



AASB 16 *Leases*: Transition options

Thursday 9 March

Your facilitators are

Patricia Stebbens



Ben Seumahu



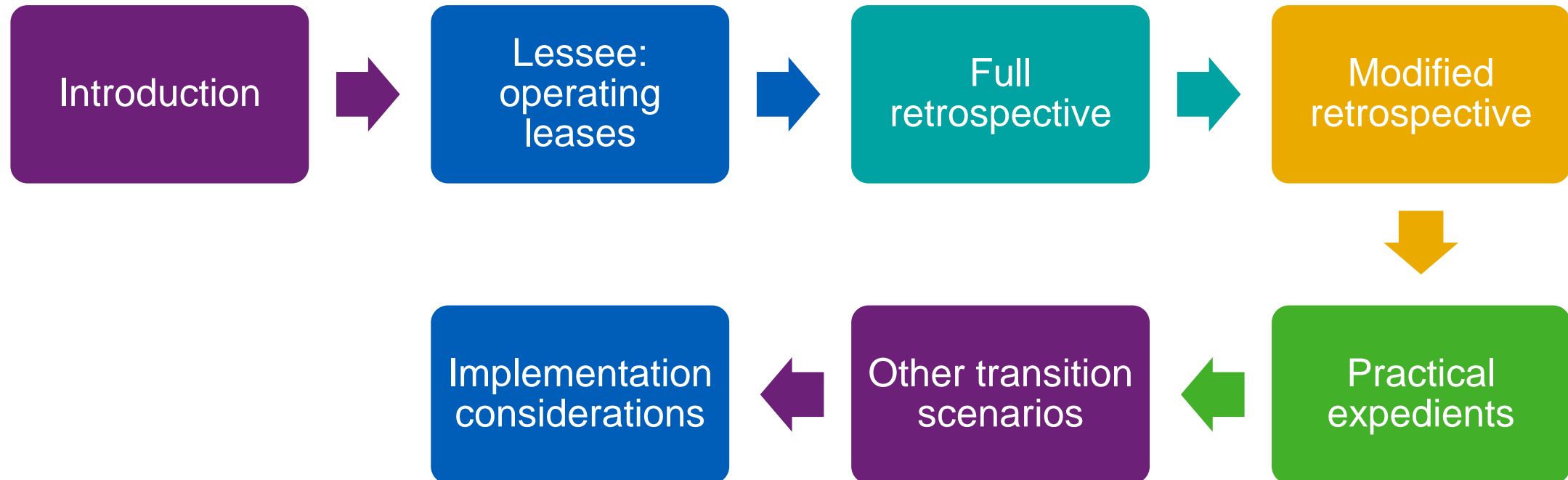
Julie Locke



Michelle Gibbs



Agenda





Introduction

Recap: Lessees face major changes

Leases on balance sheet

Balance sheet

Asset

= 'Right-of-use' of underlying asset

Liability

= Obligation to make lease payments

P&L

Lease expense components:

Depreciation

+ Interest

+ Operating expense*

= Total lease expense

* In certain instances, a portion of lease payment could continue to be classified within operating expenses

Recap : AASB 16

- Significant changes in key reporting metrics
- Potential impact on business models

Affects the use of all assets e.g. applies to:

- Office space rental
- Photocopiers hire
- Motor vehicles leases



Why is transition important to lessees?

The choice of transition option impacts:

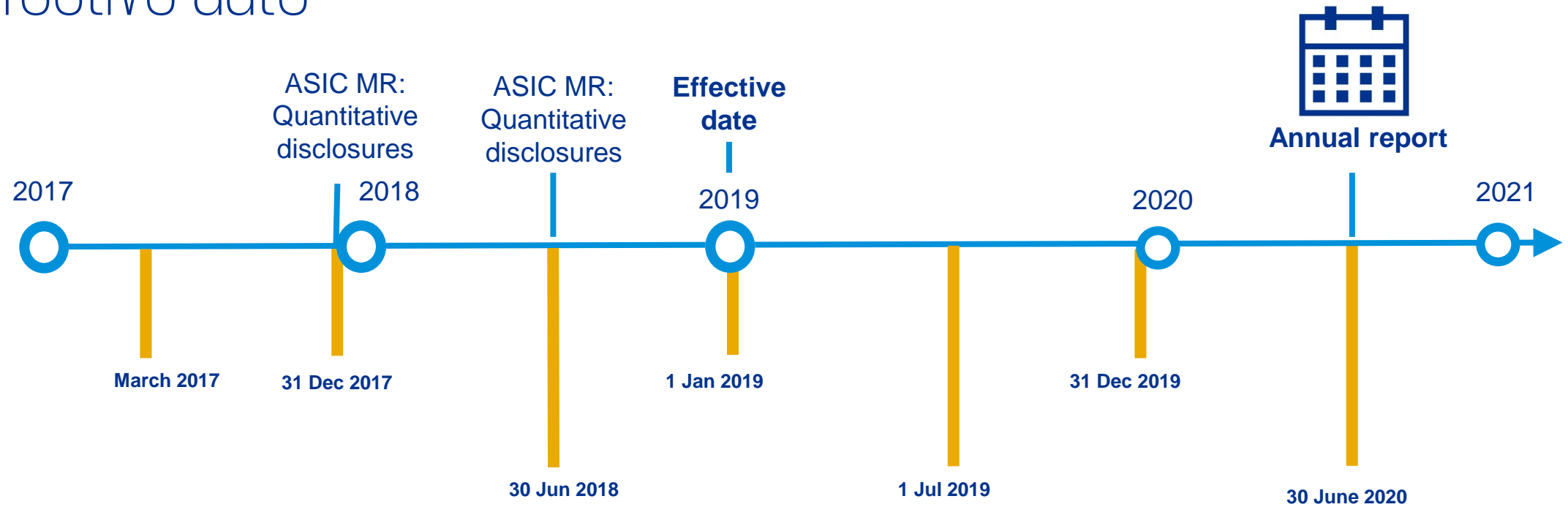
- Opening balance sheet
- Income statements in subsequent years
- Information required
- Implementation costs

Multiple transition options are available.

An early start will enable you to choose the most appropriate option for you.



