



DISCLOSING THE IMPACT OF IMPLEMENTING IFRS 16

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INTRODUCTION



**DISCLOSURES BY LESSEES ARE THE
FOCUS OF THIS WEBINAR!**

EFFECTIVE DATE OF IFRS 16

Accounting Standard	Effective Date - Years Beginning on or after ...	31 December Year-ends	30 June Year-ends
AASB/IFRS 16 <i>Leases</i>	1 January 2019	31 December 2019	30 June 2020

IFRS 16 - OVERVIEW

Financial statement impacts

Earnings

- Higher EBITDA
- Lower net profit in early years (front-end loaded interest expenses)

Statement of financial performance

- Higher assets (ROU assets)
- Higher debt (lease liabilities)
- Worsens current asset position

Cash flow statement

- Higher operating cash flows
- Less financing activity cash flows (higher borrowings)

Other

- Bank covenants (ratios, e.g. interest cover, EBITDA, debt: equity ratios)
- Bonus arrangements
- System changes (ROU asset registers, amortisation of liabilities)



OUTLINE OF THIS SESSION

- ▶ Three Different Transition Methods
- ▶ Disclosure of Impact Assessment
- ▶ Transitional Disclosures
- ▶ Ongoing Disclosures in terms of IFRS 16



THREE DIFFERENT TRANSITION METHODS

RETROSPECTIVE APPLICATION OPTIONS FOR LESSEES

<u>Full Retrospective Method</u>	<u>Modified Retrospective Method</u>
<ul style="list-style-type: none">• Comparatives restated• Cumulative effect recognised as adjustment to opening equity at the <u>start of the earliest comparative period presented</u>• Third statement of financial position presented at start of preceding period• n/a• Limited transitional relief	<ul style="list-style-type: none">• Comparatives not restated• Cumulative effect recognised as adjustment to opening equity at the <u>start of the current period</u> ('date of initial application')• Third statement of financial position not required• Two approaches for calculating RoU asset on a lease by lease basis• More extensive transitional relief

Retrospective Application Options for Lessees

Full Retrospective Approach

Modified Retrospective Approach

Modified Retrospective Approach #1

RoU Asset = Lease Liability -
Accrual/Prepayment ito old AASB
117

Modified Retrospective Approach #2

RoU Asset is calculated on a retrospective basis & practical expedients available in its calculation AND the prevailing incremental borrowing rate at the date of initial application is used

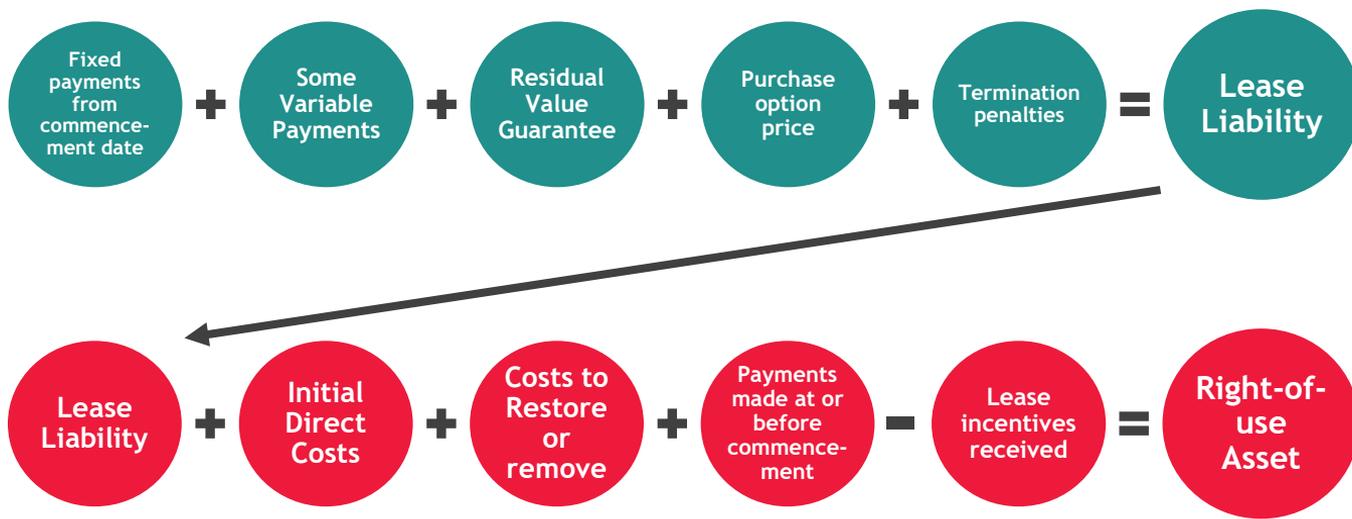
HAVE YOU DECIDED ON A TRANSITIONAL APPROACH?

