

Deloitte.



IFRS 16 Leases

The time to act is now!

The new standard IFRS 16 Leases will significantly change the recognition and measurement of leases

www.deloitte.sk

Questions you May be Asking



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

BASIC INFORMATION

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:

- a. the right to obtain substantially all of the economic benefits from use of the identified asset, and
- b. 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

Practical Issues

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

	YEAR					
	0	1	2	3	4	5
IAS 17 (Operating lease)	← No assets or liabilities are recognised. →					
IFRS 16 (Balance sheet model) (PV of 50,000 @4.25%)						
Lease Liability	221,036	180,805	138,363	94,144	48,049	-
Non-Current Asset	221,036	176,829	132,622	88,415	44,207	-

Statement of Profit or Loss and OCI

	YEAR					
	0	1	2	3	4	5
IAS 17 (Operating lease) - Lease payment (operating exp.)	-	50,000	50,000	50,000	50,000	50,000
IFRS 16 (Balance sheet model)						
Interest expense (finance exp.)	-	9,768	7,559	5,781	3,905	1,951
Depreciation (operating exp.)	-	44,207	44,207	44,207	44,207	44,207

The asset is depreciated.

Lease liability is amortised over the lease term.

Key impacts for lessees

Significant impact on companies with off-balance sheet leases:
INCREASE OF ASSETS AND INCREASE OF LIABILITIES!

- ▲ FINANCE COSTS
- ▼ OPERATING COSTS
- ▲ EBITDA

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



Peter Longauer

Partner, Audit & Assurance

Tel: +421 2 582 49 411

Email: plongauer@deloitteCE.com

P. Longauer specialises in providing assurance and advisory services to financial institutions. In addition to statutory audits, Peter has deep experience in regulatory compliance reviews for regulators of banking and non-banking institutions operating in financial markets, financial due diligence assignments and in the provision of accounting advisory services with specific expertise in accounting for financial instruments and infrastructure projects.



Ján Bobocký

Director, Audit & Assurance

Tel: +421 2 582 49 252

Email: jbobocky@deloitteCE.com

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.



Miloš Martončík

Director, Audit & Assurance

Tel: +421 55 728 18 21

Email: mmartoncik@deloitteCE.com

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.

Deloitte.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, any of its member firms or any of the foregoing's affiliates (collectively the "Deloitte Network") are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/sk/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, transaction advisory and legal services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 244,000 professionals are committed to making an impact that matters.