Effective date



Early adoption permitted:
only if applying AASB 15



Lessee: operating leases

IAS 17 to AASB 16 - transition impact

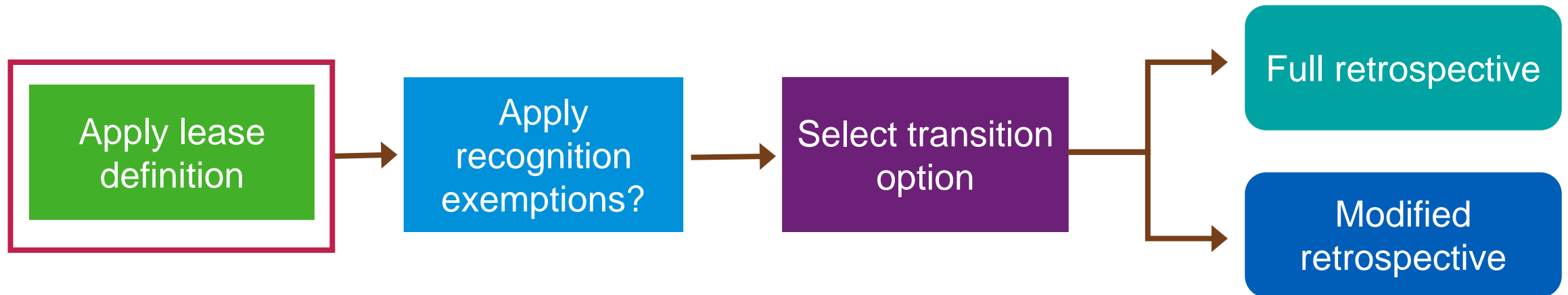
Lessee operating lease	Lessee finance lease	Lessor operating lease	Lessor finance lease
Full retrospective	Full retrospective	No adjustment	
Modified retrospective with practical expedients	Modified retrospective		
High	Medium	Low	



Transition overview - lessee operating lease

Completeness of the population

Applying the standard



Identifying the population: Applying lease definition

Cost

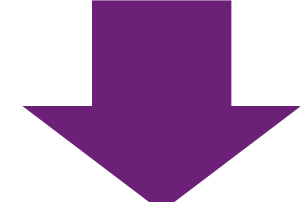
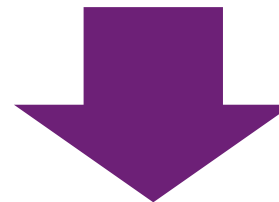
Comparability

Apply the AASB 16 definition to
all contracts



OR

Grandfather existing contracts
and apply the AASB 16 definition
only to new or changed contracts



PE 1

PE – practical expedient

Question

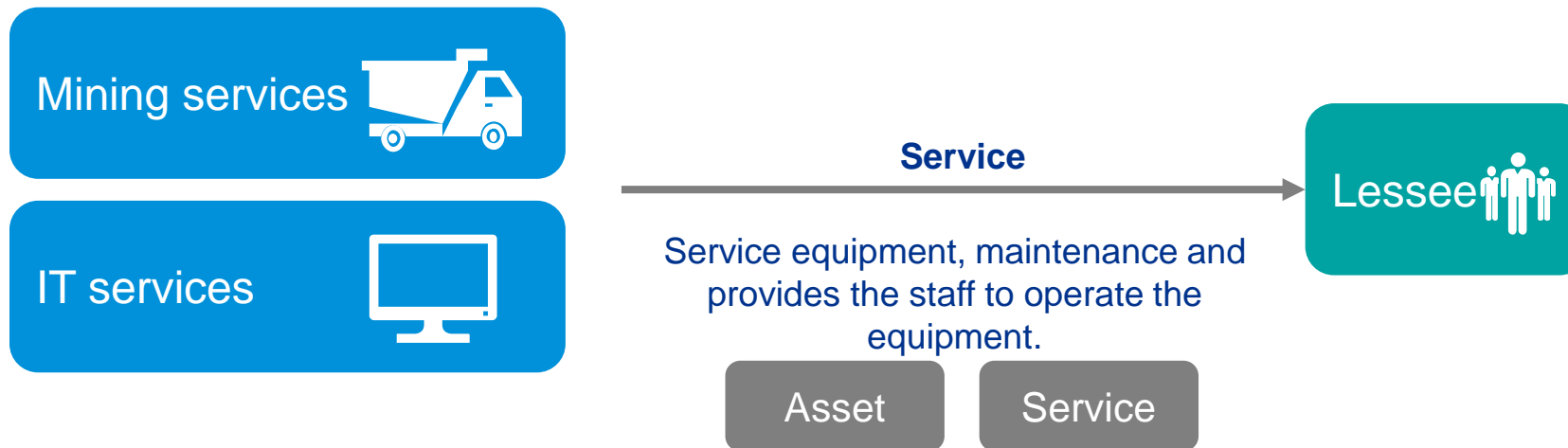
What is the key issue you have seen about identifying lease contracts even for those organisations that have decided to only apply the new definition in AASB 16 to new contracts?



Identifying leases

Completeness of database

- Service contracts?

