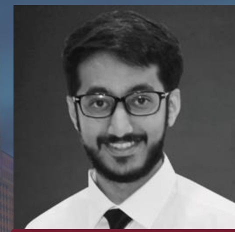
IFRS 16 – A COMPARATIVE SUMMARY

SEPTEMBER 2020



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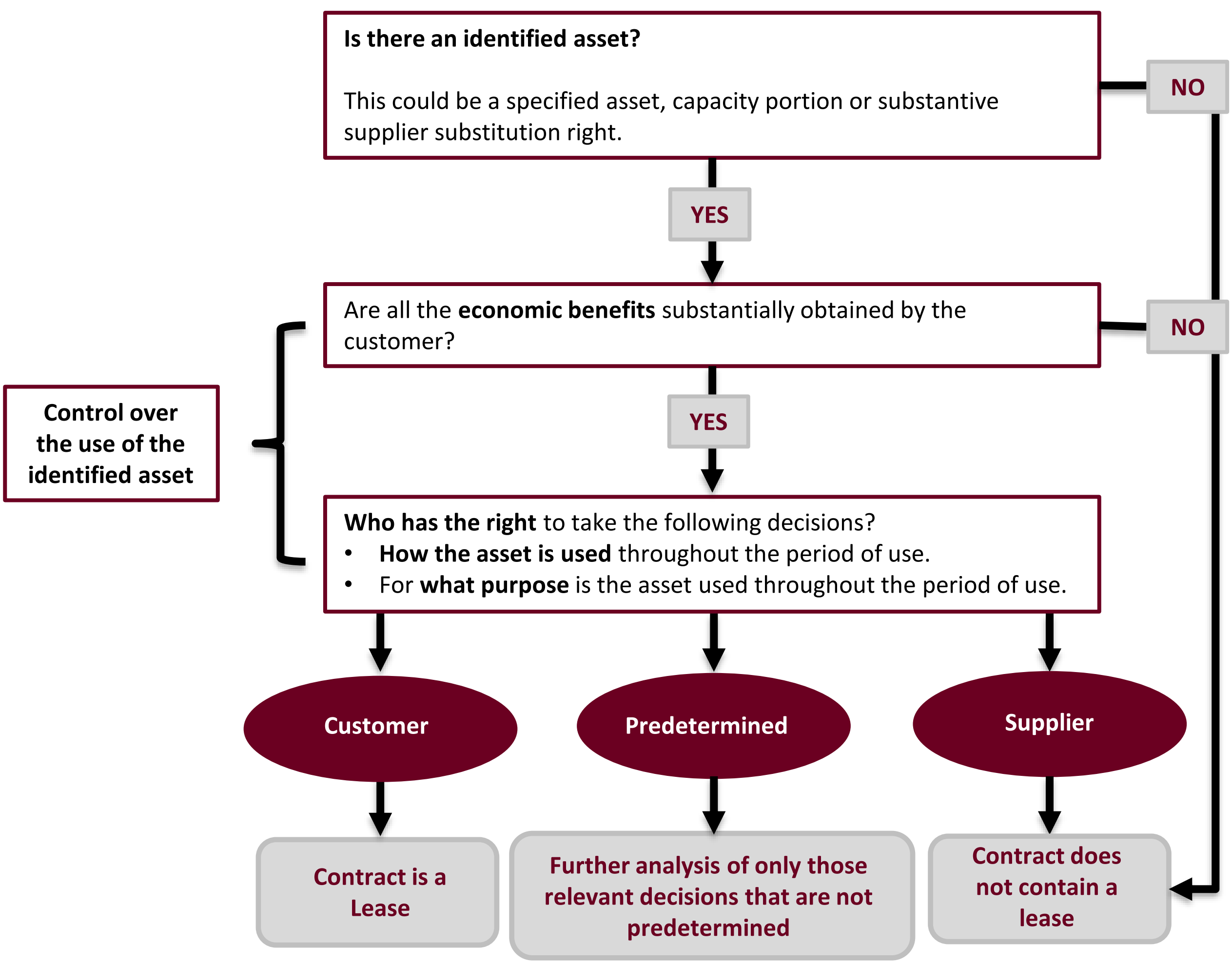
Assessing whether an arrangement is, or contains, a lease can be one of the biggest practical issues when applying IFRS 16 Leases. Lease definition is the new test that determines whether an arrangement is on- or off-balance sheet for a customer. **This guide provides a basic understanding of the lease definition and significant areas of differences in the standards issued under IFRS, Dutch GAAP, Indian GAAP and U.K. GAAP on leases.**