- ▶ Preparers should consult with the relevant financial statement users and those charged with governance (the Board and/or Audit Committee) to assist them in determining which approach to transition is most suitable for their needs
- ▶ Benefits of the full retrospective method
 - Comparable information
- ▶ Benefits of the two modified retrospective approaches
 - Simpler due to more practical expedients
- ▶ Consider the impact on the following:
 - Retained earnings at the date of initial application
 - Future profit or loss

TRANSITION

Full retrospective method

Apply AASB 16 on lease commencement date!





TRANSITION

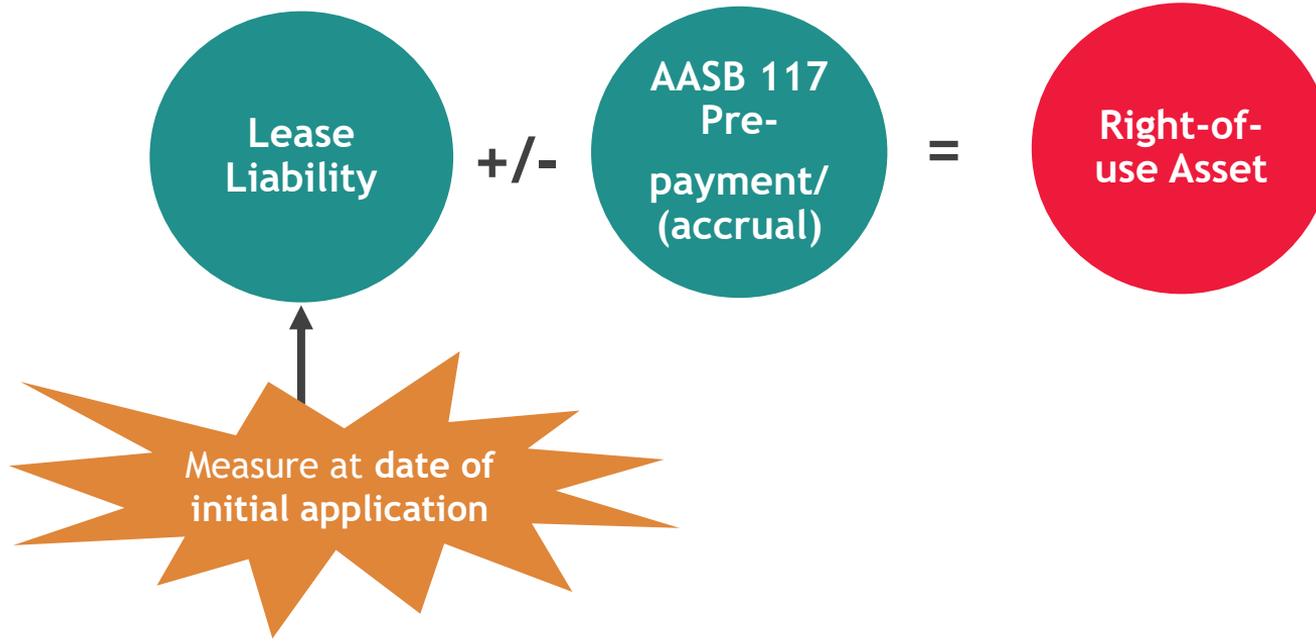
Full retrospective method

- ▶ Comparative figures are restated as if IFRS 16 had always been in effect

- ▶ Disclosure
 - Current year per IFRS 16
 - Comparative year per IFRS 16
 - Restate retained earnings at the beginning of the comparative year

