

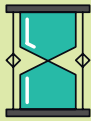
IFRS 16

Leases

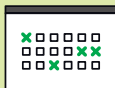
What you need to know

Effective for annual periods beginning on or after 1 January 2019.
Early application is permitted if NZ IFRS 15 has also been applied.

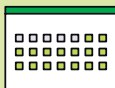
Lease term



NON-CANCELLABLE PERIOD OF THE LEASE



OPTIONAL RENEWAL PERIODS
if reasonably certain



PERIODS AFTER AN OPTIONAL TERMINATION DATE
if reasonably certain not to terminate early

Definitions

Lease

A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Lease term

The non-cancellable period for which a lessee has the right to use an underlying asset, together with both:

- Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Presentation

Statement of Financial Position

RIGHT OF USE ASSETS (ROU):

- Present ROU assets separately from other assets; or
- Include ROU assets within the same line item as the underlying asset.*

LEASE LIABILITIES

Present separately from other liabilities or disclose the line item in which they appear.

Statement of Profit or Loss and OCI

Interest expense on the lease liability is presented separately from depreciation of the ROU asset.

*specific guidance for investment property

Now, for tomorrow

Recognition & measurement

INITIAL

LEASE LIABILITY

Fixed payments less lease incentives receivable

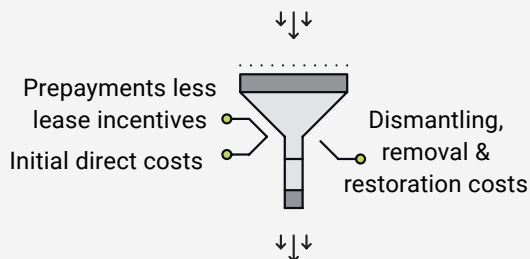
Residual value guarantees

Variable lease payments dependent on a rate or index

Lease payments during option periods
(if reasonably certain)

Exercise price of purchase option (if reasonably certain)

Penalty for termination if reflected in lease



RIGHT OF USE ASSET

SUBSEQUENT

AFTER THE COMMENCEMENT DATE, A LESSEE

REMEASURES THE LEASE LIABILITY BY:

- Increasing the carrying amount to reflect interest**
- Reducing the carrying amount to reflect the lease payments made
- Remeasuring the carrying amount to reflect any reassessment, lease modifications or revised in-substance fixed lease payments



RIGHT OF USE ASSET



OPTIONS

- ① Cost under NZ IAS 16 *P,P&E*
- ② Revaluation model under NZ IAS 16 *P,P&E*
- ③ Fair value under NZ IAS 40 *Investment Property*

Lessor accounting

Indicators of a finance lease may include:

- Ownership of the asset is transferred at the end of the lease
- The lessee has a bargain purchase option
- The lease term is for a substantial part of the economic life of the asset
- Present value of the future lease payments represent substantially all of the asset's fair value
- Customer customised asset
- The lessee can extend the lease at substantially lower rates.

Disclosures

Qualitative and quantitative disclosures on:

- Lease commitments;
- Variable lease payments;
- Extension and termination options;
- Rights and obligation arising from significant lease contracts; and
- Whether the practical expedient for short term and low value leases has been applied.

**NZ IFRS 16 requires the interest rate implicit in each lease to be identified and used to calculate the lease liability. If this is impractical, entities may use their incremental borrowing rate instead. Note often neither are straight forward to calculate!

About Baker Tilly Staples Rodway

Baker Tilly Staples Rodway is a national association of independent practices, with eight locations throughout New Zealand.

We are proud to be a member of Baker Tilly International, a top ten global network of independent accounting and business advisory firms, whose member firms share our dedication to exceptional client service.



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