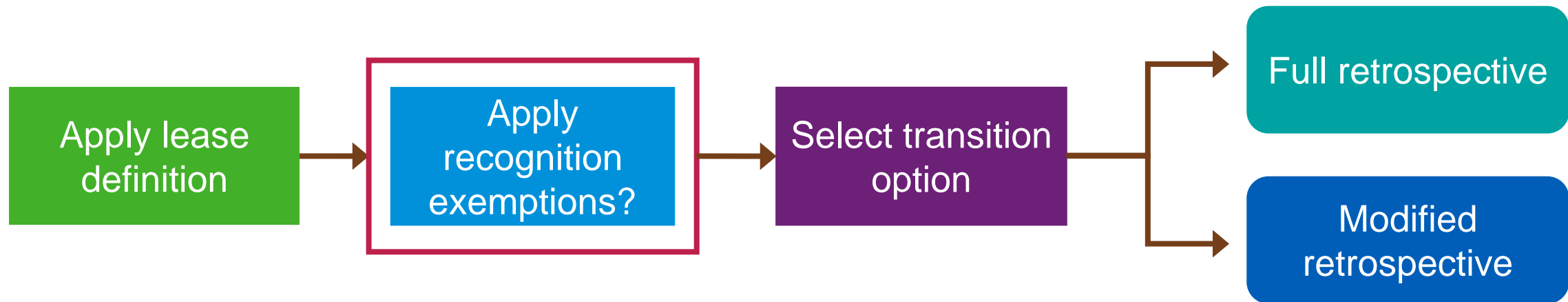


- Other operating leases

Transition overview - lessee operating lease

Completeness of the population

Applying the standard



Identifying the population: Recognition exemptions



Short term leases

≤ 12 months and
no purchase option

By class



Leases of low value items

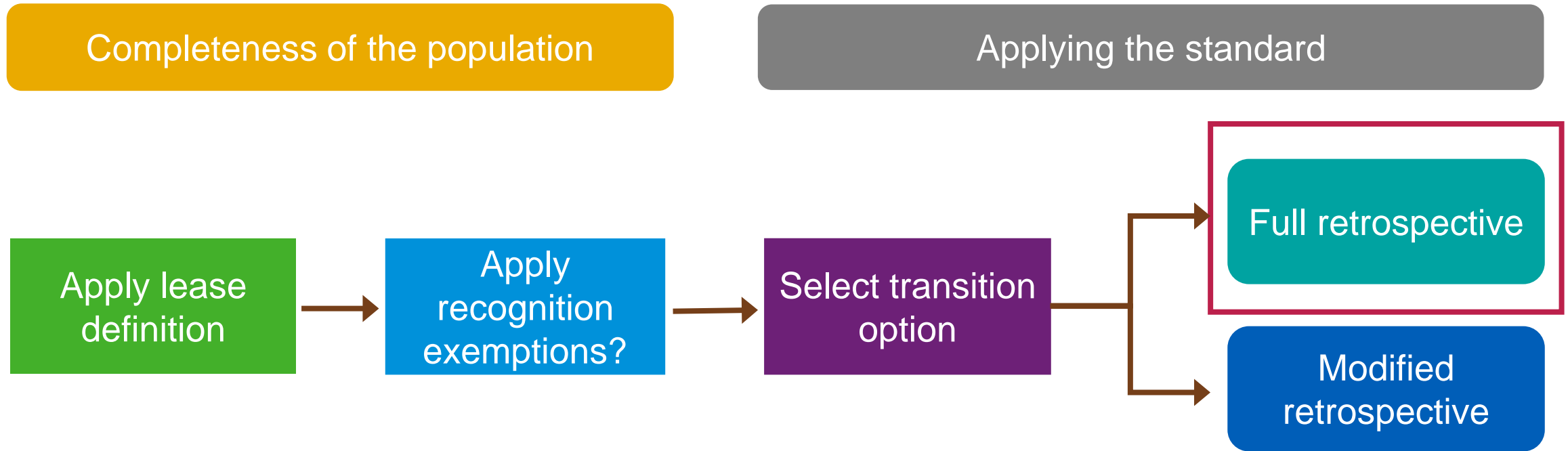
E.g. \$5,000 when new
and not subject to a
sublease

Lease by lease



Full retrospective

Transition overview - lessee operating lease



Full retrospective

For the population of contracts identified:

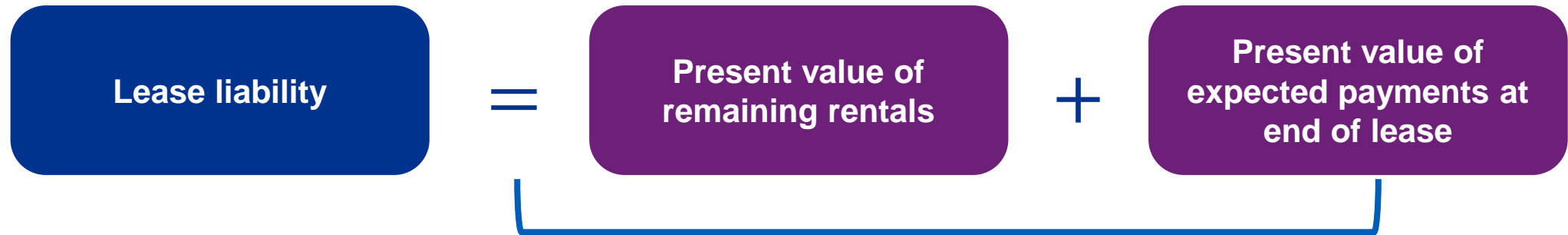
- Restate each prior reporting period as if AASB 16 has always been applicable
- Apply AASB 108
 - Adjust opening retained earnings of the earliest period presented
 - Third balance sheet?
- AASB 136 'Impairment' considerations
- AASB 112 'Tax-effect accounting'





Modified retrospective

Modified retrospective - Lease liability

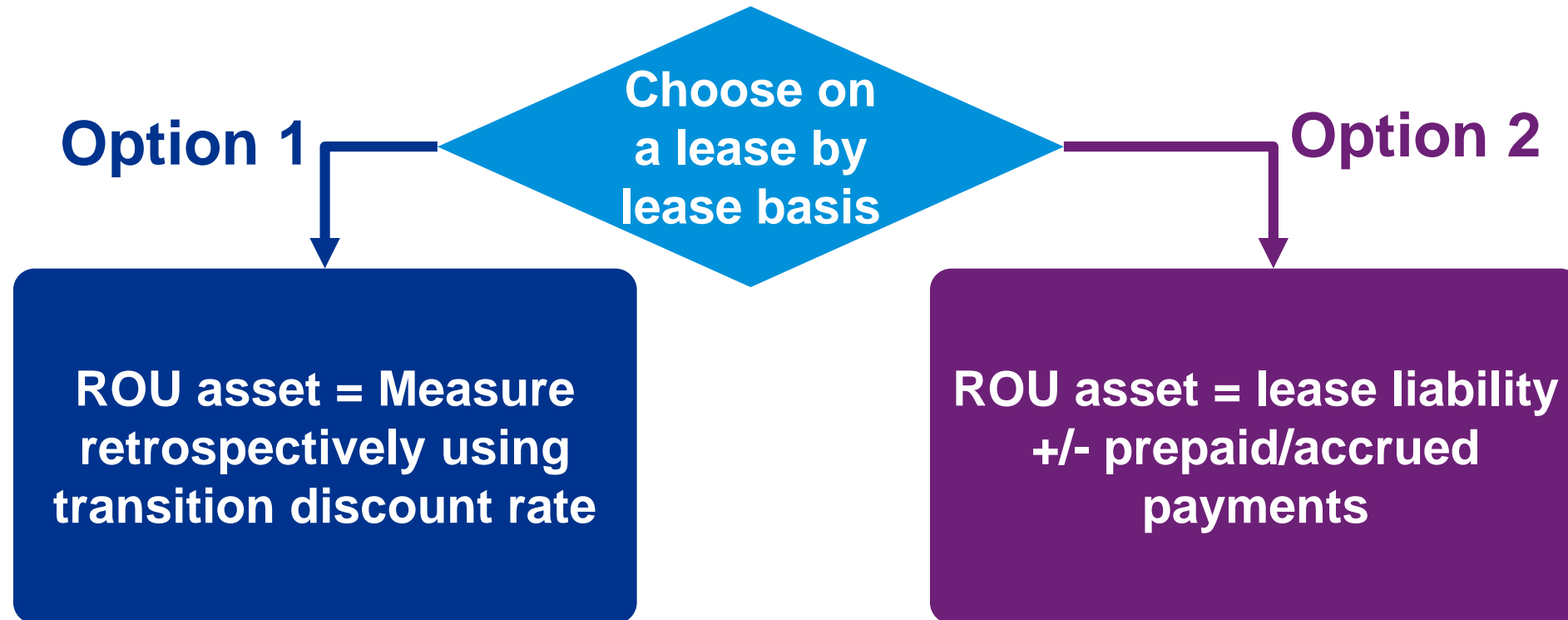


Retrospective application but:

- Do not restate comparatives
- Any accumulative difference is adjusted against opening retained earnings at DIA

Discount rate =
lessee's
incremental
borrowing rate at
initial application

Right-of-use (ROU) asset - modified retrospective



Apply AASB 136 to ROU at *initial application*

Transition options - illustrate impact



10-year equipment lease from 1 Jan 2016



\$10,000 per annum in arrears



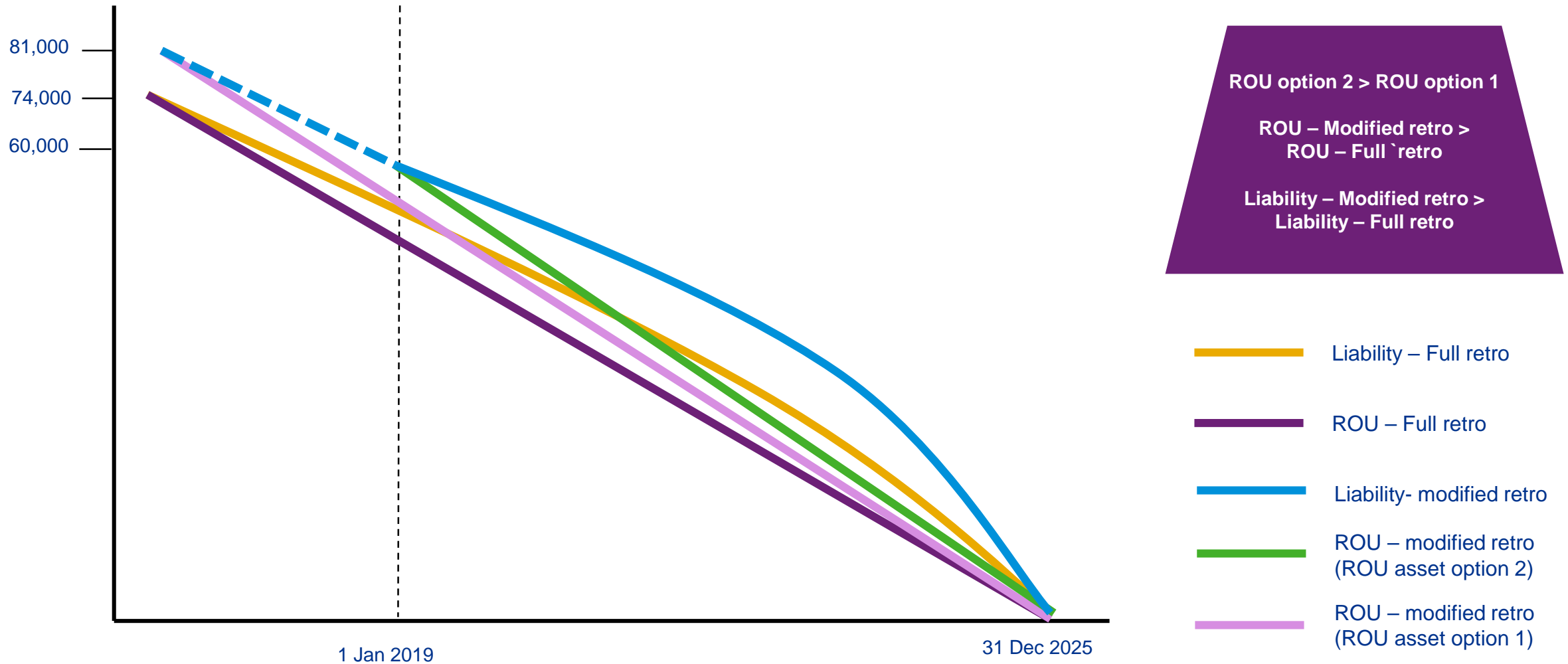
Discount rate: 6%



Discount rate: 4%

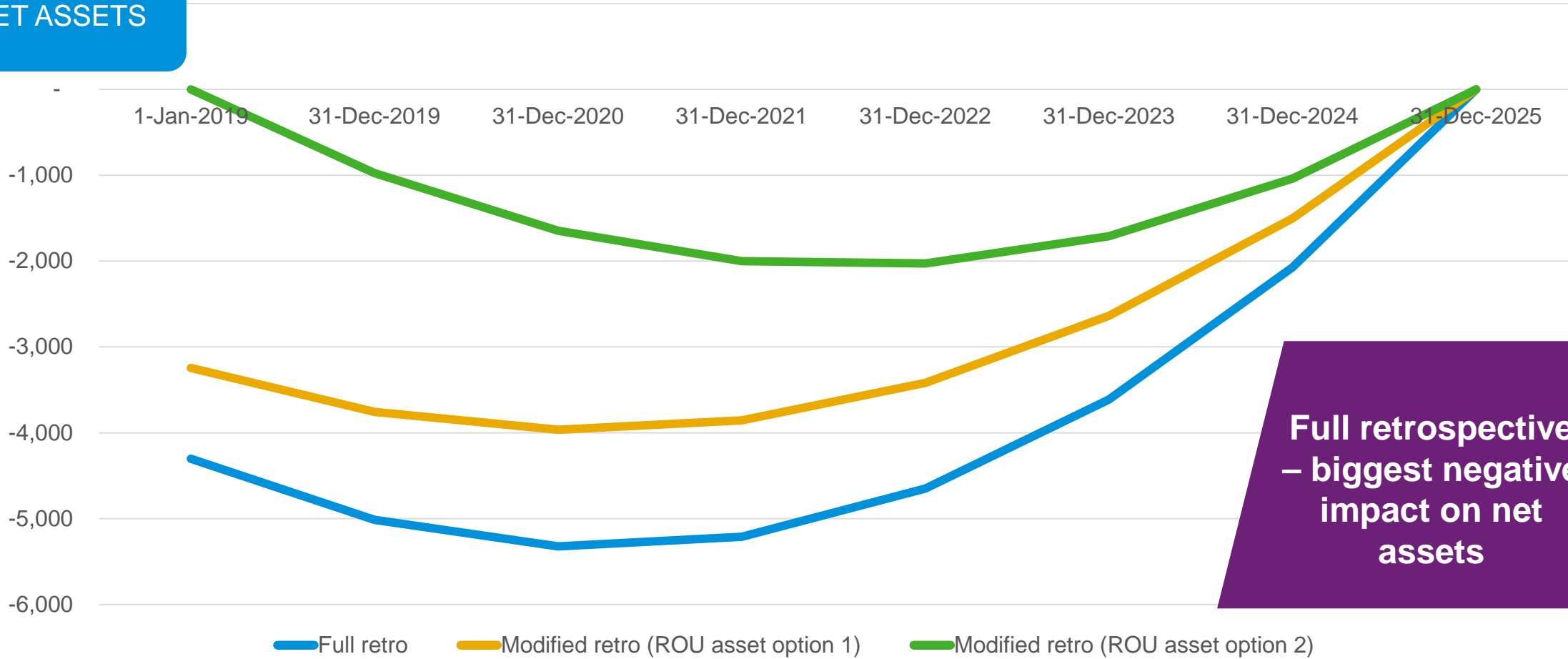
Present value of \$10,000 per annum (CU)	Full retro: 10 payments @ 6%	Modified retro: 7 payments @ 4%	Modified retro Option 1: ROU asset - 10 payments 4%
		74,000	60,000