TRANSITION

Modified retrospective method #1





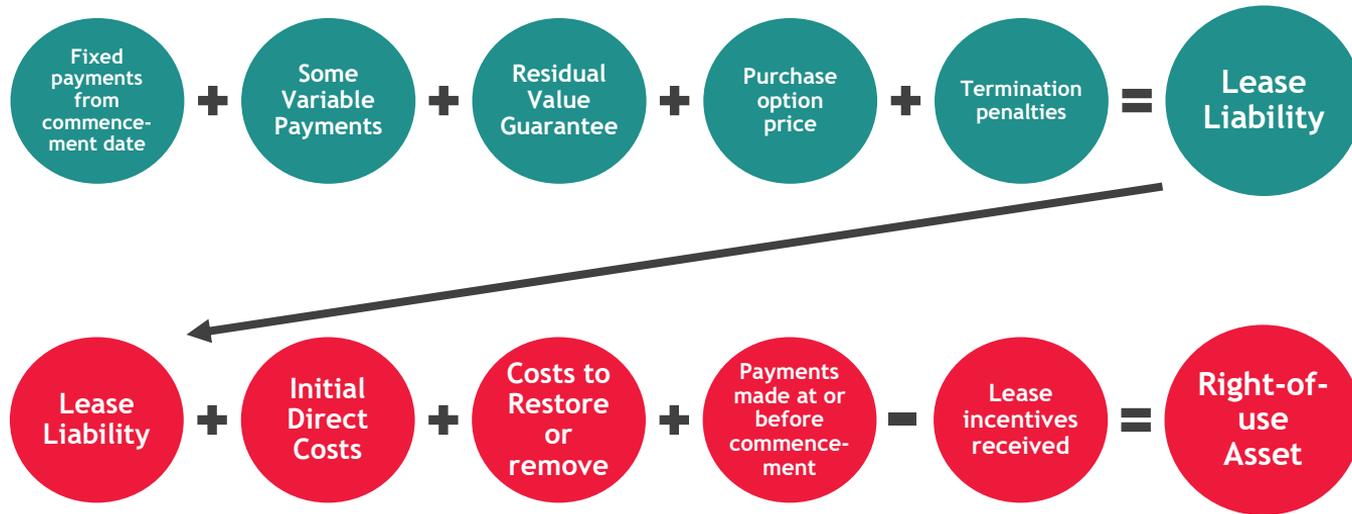
TRANSITION

Modified retrospective method #1

- ▶ The lease liability is net present value of the remaining (i.e. future) lease payments using the incremental borrowing rate at the date of initial application
- ▶ The right-of-use (RoU) asset is recognized at the date of initial application as an amount equal to the lease liability, using the prevailing incremental borrowing rate at the date of initial application
- ▶ Adjusted for any prepaid or accrued lease payments relating to that lease that were recognised in the statement of financial position immediately before the date of initial application

