

A photograph of a modern, multi-level architectural interior. The space is characterized by clean, white lines and curved surfaces. A prominent feature is a long, straight staircase with a metal railing, leading upwards. The ceiling is high and features recessed lighting and large skylights that allow natural light to filter in. The overall atmosphere is bright and airy, with a focus on geometric forms and open space.

PRACTICAL ISSUES WHEN IMPLEMENTING IFRS 16

January 2019

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**WELCOME TO 2019 -
THE YEAR OF LEASE ACCOUNTING!**

EFFECTIVE DATE OF IFRS 16

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

WHY NOW?





WHAT IS THE BIG CHANGE FOR LESSEES?



THE BIG CHANGE FOR LESSEES

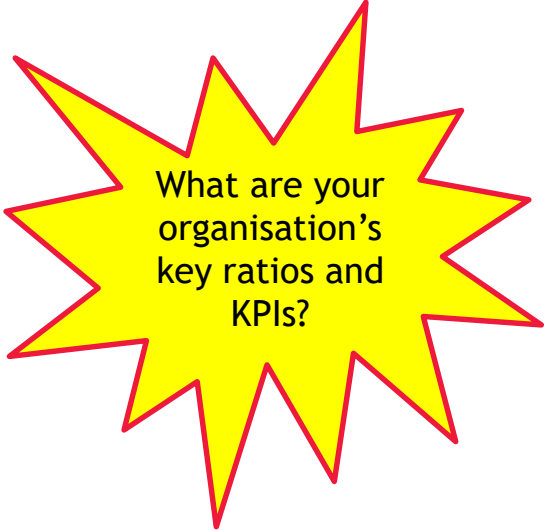
The end of the road for operating leases!

The new AASB 16 *Leases* introduces a single lessee accounting model where **all leases** will be accounted for in a similar manner to the way in which finance leases are currently accounted for

POTENTIAL IMPACT

Impact on financial statements, key ratios and other KPIs

- ▶ Profit volatility
- ▶ Net current assets
- ▶ EBITDA
- ▶ Bank covenants
- ▶ Declaration of dividends
- ▶ Interest rate cover
- ▶ Debt/equity ratio



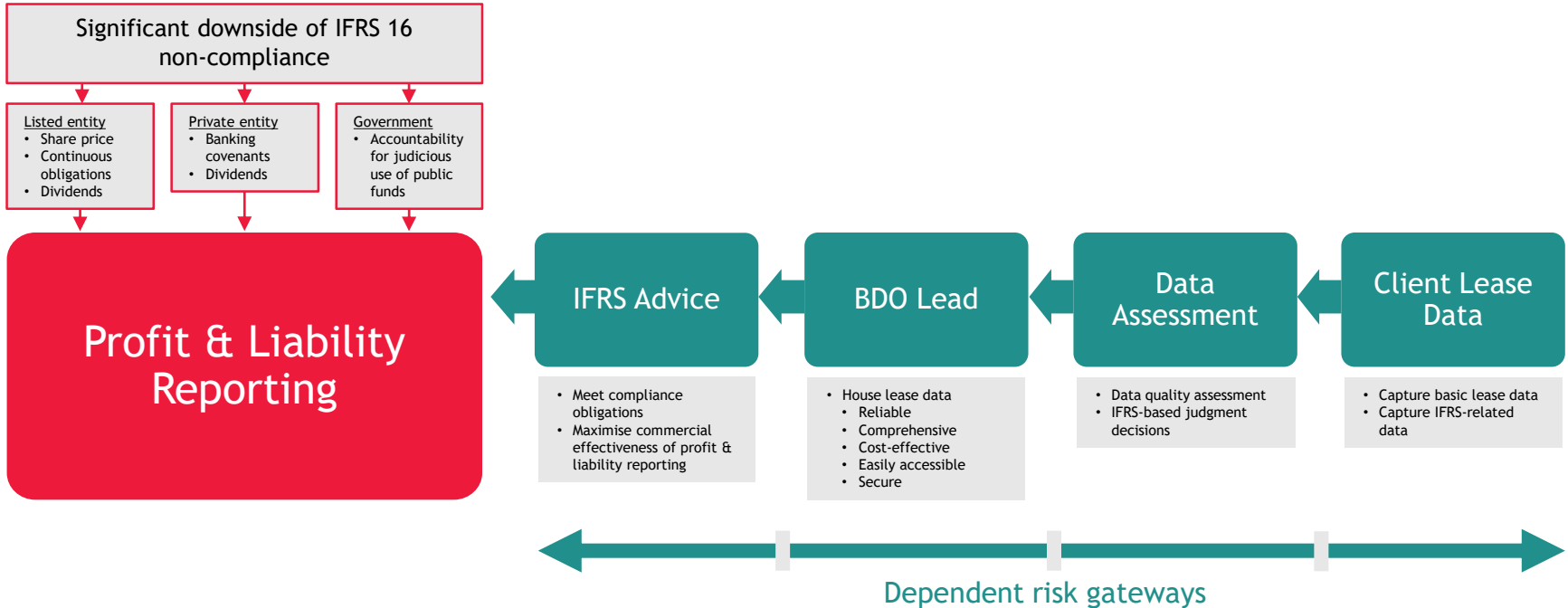
What are your organisation's key ratios and KPIs?