Amortisation of ROU asset and lease liability



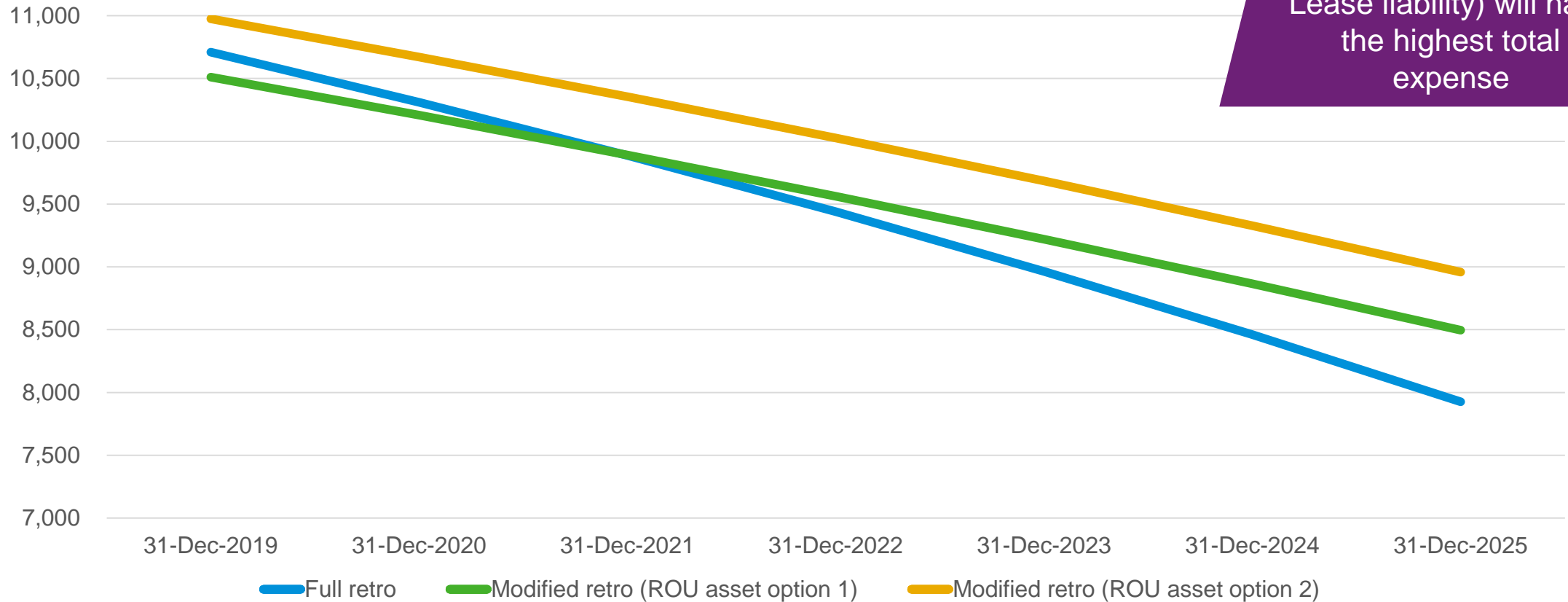
Balance Sheet impact

NET ASSETS



P&L impact

TOTAL EXPENSE

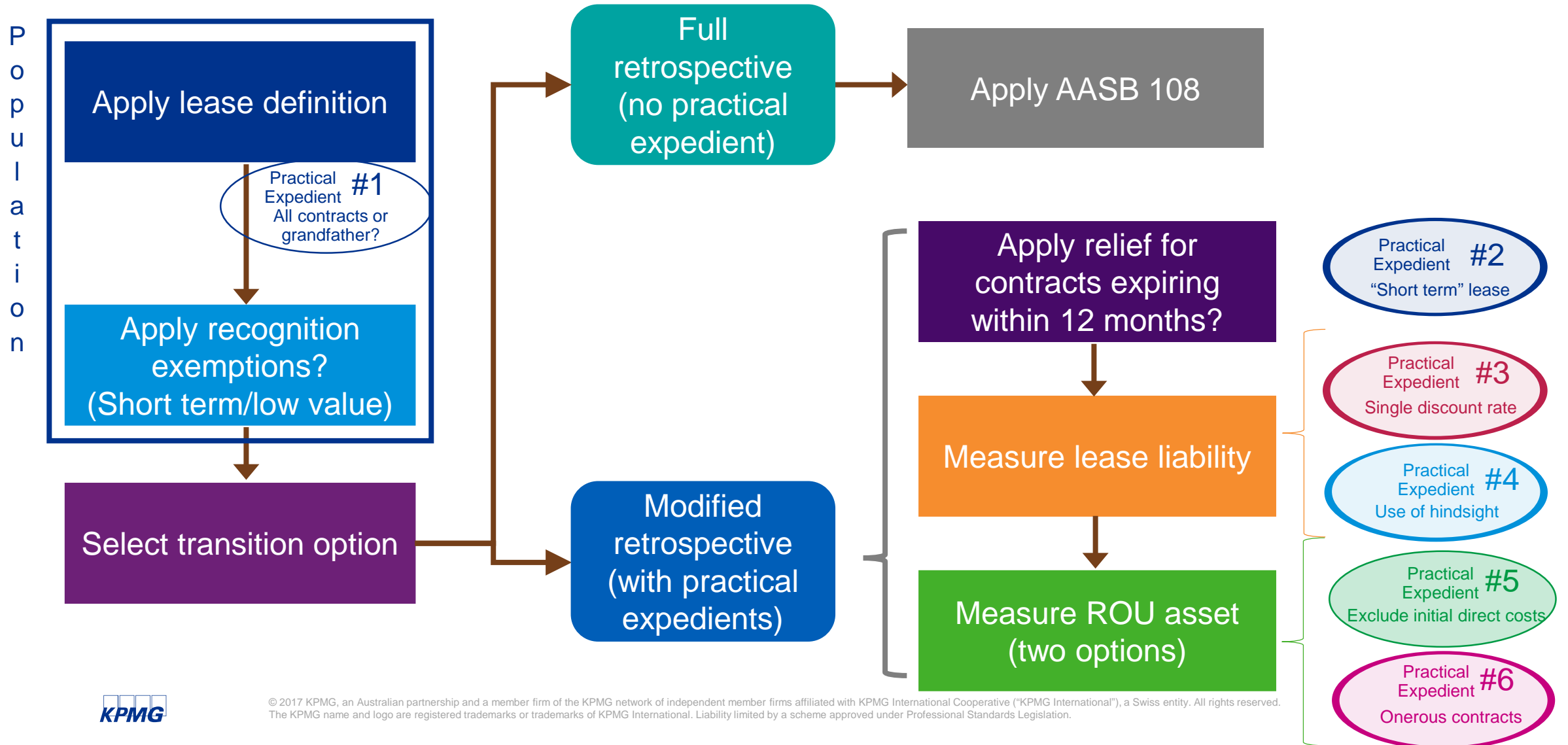


Impact on total expense
Option 2 (ROU Asset = Lease liability) will have the highest total expense



Practical expedients

Transition overview - lessee operating lease



PE #6 - impairment



8-years office building lease from 1 Jan 2016



Vacated building



CU 100 per annum in arrears

1 Jan 2020

Expect to sublease for CU 80 per annum in arrears

	Cash outflow	Cash inflow	Net cash outflow
31 December 2019	100	-	100
31 December 2020	100	(80)	20
31 December 2021	100	(80)	20
31 December 2022	100	(80)	20
31 December 2023	100	(80)	20
Total			180
Present value at 5% (risk free rate)			163

PE #6 - impairment

Using the ROU asset measurement option 2 (ROU = Lease liability) as an example:

	Cash outflow
Carrying amount of ROU asset at DIA	410
Onerous contracts provision (PE #6)	(163)
Adjusted carrying amount	247

ROU asset subject to impairment test under AASB 136 in subsequent periods



Other transition scenarios

Lessee - finance lease

Full retrospective

- As if AASB 16 had always applied (AASB 108)