TRANSITION

Modified retrospective method #2





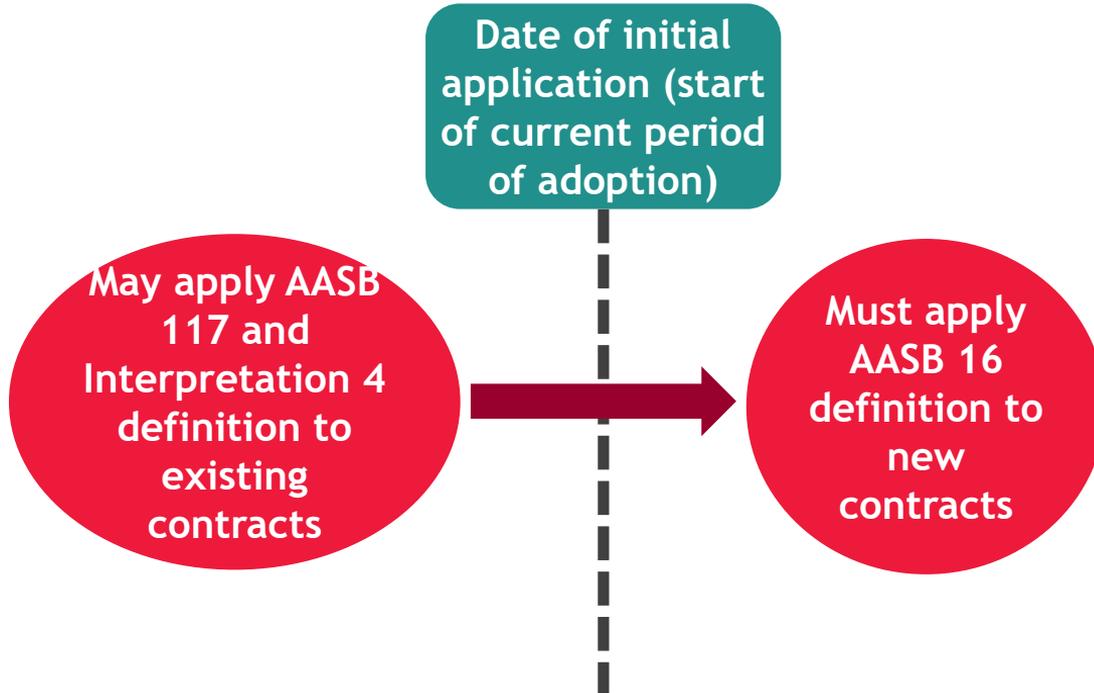
TRANSITION

Modified retrospective method #2

- ▶ Lease liability calculated in the same way as under the modified retrospective approach #1
- ▶ That is, the lease liability is net present value of the remaining (i.e. future) lease payments using the incremental borrowing rate at the date of initial application
- ▶ The RoU asset is recognized as at the date of initial application as if IFRS 16 had always been applied
- ▶ BUT calculated as if the prevailing incremental borrowing rate as at the date of initial application also applied at lease commencement

TRANSITION

Practical expedient #1 - Definition of a lease



TRANSITION

Modified retrospective - Other practical expedients

#2: Apply a single discount rate to a portfolio of leases with reasonably similar characteristics

#3: Use onerous lease assessment and any provision recognised immediately before date of application instead of an AASB 136 impairment test

#4: Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application

#5: No requirement to recognise leases when the term ends within 12 months of the date of initial application

#6: Use hindsight, such as in determining the lease term, if the contract contains options to extend or terminate the lease

TRANSITION

Practical expedient #2

Apply a single discount rate to a portfolio of leases with reasonably similar characteristics

Not used	Used
<ul style="list-style-type: none">Determine incremental borrowing rate on date of initial application for every lease contract.	<ul style="list-style-type: none">Leases with reasonably similar characteristics may be ‘pooled’ together, e.g. an entity with a fleet of cars that are all leased.

TRANSITION

Practical expedient #3

Use onerous lease assessment and any provision recognised immediately before date of initial application instead of an AASB 136 impairment test.

Not used	Used
<ul style="list-style-type: none">Apply AASB 136 Impairment of assets to all right-of-use assets recognised on adoption of AASB 16.	<ul style="list-style-type: none">Reduce right-of-use asset by previously recognised onerous lease provision.

TRANSITION

Practical expedient #4

Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application.

Not used	Used
<ul style="list-style-type: none">Depending on the approach used to calculate the right-of-use asset, initial direct costs incurred by the lessee on commencement of the lease needs to be determined.	<ul style="list-style-type: none">The amount of initial direct costs incurred by the lessee on commencement of the lease does not need to be determined.

TRANSITION

Practical expedient #5

No need to recognise leases whose term ends within 12 months of the date of initial application

Not used	Used
<ul style="list-style-type: none">All leases with a term of more than 12 months from the original lease commencement date will be recognised on balance sheet, regardless of the remaining term at the date of initial application.	<ul style="list-style-type: none">Only leases with a remaining term of more than 12 months from the date of initial application will be recognised on balance sheet.

TRANSITION

Practical expedient #6

Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Not used	Used
<ul style="list-style-type: none">• Measure right-of-use asset on date of initial application as if estimates and judgements would have been made in 'real time' subsequent to the lease commencement date	<ul style="list-style-type: none">• Include the effects of events occurring after the lease commencement date when measuring the right-of-use asset.