WHAT IS THE BUSINESS PROBLEM?

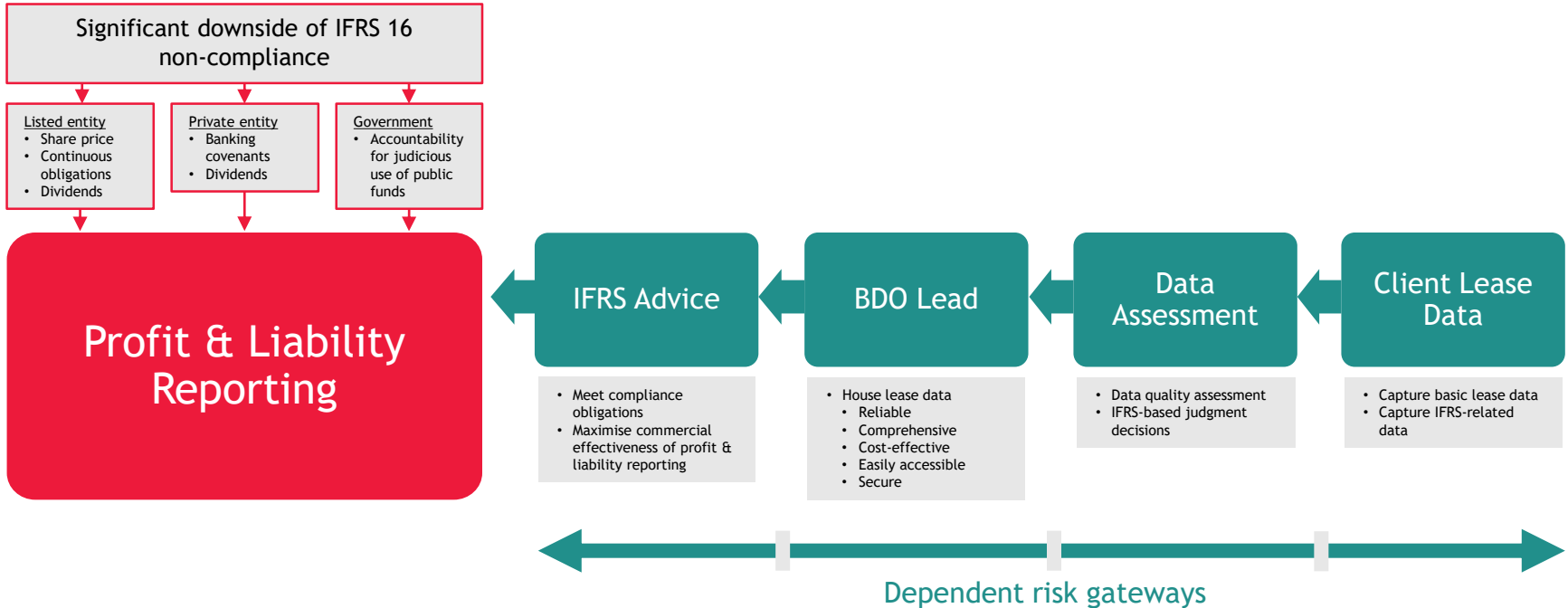
Private Sector Entities - Preserve Shareholder Value

IFRS 16 will create winners and losers for organisations with multiple leases, depending on how effectively they control the risk at each point in the lease management lifecycle.



Public Sector Entities & NFP Entities - Maintain Public Support

IFRS 16 will create winners and losers for organisations with multiple leases, depending on how effectively they control the risk at each point in the lease management lifecycle.