Modified retrospective

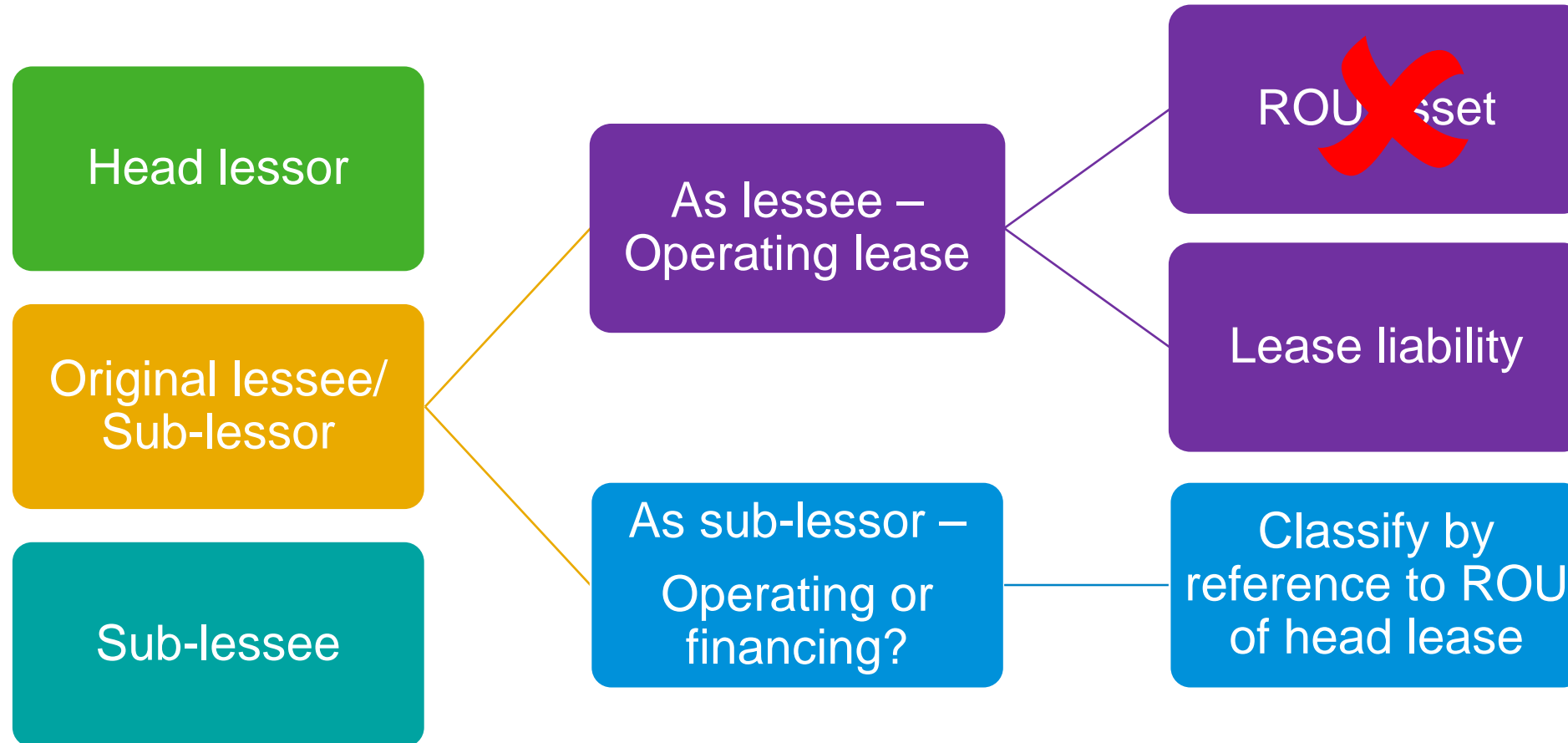


Lessors

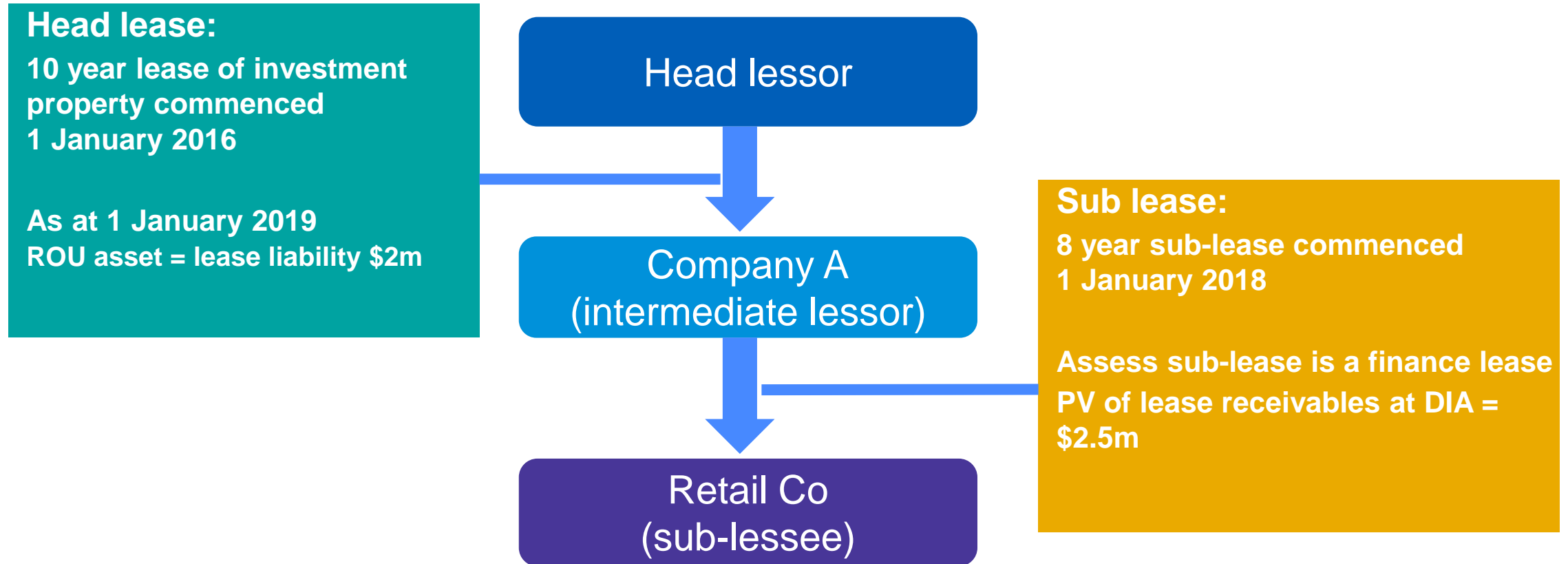
No adjustment on transition

Apply AASB 16 from date of initial application (DIA)

Sub-lessors



Polling question : Sub-lease



Q: What asset and liability does Company A recognise on transition to AASB 16?

Sale and leaseback

Do not reassess whether the transfer qualifies as a sale under AASB 15

If sale and **finance** leaseback per AASB 117:

- Use finance lease transition options
- Continue amortise gain on sale over lease term

If sale and **operating** leaseback per AASB 117:

- Use operating lease transition options
- Adjust ROU asset for deferred gains/losses

Question

What are some of the main implementation questions you have come across?