TRANSITION

Practical expedients - summary

	PE #1 Definition	PE #2 Portfolio discount rate	PE #3 Relief from AASB 136	PE #4 Initial direct costs	PE #5 Remain- ing term < 12 months	PE #6 Hindsight
Full Retrospective Method	✓	x	x	x	x	x
Modified Retrospective Method (RoU asset measurement approach #1)	✓	✓	✓	N/A	✓	N/A
Modified Retrospective Method (RoU asset measurement approach #2)	✓	✓	✓	✓	✓	✓



DISCLOSURE OF IMPACT ASSESSMENT



DISCLOSURE OF IMPACT ASSESSMENT

AASB 108 paragraph 30

- ▶ When an entity has not applied a new Australian Accounting Standard that has been issued but is not yet effective, the entity shall disclose:
 - this fact; and
 - known or reasonably estimable information relevant to assessing the possible impact that application of the new Australian Accounting Standard will have on the entity's financial statements in the period of initial application

DISCLOSURE OF IMPACT ASSESSMENT

AASB 108 paragraph 31

- ▶ In complying with paragraph 30, an entity considers disclosing:
 - the title of the new Australian Accounting Standard;
 - the nature of the impending change or changes in accounting policy;
 - the date by which application of the Australian Accounting Standard is required;
 - the date as at which it plans to apply the Australian Accounting Standard initially; and
 - either:
 - a discussion of the impact that initial application of the Australian Accounting Standard is expected to have on the entity's financial statements; or
 - if that impact is not known or reasonably estimable, a statement to that effect



ASIC'S EXPECTATIONS

- ▶ <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2019-releases/19-143mr-major-financial-reporting-changes-and-other-focuses/>



ASIC'S EXPECTATIONS

- ▶ The reports must also disclose the future impact of new lease accounting requirements
- ▶ ASIC Commissioner John Price said, 'New accounting standards can significantly affect results reported to the market by companies, require changes to systems and processes, and affect businesses'

ASIC'S EXPECTATIONS

- ▶ It is important that directors and management ensure that companies inform investors and other financial report users of the impact on reported results. **Required disclosure on the effect of the new standards is more extensive than that made by many companies for the 31 December 2018 half year.**
- ▶ ASIC will be reviewing more than 200 full year financial reports at 30 June 2019 to promote quality financial reporting, and useful and meaningful information for investors

EXAMPLE DISCLOSURE

- ▶ The directors have undertaken an assessment of the impact of AASB 16 and anticipate that initial adoption of the Standard will not have a material impact on the entity's financial statements



OR

- ▶ The directors have undertaken an assessment of the impact of AASB 16 and anticipate that initial adoption of AASB 16 will have a material impact on the entity. The directors estimate that as a consequence of adopting AASB 16 ...



TRANSITIONAL DISCLOSURES

TRANSITIONAL DISCLOSURES

AASB 108 paragraph 28

- ▶ When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
 - the title of the Australian Accounting Standard;
 - when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
 - the nature of the change in accounting policy;
 - when applicable, a description of the transitional provisions;
 - when applicable, the transitional provisions that might have an effect on future periods;
 - ...

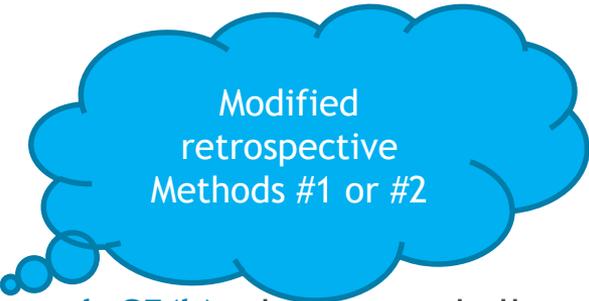
TRANSITIONAL DISCLOSURES

AASB 108 paragraph 28

- ▶ When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
 - ...
 - **for the current period and each prior period presented**, to the extent practicable, the amount of the adjustment:
 - for each financial statement line item affected; and
 - if AASB 133 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
 - **the amount of the adjustment relating to periods before those presented**, to the extent practicable; and
 - if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied

TRANSITIONAL DISCLOSURES

AASB 16 paragraphs C12 & C13



Modified
retrospective
Methods #1 or #2

- ▶ If a lessee elects to apply this Standard in accordance with **paragraph C5(b)**, the lessee shall disclose information about initial application required by paragraph 28 of AASB 108, except for the information specified in paragraph 28(f) of AASB 108. Instead of the information specified in paragraph 28(f) of AASB 108, the lessee shall disclose:
 - the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and
 - an explanation of any difference between:
 - operating lease commitments disclosed applying AASB 117 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a); and
 - lease liabilities recognised in the statement of financial position at the date of initial application.
- ▶ If a lessee uses one or more of the specified practical expedients in paragraph C10, it shall disclose that fact

