet leases.**

### Former on balance sheet leases (Finance Leases)

- IFRS 16 does not change substantially the accounting for finance leases in IAS 17.
- The main difference in IFRS 16 is that the company recognize only amounts expected to be payable under residual value guarantees, rather than the maximum amount guaranteed as required by IAS 17.