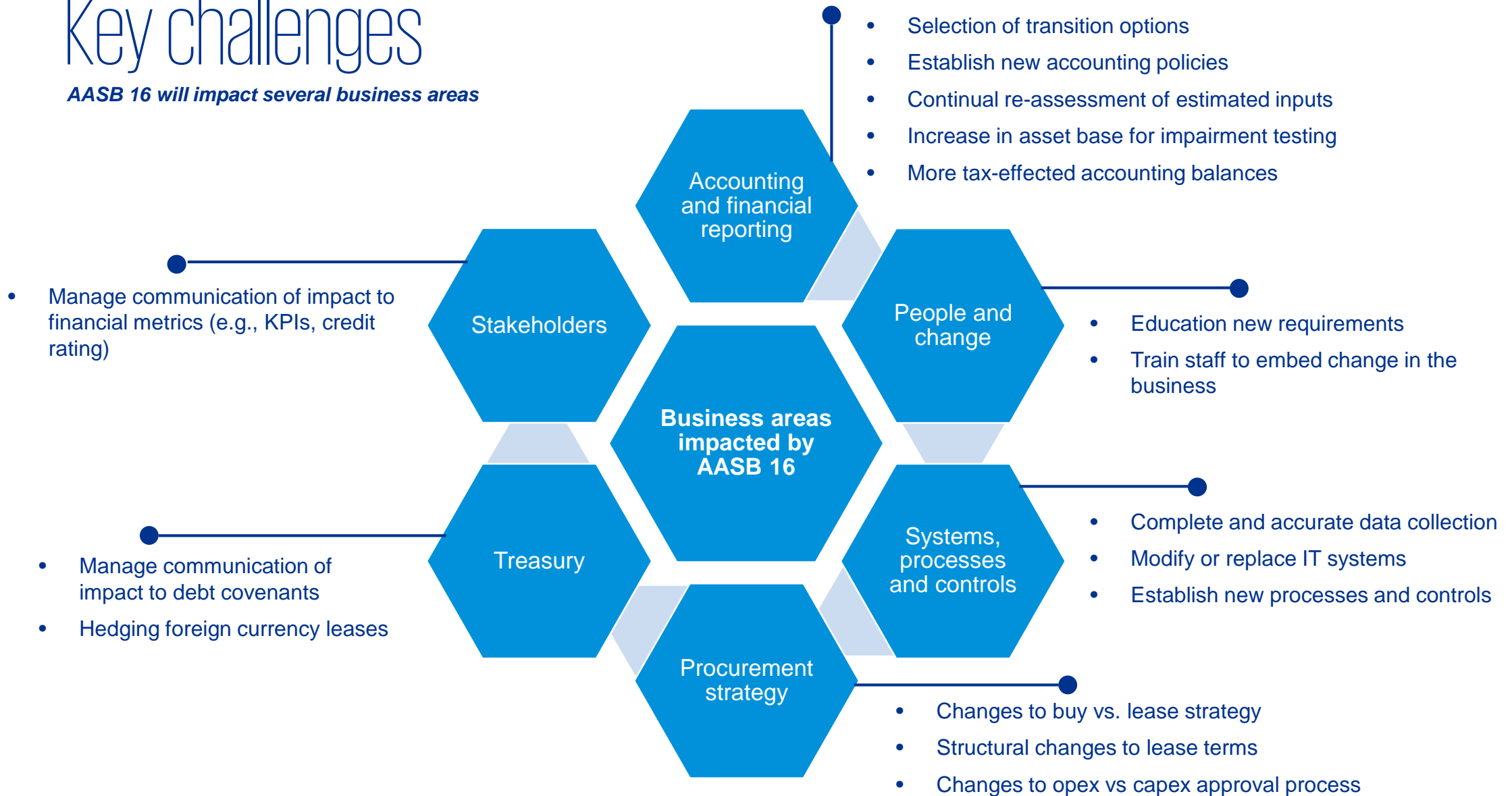




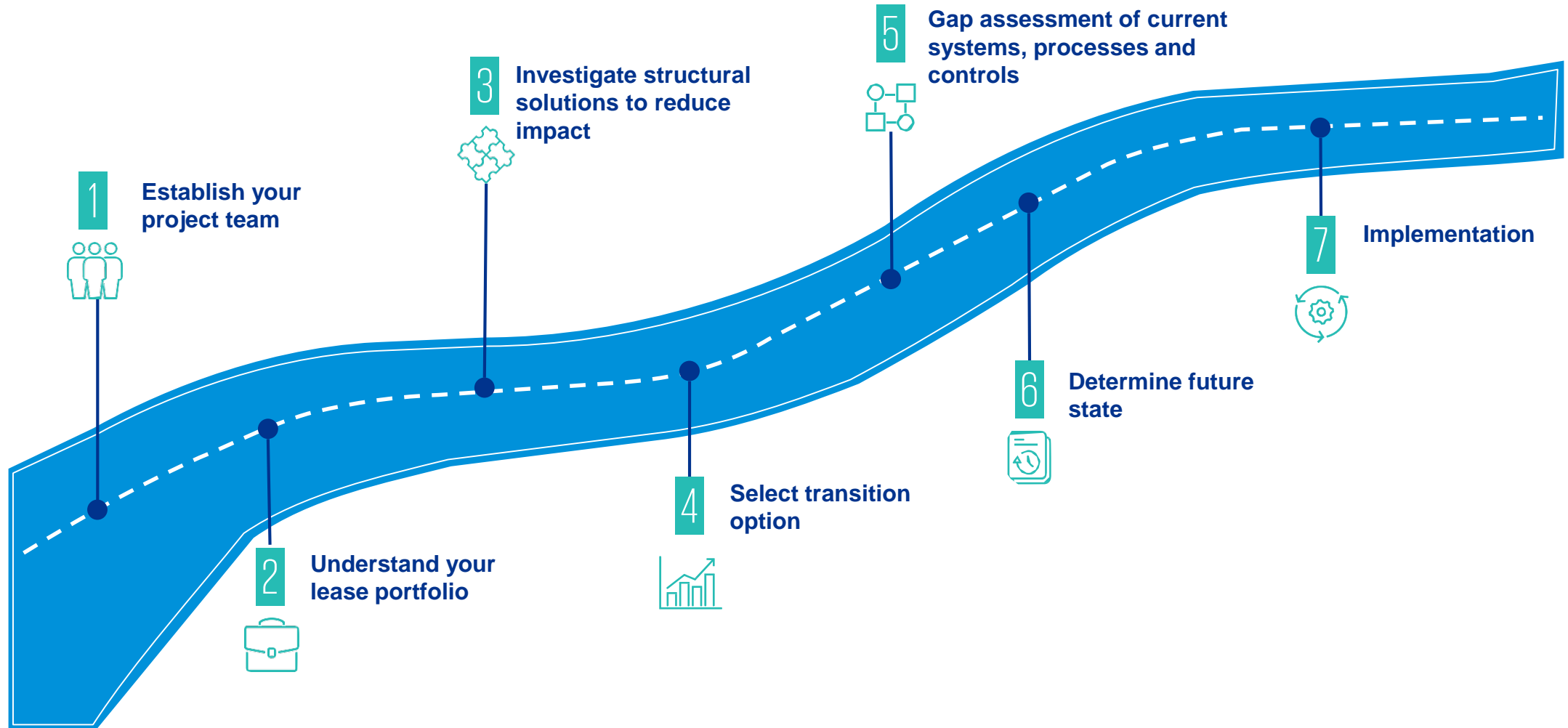
AASB 16 Implementation considerations

Key challenges

AASB 16 will impact several business areas



What are your next steps?



How we can help



Run or support implementation projects

- Full service solution using KPMG global methodologies & tools to assist you with gap analysis, modelling of transition options, impact assessment for key financial metrics, analysis of changes required to processes and systems, and project management support.



Accounting advice

- Support the finance team with analysis of complex contracts and assistance with key judgments and assumptions
- Develop solutions to minimise the impact of the new standard.



Transition impact assessment

- **KPMG impact Analysis Tool** can help you determine the most appropriate transition option by quantifying the impacts to the balance sheet, profit or loss and key metrics under the different transition options to assist with communicating the change to key stakeholders