ONGOING DISCLOSURES IN TERMS OF IFRS 16

PRESENTATION OF LEASES

Statement of financial position

ROU Assets

Present RoU assets that are investment property as investment property. For other underlying assets:

- Present ROU assets within PPE; or
- Present ROU assets separately

PRESENTATION OF LEASES

ROU assets - included within PP&E

ABC Company			
Statement of Financial Position			
December 31,	<u>20x9</u>		<u>20x8</u>
Assets			
Current			
Cash	\$ 1,474	\$	852
Property, plant & equipment (Note 4)	<u>58,780</u>		<u>44,470</u>
	<u>\$ 60,254</u>	<u>\$</u>	<u>45,322</u>

Separately disclose ROU assets in note; disclosure same as separating ROU assets to their own line item

PRESENTATION OF LEASES

ROU assets - included within PP&E

ABC Company Notes to Consolidated Financial Statements

September 30, 20x0

4. Property and Equipment

If combining with PP&E, separate disclosure of RoU assets in notes is still required.

	Land	Building	Computer hardware and software	Right-of-use assets - vehicles	Right-of-use assets - Equipment	Total
Cost						
Balance at September 30, 20x9	\$ 5,200	\$ 15,500	\$ 20,750	\$ 18,450	\$ 36,000	\$ 95,900
Additions	-	200	300	400	1,180	2,080
Disposals	-	(765)	-	(250)	-	(1,015)
Balance at September 30, 20x0	\$ 5,200	\$ 14,935	\$ 21,050	\$ 18,600	\$ 37,180	\$ 96,965

PRESENTATION OF LEASES

ROU assets - separate presentation

ABC Company			
Statement of Financial Position			
December 31,	<u>20x9</u>		<u>20x8</u>
Assets			
Current			
Cash	\$ 1,474	\$	852
Property, plant & equipment (Note 4)	21,600		21,600
Right-of-use assets (Note 5)	37,180		22,870
	<hr/>		<hr/>
	\$ 60,254	\$	45,322

Contains disclosure similar to a PP&E note, ROU assets separated in note

PRESENTATION OF LEASES

Statement of financial position

Lease Liabilities

Distinguishing between amounts due within 1 year and amounts due > 1 year:

- Present within line items for other liabilities; or
- Separate from other liabilities.

PRESENTATION OF LEASES

Statement of financial position (liab.) - Separate

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities	\$	10,000	\$	9,800
Income taxes payable (Note 8)		400		450
Current portion of long-term debt (Note 6)		1,150		1,300
Current portion of lease liabilities (Note 10)		850		900
Deferred revenue		250		350

Deferred revenue

Long-term debt (Note 6)

Lease liabilities (Note 10)

	100	150
	250	400
	750	850
	13,750	14,200

Lease liabilities are presented separate from other liabilities

PRESENTATION OF LEASES

Lease liabilities - separate presentation

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities	\$	10,000	\$	9,800
Income taxes payable (Note 8)		400		450
Current portion of long-term debt and lease liabilities (Note 6)		2,000		2,200
Deferred revenue		250		350
		<hr/>		<hr/>
		12,650		12,800

Deferred revenue

Long-term debt and lease liabilities (Note 6)		100		150
		1,000		1,250
		<hr/>		<hr/>
		13,750		14,200

Lease liabilities are grouped in with other liabilities, with separate disclosure in notes

PRESENTATION OF LEASES

Statement of comprehensive income

By Function

- Allocate amortisation on RoU asset to cost of sales, distribution costs and administrative expenses as appropriate
- Include interest on lease liability within aggregate finance costs

By Nature

- Include amortisation on RoU assets within the aggregate for depreciation and amortisation expense

Whether by function or by nature

- Include interest on lease liability within aggregate finance costs
- Disclose in notes:
 - Depreciation charge on right-of-use asset by class of underlying asset
 - Interest expense on lease liabilities

PRESENTATION OF LEASES

Statement of cash flows

Include:

- Portion of lease payments that represents repayment of interest if the entity has a policy of presenting interest payments as a financing cash flow;
- Payments on short-term leases and leases of low value assets that are “off balance sheet”; and
- Variable lease payments not included in measurement of lease liability.