Lease Definition

A lease is 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. If a contract contains a lease, then it will generally be on-balance sheet for the lessee.

The following factors can be considered when applying the lease definition:



The customer and supplier need to make this assessment at the inception of a contract, and it will be revisited only if there is a change in the terms and conditions of the contract.

On transition to IFRS 16, a company can elect either to apply the new lease definition to existing contracts, or to grandfather the assessment of which existing contracts are leases and to apply the new lease definition only to contracts that are entered into or changed after transition.

Lease Exemptions

A lessee can elect not to apply the lessee accounting model to:

- leases with a lease term of 12 months or less that do not contain a purchase option – short-term leases; and
- leases for which the underlying asset is of low value when it is new – even if the effect is material in aggregate.

The below table provides a comparison between IFRS, Dutch GAAP, Ind AS and FRS 102 dealing with leases:

Particulars	IFRS	Dutch GAAP	Ind AS	FRS 102
Scope	Applies to leases of property, plant and equipment and other assets, with limited exclusions.	Like IFRS, applies to leases of property, plant and equipment and other assets, with limited exclusions.	Similarly, applies to leases of property, plant and equipment and other assets, with limited exclusions.	Also, applies to leases of property, plant and equipment and other assets, with limited exclusions.
Lease classification	The standard contains a single lease accounting model for lessees in which there is no distinction between operating and finance leases.	Unlike IFRS, a lessee classifies a lease as either a finance lease or operating lease depending on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee.	Similar to IFRS.	Similar to Dutch GAAP.
Reassessment of the lease classification	Lease classification is made at inception of the lease and is reassessed only if there is a lease modification. Changes in estimates, or changes in circumstances, do not give rise to a new classification of a lease for accounting purposes.	Like IFRS, the lease classification is made at inception of the lease and is not revised unless the lease agreement is modified. Unlike IFRS, Dutch GAAP contains quantitative indicators for classification purposes.	Similar to IFRS.	Similar to IFRS.

	Financial statements of a lessee			
• Measurement	At the commencement date a lessee recognizes a right-of-use asset and a lease liability.	The assets and liabilities are recognised at fair value or, if lower, at the present value of the minimum lease payments at the inception of the lease.	Similar to IFRS.	Similar to IFRS.
	Right-of-use asset	**Leased asset**	**Right-of-use asset**	**Right-of-use asset**
	Initial measurement: The cost of the right-of-use asset comprises of amount of the initial measurement of the lease liability, lease payments made up to commencement date (less incentives received), initial direct costs and estimated dismantling/removal costs (IAS 37). Subsequent measurement: Measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.	The leased asset is depreciated over the shorter of the lease term and its useful life.	Initial measurement: Similar to IFRS. The lease payments should be discounted using the interest rate implicit in the lease (if rate cannot be determined then lessee's incremental borrowing rate). Subsequent measurement: Similar to IFRS.	Initial measurement: Similar to IFRS. Subsequent measurement: Similar to IFRS.
	Lease liability	**Lease payments**	**Lease liability**	**Lease liability**
	Initial measurement: Measured at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease (if rate cannot be determined then lessee's incremental borrowing rate). Subsequent measurement: Measured by increasing the carrying amount to reflect interest on the lease liability (less lease payments made) and giving effect to any reassessment or lease modifications.	The present value of the minimum lease payments is discounted using the interest rate implicit in the lease (if rate cannot be determined then lessee's incremental borrowing rate). Lease rentals are split into two components – a finance charge and the reduction of the outstanding liability.	Initial measurement: Similar to IFRS. Subsequent measurement: Measured at amortised cost using the effective interest method and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.	Initial measurement: Similar to IFRS. Subsequent measurement: Similar to IFRS.
• Impairment	A lessee applies IAS 36 Impairment of Assets to determine whether the right-of-asset is impaired and to account for any impairment loss identified.	To determine whether a leased asset has become impaired, a lessee shall apply RJ 121.	A lessee applies Ind AS 36 Impairment of Assets to determine whether the right-of-asset is impaired and to account for any impairment loss identified.	A lessee shall assess at each reporting date whether an asset leased under a finance lease is impaired.

