IFRS 16 Leases
The time to act is now!

The new standard IFRS 16 Leases will significantly change the recognition and measurement of leases
Questions you May be Asking

- Has the definition of a lease changed?
- How will the new standard affect our financial statements?
- How will a lessee now account for leases?
- Are there any exemptions from IFRS 16?
- Do I have to reassess the classification of all existing lease contracts?
- Will IFRS 16 have a significant impact on our financial statements?
- How have the requirements for sale and leaseback transactions changed?

IMPACT OF THE NEW STANDARD

- May significantly change the look of your balance sheet and P&L
- Broad requirements for data collection
- Key assumptions and justifications of exemptions in implementation
- Various impacts across your organisation: accounting, treasury, remuneration schemes

DELOITTE CAN HELP YOU TO

- Assess and prepare
- Implement and embed
- Mitigate and strategise
The Basics of IFRS 16

What is a lease?
A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

How do you assess whether a contract conveys the right to control the use of an identified asset?
A customer has the following:
- the right to obtain substantially all of the economic benefits from use of the identified asset, and
- the right to direct the use of the identified asset.

Lease and non-lease components
- Identify non-lease components and account for them separately from lease components.

Exemptions from standard
- Short-term leases
- Low-value assets

When is the standard applicable?
An entity shall apply IFRS 16 retrospectively for annual periods beginning on or after January 1, 2019.

What should we be prepared for?
» The new standard will require changes in accounting policies and new assumptions.
» Assessment of all contracts will be a data-intensive process.
» Provide training for the finance team and communicate potential impacts outside the finance function.
» Evaluate strategic impacts on KPIs, remuneration schemes, leasing strategy and loan covenants.

What will we need to prepare for the auditor?
» Access to all contracts.
» Documentation for the assessment of lease classification.
» Documentation on using exemptions of IFRS 16.
» Rationale for applying exemptions for short-term leases and low-value assets.
Example: IAS 17 vs. IFRS 16 comparison for a lessee

### Statement of Financial Position

<table>
<thead>
<tr>
<th>YEAR</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td><strong>IAS 17 (Operating lease)</strong></td>
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<td><strong>IFRS 16 (Balance sheet model)</strong> (PV of 50,000 @4.25%)</td>
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<tr>
<td>Lease Liability</td>
<td>221,036</td>
<td>180,805</td>
<td>138,363</td>
<td>94,144</td>
<td>48,049</td>
<td>-</td>
</tr>
<tr>
<td>Non-Current Asset</td>
<td>221,036</td>
<td>176,829</td>
<td>132,622</td>
<td>88,415</td>
<td>44,207</td>
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### Statement of Profit or Loss and OCI

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<th>YEAR</th>
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<tr>
<td><strong>IAS 17 (Operating lease)</strong> - Lease payment (operating exp.)</td>
<td>-</td>
<td>50,000</td>
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<tr>
<td><strong>IFRS 16 (Balance sheet model)</strong></td>
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<tr>
<td>Interest expense (finance exp.)</td>
<td>-</td>
<td>9,768</td>
<td>7,559</td>
<td>5,781</td>
<td>3,905</td>
<td>1,951</td>
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<tr>
<td>Depreciation (operating exp.)</td>
<td>-</td>
<td>44,207</td>
<td>44,207</td>
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**The asset is depreciated.**

**Lease liability is amortised over the lease term.**
Key impacts for lessees

AS A RESULT THIS WILL IMPACT:
1. Timing of revenue: recognition and deferred tax
2. EBITDA-based remuneration schemes
3. Loan covenants: interest cover, debt ratios
4. Financing: availability and interest rates

Accounting, Operational and Business Aspects of New Standard and how Deloitte can Help

**Accounting**
- Approach to IFRS 16 implementation
- Using exemptions for recognition of leases
- Identify contracts not assessed according to IAS 17 and IFRIC 4
- Impact on current and deferred income taxes
- New disclosures in financial statements
- Documentation of accounting policies

**Operational**
- Training for finance and other teams
- Review of IT systems
- Availability of information for assessment of contracts
- Completeness and validity of information from contracts
- Appropriateness of internal controls as regards approving and recording leases
- Accounting system: design and implementation of IT solutions for recording lease contracts

**Business**
- Impact on the assessment of key KPIs
- Meeting loan covenants
- Procurement strategy: lease or buy?

**How Deloitte can help?**

**Training** for relevant members of finance team.

**Accounting advisory**: analysing impacts of IFRS 16 implementation and support when evaluating contracts.

**Data processing**: identify available and accessible information, support for processing contract data

**Advisory**: assessment of internal controls

**Data processing**: assess completeness of databases; assess relevance, completeness and accuracy of identified information.

**Review accounting and operating systems**: data extractions and compliance with new requirements.

**Training**: communicate with members of other departments on the changes and impact, inform management of all “non-accounting” impacts

**Business consulting and accounting advisory**: lease or buy?
- Impact on remuneration strategy
- Accounting and other impacts on future contracts
Contacts

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Ján is a Director in the Audit Function. He has extensive experience with audits and third party inspections aimed at providing assurance as regards compliance with contractual obligations. During an 18-month secondment in London, he led supplier and distributor inspections in the UK, Ukraine, India and Balkan countries.

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M. Martončík is a Fellow Member of the UK Association of Certified Chartered Accountants (FCCA). He has extensive knowledge and experience in issues related to Slovak and International Accounting Standards. From 2004 to 2006, he participated in a 20-month assignment in the USA, where he successfully passed the CPA exams. Since 1998, he has been involved as a lecturer in IFRS training courses in Slovakia.