Include portion of lease payments that represent repayment of:

- Principal; and
- Interest if the entity has a policy of presenting interest payments as a financing cash flow.

ABC Company
Consolidated Statement of Cash Flows

For the year ended	September 30, 20x0	September 30, 20x9
	<i>(Expressed in thousands of U.S. dollars)</i>	
Cash was (used in) provided by		
Operating activities		
Profit for the period	\$ 36,755	\$ 10,514
Adjustments to reconcile profit to net cash provided by operating activities		
Depreciation of property and equipment	30,003	26,401
Changes in non-cash working capital balances		
Accounts receivable	(3,765)	(3,715)
Inventories	3,729	(6,157)
Accounts payable and accrued liabilities	21,405	42,986
Income taxes	(259)	(396)
	<u>87,868</u>	<u>69,633</u>
Investing activities		
Purchase of property and equipment	(249,041)	(114,766)
	<u>(249,041)</u>	<u>(114,766)</u>
Financing activities		
Increase in long-term debt and demand loans	95,140	63,187
Repayment of lease liabilities	(55,150)	(38,289)
Issuance of share capital (Note 8)	64,694	-
	<u>104,684</u>	<u>24,898</u>

SPECIFIED DISCLOSURES TO MEET OBJECTIVE

Paragraphs 53-54

Paragraph 53

- Interest expense on lease liabilities
- Expense relating to short term leases (may exclude leases with a term < 1 month)
- Expense relating to leases of low value assets (excluding short-term leases)
- Expense related to variable lease payments excluded from measurement of lease liability
- Income from subleasing right-of-use assets
- Gains or losses from arising from sale and leaseback transactions

Paragraph 54

- Present above in a tabular format unless another format is more appropriate

SPECIFIED DISCLOSURES TO MEET OBJECTIVE

Paragraphs 52-60

- Short-term lease commitments if different to annual expense
- Provide IAS 40 disclosures for RoU assets that are investment property
- If ROU assets are revalued, provide relevant IAS 16 disclosures
- Maturity analysis of lease liabilities
- Additional information to meet the objective (B48), for example:
 - Nature of leasing activities
 - Cash flow exposures not included in measurement of lease liability - variable lease payments, effect of options and residual value guarantees (B49-51)
 - Restrictions/covenants imposed by leases
 - Sale and leaseback transactions (B52)
- State whether short-term or low value recognition exemption has been applied



BDO RESOURCES



WEBINARS

2019

- ▶ <https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2019-bdo-financial-reporting-and-accounting-standards-webinar-series>

2017 & 2018

- ▶ <https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2018-financial-reporting-accounting-standards>



PUBLICATIONS

IFRS in Practice

- ▶ [IFRS in Practice 2019: IFRS 16 Leases](#)

Accounting News

- ▶ <https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-publications>

E-LEARNING

Online training courses

- ▶ [IFRS 16: Introduction](#)
- ▶ [IFRS 16: Recognition exemptions](#)
- ▶ [IFRS 16: Identifying a lease](#)
- ▶ [IFRS 16: Determining the lease term \(lessee\)](#)
- ▶ [IFRS 16: Recognition and measurement \(lessee\)](#)
- ▶ [IFRS 16: Sale and leaseback transactions](#)
- ▶ [IFRS 16: Presentation](#)
- ▶ [IFRS 16: Lessor accounting](#)
- ▶ [IFRS 16: Transition](#)



DO YOU NEED ASSISTANCE?

HEALTH CHECK - ARE YOU READY FOR IFRS 16?

- Do you know which contracts contain leases?
- Are your systems and processes capturing all the required information?
- Do you have systems and processes to monitor leases and keep track of the leased assets and required ongoing assessments?
- What information can you obtain from your lessors?
- What recognition exemptions and practical expedients will you adopt?
- Will you apply any transition reliefs?
- What discount rates will you use for different leases?
- What is the impact of the changes on financial results and position?
- How will you communicate the impact to affected stakeholders?
- Do you know your taxation and other business impacts?



BDO'S IFRS 16 SERVICE OFFERING

BDO Lead (SaaS)

<https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-16/lease-management-ifrs-16-tool>

BDO Lease Management Services

<https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-16/lease-management-services>

Impact Assessment

<https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services>

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QUESTIONS



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