	Financial statements of a lessor			
• Measurement	Treatment is similar to Dutch GAAP. However, IFRS provides a detailed guidance for the initial measurement of the lease payments included in the net investment in the lease.	The lessor recognizes a finance lease receivable for the amount due under the finance lease, measured at the 'net investment' in the lease. This is calculated as the minimum lease payments, including any residual value guaranteed by the lessee or a third party, discounted at the interest rate implicit tin the lease, plus any unguaranteed residual value which accrues to the lessor. Lease rentals received are split into reduction of the receivable and finance income so that finance income recognised represents a constant rate of return on the net investment.	A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.	Similar to Dutch GAAP.
• Initial direct Costs	Can only be included in the initial measurement of the lease receivable.	Can be included in the initial measurement of the lease receivable or can either be immediately recognised in the income statement.	Similar to IFRS.	Similar to IFRS.
Operating lease	**Financial statements of a lessee**			
	Not applicable.	Operating leases are not capitalized. Lease payments are recognised on a straight-line basis over the lease.	Not applicable.	A lessee shall recognise lease payments under operating leases (excluding insurance) as an expense over the lease term on a straight-line basis.
	Financial statements of a lessor			
	The lessor recognises the lease payments as income over the lease term, generally on a straight-line basis. The lessor recognises the underlying asset in its statement of financial position.	Similar to IFRS.	Similar to IFRS	Similar to IFRS.

Operating lease	Financial statements of a lessee			
Recognition and measurement exemptions	Short-term leases (lease term of 12 months or less) and low-value leases (underlying asset value is USD 5,000 or less) are not required to be recognised on-balance by the lessee and can be recognised on a straight-line basis.	Unlike IFRS, there are no exemptions for short-term leases or leases of low-value assets.	A lessee can elect not to apply Ind AS 116 recognition and requirements to short-term leases and leases of low-value assets.	No explicit guidance.
Lease modifications	Specific guidance available on accounting for lease modifications by lessees and lessors.	No explicit guidance.	Specific guidance available.	No explicit guidance.
Sale-and-leaseback	The seller-lessee first determines if the buyer-lessor obtains control of the asset based on IFRS 15. Then the analysis on the recognition of the immediate gain can be made. If not, then the transaction is accounted for as a financing arrangement.	Immediate gain recognition from the sale and leaseback of an asset is dependent upon whether the leaseback is classified as finance or an operating lease and, if the leaseback is an operating lease, whether the sale takes place at fair value ('true sale').	Similar to IFRS. The seller-lessee first determines if the buyer-lessor obtains control of the asset based on Ind AS 115.	If a sale and leaseback transaction results in a finance lease, the seller-lessee shall defer any excess of sales proceeds over the carrying amount and amortise it over the lease term. If it results in an operating lease: • Sale price = fair value, the seller-lessee shall recognise any profit or loss immediately. • Sale price is below fair value, the seller-lessee shall recognise any profit or loss immediately unless the loss is compensated for by future lease payments at below market price. In that case the seller-lessee shall defer and amortise such loss in proportion to the lease payments over the period for which the asset is expected to be used. • Sale price is above fair value, the seller-lessee shall defer the excess over fair value and amortise it over the period for which the asset is expected to be used.
	IFRS 16 - Leases	**DAS 115, DAS 292**	**Ind AS 116 - Leases**	**FRS 102 – Section 20**

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