AFR, 5 SEPTEMBER 2018

<https://www.afr.com/business/retail/myer-woolworths-hardest-hit-by-new-lease-accounting-standard-20180905-h14yqo>

Myer, Woolworths hardest hit by new lease accounting standard

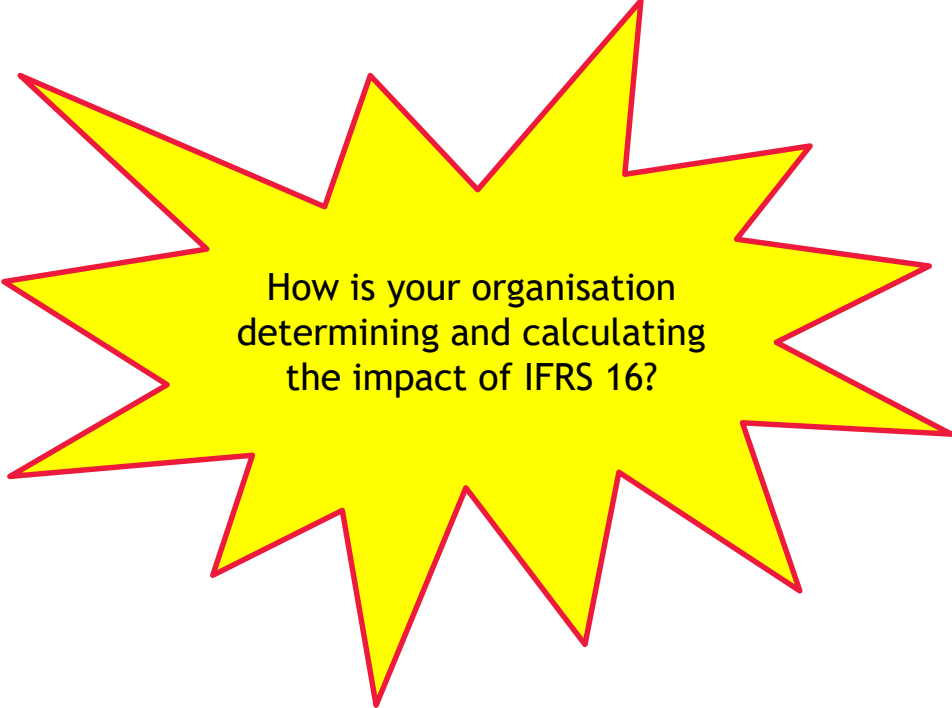


AFR, 9 JULY 2017

<https://www.afr.com/business/retail/wesfarmers-woolworths-among-retailers-bracing-for-new-lease-accounting-rules-20170706-gx69ij>


Wesfarmers, Woolworths liabilities to double under lease accounting change

DETERMINING THE IMPACT OF IFRS 16



How is your organisation
determining and calculating
the impact of IFRS 16?

COMMUNICATION OF THE IMPACT OF IFRS 16



How is your organisation communicating the impact of IFRS 16 to its stakeholders?

WHAT ARE THE BIGGEST PROBLEMS WHEN IMPLEMENTING IFRS 16?



PREPARING FOR TRANSITION

- ▶ Project team
 - Composition
 - Access to skills and expertise
 - Involvement of decision makers
 - Auditor involvement



EMBEDDED ASSUMPTIONS

- ▶ Data
- ▶ Technology solution
- ▶ The ‘easiest option’
 - Transition



DATA

- ▶ Availability of data and lease information
 - Completeness
- ▶ Assumptions
 - Involvement of decision makers, auditor
- ▶ Judgements and optional allowance
 - Involvement of decision makers, IFRS specialist



TECHNOLOGY SOLUTION

- ▶ IFRS 16 software
 - IT strategy
 - Configuration
 - Design
- ▶ Excel




NEEDS

- ▶ Report output
- ▶ Excel upload
- ▶ Journal entries
- ▶ Monthly, Half-yearly, Annually

DETERMINING THE IMPACT OF IFRS 16

- ▶ Determining/calculating the impact of IFRS 16:
 - At the date of transition
 - On an ongoing basis
- ▶ Understand the implications
- ▶ Modelling



Have you considered
date of transition &
ongoing management?

