



SLFRS 16

Leases

Need for Change

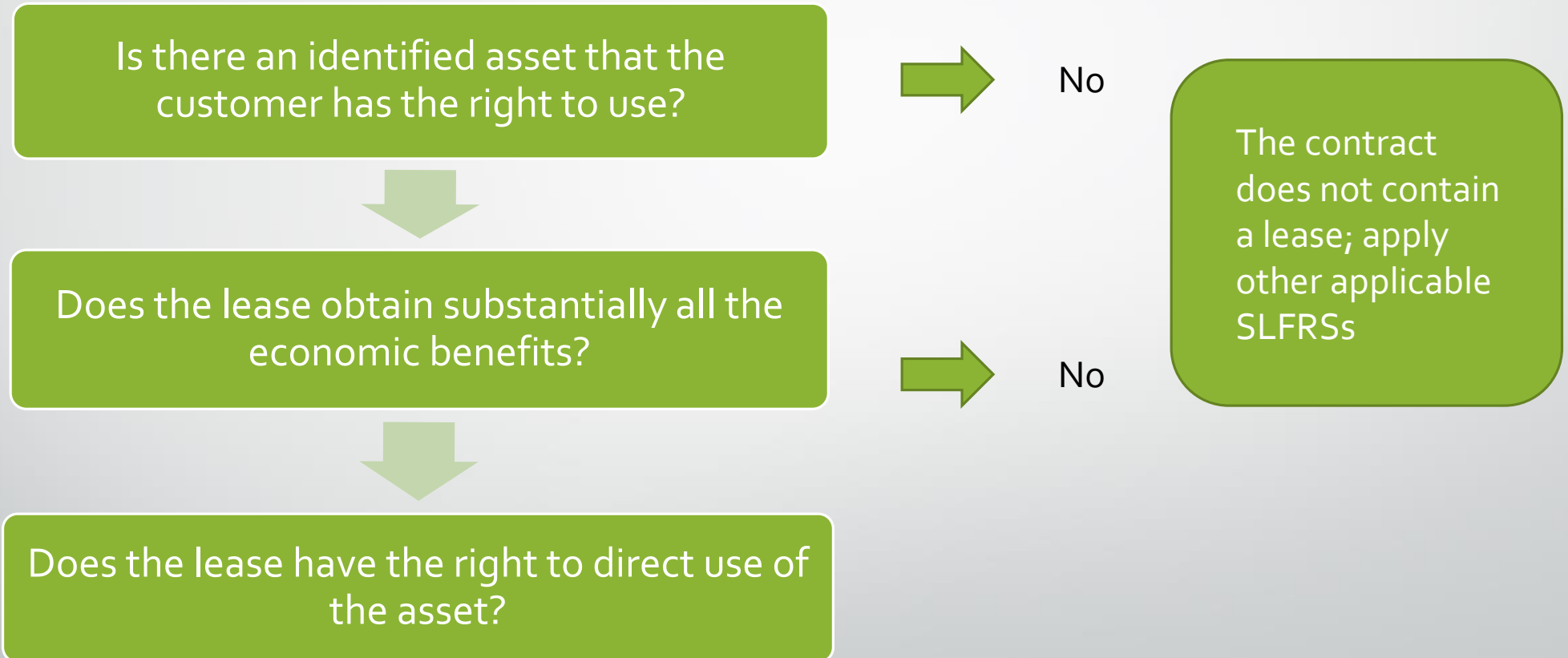
- Leases create both assets & liabilities
- Many leases are accounted off balance sheet
- True financial position is not reflected
- Long term liabilities are understated

Lease Defined

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the **right to control the use of an identified asset** for a period of time in exchange for consideration

Determining whether an Arrangement contains a Lease



Contract contains a Lease

Recognition Exemptions

A lessee may elect not to apply the above requirements for

(a) short-term leases; and

(b) leases for which the underlying asset is of a low value

The lessee shall recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

Separating Components of a Contract

For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient in paragraph 15 (single lease component).

each lease component-relative standalone price

non-lease components-aggregate stand-alone price

Recognition(Lessee)

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.

Initial Measurement

At the commencement date, a lessee shall measure the right-of-use asset at cost.

Subsequent Measurement

After the commencement date, a lessee shall measure the right-of-use asset applying a **cost model**, unless it applies either of the fair value or revaluation models described in paragraphs 34 and 35.

Presentation

SOFP

- (a) right-of-use assets separately from other assets
- (b) lease liabilities separately from other liabilities

P&L

- (a) interest expense on the lease liability
- (b) depreciation charge for the right-of-use asset

Cashflow

- (a) cash payments for the principal portion of the lease liability - financing activities;
- (b) cash payments for the interest portion- interest expense

Disclosure

A lessee shall disclose the following amounts for the reporting period:

- depreciation charge for right-of-use assets by class of underlying asset;
- interest expense on lease liabilities;
- the expense relating to short-term leases
- the expense relating to leases of low-value assets
- the expense relating to variable lease payments
- income from subleasing right-of-use assets;
- total cash outflow for leases;
- additions to right-of-use assets