



IFRS 16 - Prepare for lease accounting changes

Start planning for changes

The new *IFRS 16: Leases* standard has been issued by the IASB. The core principle of the new standard is that lessees should recognise all leases on their balance sheet.



Timetable for compliance

The new leasing standard becomes effective for fiscal years beginning on or after **1 January 2019** with earlier adoption permitted if *IFRS 15 Revenue from contracts with customer* has also been applied.

Areas where you might encounter change

The new pronouncements may not only necessitate updates to existing financial accounting policies, procedures and systems, but also affect controls and contracts. Even if accounting policies are not affected, significant new disclosures and lease management activities are required that suggest the need for planning.

We believe that most companies will need to consider making changes in the following areas:

- accounting policies and disclosures;
- application of judgment and estimation;
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes;
- systems to capture, process and maintain new lease data and for ongoing maintenance;
- corporate and other taxes; and
- debt covenant compliance.

Considerations for change

IFRS 16 requires all leases to be accounted for on balance sheet, a major departure from the requirements of IAS 17 in respect of operating leases. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets (\$5,000 threshold); and
- short-term leases (less than 12 months).

Despite being a joint project between the IASB and the FASB, there are a number of differences between the final standards, IFRS 16 and ASC 842, which are outlined in the table below.

| Balance sheet | IFRS 16 | ASC 842 | |
|---------------------|--|----------------|------------------|
| | | Finance leases | Operating leases |
| Recognition | All leases on balance sheet | ✓ | ✓ |
| | Exemption for short-term leases | ✓ | ✓ |
| | Exemption for leases of low-value assets | ✓ | ---- |
| Measurement | Lease liabilities on a discounted basis | ✓ | ✓ |
| | Initial lease asset = lease liability | ✓ | ✓ |
| Income statement | Operating costs | Depreciation | Depreciation |
| | Finance costs | Interest | Interest |
| Cash flow statement | Operating activities | Interest | Interest |
| | Financing activities | Principal | Principal |

Methodology

Our lease transformation process is collaborative with a focused outcome based approach. Grant Thornton and your team will operate seamlessly together and communicate regularly throughout the process to provide you with the most comprehensive service. The three phases of our methodology, from analysis through to deployment, allows us to demonstrate value to your company.

| | Analyse | Design | Deploy |
|------------------------------|--|---|--|
| Identify leases | <ul style="list-style-type: none"> obtain the lease population; and analyse lease information collected versus required information. | <ul style="list-style-type: none"> design future state processes for identifying and collecting lease information; create new lease identification; and policies and procedures. | <ul style="list-style-type: none"> manage shift to new policies and procedures; and update relevant documentation and to manage change. |
| Recognise and measure leases | <ul style="list-style-type: none"> calculate the balance sheet value of existing asset base; and determine the information required to complete all future calculations. | <ul style="list-style-type: none"> design disclosure information required to update financial statements; and update monthly close process to include lease calculations and journal entries. | <ul style="list-style-type: none"> finalise new lease data and consider uploading data into a designated sub ledger; and document assumptions and discount rates for all lease categories. |
| Maintain leases | <ul style="list-style-type: none"> assess options for managing leases through software; and document business requirements for any lease management solution. | <ul style="list-style-type: none"> select best lease management solution for existing requirements; and design solution to interact with existing processes. | <ul style="list-style-type: none"> manage migration of all existing lease information; and create reporting package to support statutory financial reporting and tax requirements. |

Our integrated approach

Grant Thornton can assist you with implementation of the new leasing standard through our advisory professionals who will focus on your industry.

Our services include a variety of offerings, ranging from an initial impact assessment to help you focus implementation efforts, through full-scale implementation using our phased implementation methodology tailored for your needs.



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- IFRS News Special Edition on IFRS 16 - Major reforms to global lease accounting

Contact



Fergus Condon
Partner, Financial Accounting and Advisory Services
T +353 (0)1 680 5610
E fergus.condon@ie.gt.com



Olivia Regan
Director, Financial Accounting and Advisory Services
T +353 (0)1 680 5641
E olivia.regan@ie.gt.com

Offices in Dublin, Belfast, Cork, Galway, Kildare, Limerick and Longford.



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