DETERMINING THE IMPACT OF IFRS 16

- ▶ Stakeholder involvement
 - The Board and/or Audit Committee
- ▶ Benefits of the full retrospective method
 - Comparable information
- ▶ Benefits of the two modified retrospective approaches
 - Simpler due to more practical expedients

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



BDO'S SERVICE OFFERING RE IFRS 16



BDO'S SERVICE OFFERING RE IFRS 16

1. BDO Lead - IFRS 16 & Lease Management Solution
2. BDO Lease Management Services
3. Calculate the Transition Adjustment
4. IFRS 16 Implementation Advice

BDO LEAD - IFRS 16 & LEASE MANAGEMENT SOLUTION

- ▶ Do you want control of your lease data?
- ▶ Do you want to maintain your own lease data?
- ▶ Do you want to prepare/run your own reports and journal entries?

BDO Lead

Cloud Solution, Ongoing Software & IFRS Support
Once off implementation fee (Starting at \$40,000) &
annual licence fee (Starting at \$40,000)
Can be customised and integrated with other
accounting software (Separate quote)

BDO LEASE MANAGEMENT SERVICES

- ▶ You populate your lease data in an excel spreadsheet
- ▶ We upload and maintain the data
- ▶ You provide changes to data to us
- ▶ We prepare monthly reports and monthly journal entries
- ▶ **IFRS Advisory involvement throughout**

Less than 10 leases = Around \$5,000 per year
10 to 200 leases = Around \$15,000 per year
> 200 leases = Starting at \$20,000 per year
Annual fee potentially changes due to number of
leases and complexity of leases

CALCULATE THE TRANSITION ADJUSTMENT

- ▶ You populate your lease data in an excel spreadsheet
- ▶ We upload the data
- ▶ We prepare the transition adjustment according to various transition approaches, including impact over the following 10 years
- ▶ **IFRS Advisory involvement throughout**

Separate quote

IFRS 16 IMPLEMENTATION ADVICE

- ▶ Some clients use other technology solutions, but they need IFRS advice
- ▶ **IFRS Advisory involvement throughout**

Separate quote



OTHER PRACTICAL IMPLEMENTATION ISSUES

OTHER ISSUES

- ▶ Embedded leases
- ▶ Lease and non-lease components
- ▶ Fixed, variable and ‘in-substance’ fixed
 - Timing of information becoming available
 - ‘Backdating’ accounting
- ▶ Lessor accounting
- ▶ Two different business problems:
 - Preparation of financial statements
 - Budgets & forecasts
- ▶ Transactions between inception and commencement dates
- ▶ Disclosures



QUESTIONS DIRECTORS SHOULD ASK



QUESTIONS DIRECTORS SHOULD ASK IN RELATION TO THE NEW ACCOUNTING STANDARDS

- ▶ <https://aicd.companydirectors.com.au/membership/the-boardroom-report/volume-16-issue-10/questions-directors-should-ask-for-the-new-aasb-standards>



NEXT STEPS



NEXT STEPS

- ▶ Do you have copies of all your operating & finance leases?
- ▶ Have you decided on a transitional approach?
- ▶ Do you have all the data necessary to implement IFRS 16?
- ▶ Do you have a technology solution?
- ▶ Can you maintain your leases on an ongoing basis?
- ▶ Have you done a risk assessment re IFRS 16?



NEXT STEPS

- ▶ Have you designed an appropriate response to the completed risk assessment re IFRS 16?
- ▶ Have you designed a **project plan** re the implementation of IFRS 16?
- ▶ Have you decided on an appropriate **transitional approach** re IFRS 16?
- ▶ Have you changed and improved your systems and processes to deal with the new IFRS 16?
- ▶ **Have you decided on a technology solution?**



DO YOU NEED ASSISTANCE?

MONTHLY FINANCIAL REPORTING WEBINARS

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

- ▶ 2017 & 2018 Webinars re IFRS 16
 - February 2017: Overview of the New IFRS 16
 - September 2017: The New AASB 16 - Identifying a Lease and Determining the Lease Term
 - October 2017: The New AASB 16 - Recognition and Measurement
 - September 2018: Transition to IFRS 16
 - October 2018: IFRS 16 - Risk Assessment
 - December 2018: IFRS 16 - Problem Areas



NEWSLETTERS & OTHER PUBLICATIONS

- ▶ <https://www.bdo.com.au/en-au/accounting-news/accounting-news-august-2018>
- ▶ <https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-technical-resources>

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https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services#main_content

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QUESTIONS



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