

Implementation of the New Leases Standard (IFRS 16) in your Financial Statement.

Since IFRS 16 became effective in 2019, it heavily impacts the lessees. There are key considerations in the implementation of the standard.

The key considerations include:



1. Date of transition

Date of initial application for entities adopting IFRS 16 for the first time in the year is 1 January 2019.

IFRS 16 offers a range of transition options.

Modified Retrospective approach

(Recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application)

Full Retrospective method

(Comparative information restated for all periods)



2. Discount rate:

Lease payments paid must be discounted using any of:

- The interest rate implicit in the lease.
- The lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined.



3. Lease period

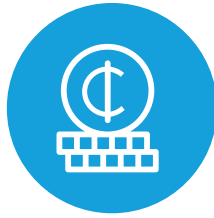
The non-cancellable period the lessee has the right to use the underlying asset.



4. Lease payment

Payments made by the lessee to the lessor can be fixed, variable dependent on an index or rate, an exercise price of a purchase option or amounts expected to be payable under residual value guarantees.

The lease payments determined on the lease period will be discounted using the discount rate to initially place a value on the ROU and lease liability.



5. Accounting for leases

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs and payments at prior commencement of the lease.

The lease liability is also initially measured at the present value of the lease payments payable over the lease term.

Description	Dr	Cr
Initial recognition		
Right of Use (ROU)	xxx	
Lease Liability		xxx
Subsequent measurement		
P/L (Depreciation) ROU	xxx	xxx
P/L(Finance cost) Lease liability	xxx	xxx
(Yearly Lease payments) Lease liability	xxx	
Bank/Cash		xxx



6. Disclosures

Relating to Statement of Financial Position

- Additions to the right-of-use assets.
- Year-end carrying amounts of right-of-use assets by class of underlying assets in the Statement of Financial Position.
- Lease Liabilities and the corresponding line items in the Statement of Financial Position if lease liabilities are not presented separately.

Relating to Statement of profit and loss and other comprehensive income.

- Depreciation expense of right of use asset by class of underlying assets.
- Expense relating to low value items for which recognition exemption is applied.
- Expense relating to variable lease payments not included in lease liabilities.

Relating to Statement of Cash flows.

- Total Cash outflow for leases.

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