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Financial Reporting Alert

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IFRS 16 - Leases

International Accounting Standards Board (IASB) issued its new Lease Standard on January 13, 2016. This was a joint project with the Financial Accounting Standards Board (FASB), which is expected to issue its Lease Standard in the coming weeks.

When is it effective?

The effective date will be for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted, but only if IFRS 15 - Revenue from Contracts with Customers is also applied.

Why the Change?

Leases are an important part of financing, yet many of these commitments do not appear on the balance sheet today. This can make it difficult to get an accurate picture of an entity's operating lease assets and future minimum lease commitments, and to compare entities involved in leasing. The objective was to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet, and disclosing key information.

What's different?

For lessees, former operating leases will now be capitalized and recognized on the balance sheet (exceptions for short-term leases and low-value assets are provided). Lease assets and liabilities will be initially measured at the present value of the unavoidable lease payments and amortized over the lease term. This will have an effect on the reported information and key ratios that are used to analyze an entity's leverage and performance. However, it will not impact an entity's true economic position. Lessor accounting remains consistent to current accounting, but there are additional disclosure requirements.

Two transition methods are available under IFRS 16: full retrospective and cumulative catch-up. The latter method is similar in principle to the modified retrospective approach under IFRS 15. A significant amount of transition relief is permitted under the cumulative catch-up method, but will require additional disclosure information.

What should you do?

Take inventory of your leases and begin an assessment of the lease standard on your financial statements. Ensure you have the right team to transition to the new standard, and start the strategic work now. Involve key stakeholders early and leverage technology specifically designed to assess the impact of new rules. Collecting data and drafting a roadmap now can save you time later. Although the new standard brings many changes, it may create an opportunity to reconsider processes and operations. RGP can assist in all facets of your lease initiative. For additional information on how we can help your business, please contact us.

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