IT system change solutions

- Perform systems assessment, strategy, design, configuration, and implementation services.



KPMG Leasing Tool for IBM® TRIRIGA®

- KPMG US has teamed with IBM to develop KPMG Leasing Tool, a cloud-based, pre-packaged solution that enables clients to centralise data and meet the new accounting requirements on a go forward basis for both IFRS16 and US GAAP ASC 842.



Leasing strategy & valuation services

- Support the company to determine the optimal procurement strategy and lease terms
- Provide valuation services of KPMG's SGA and Real Estate Advisory Services teams

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates.



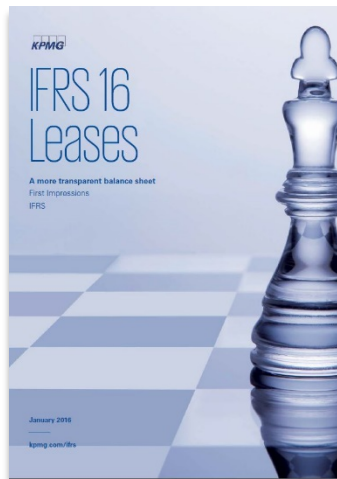
Key points to remember!

Key points to remember!

- **Completeness of database of contracts should start now**
- **Multiple options**
 - Three main transition options
 - A number of practical expediencies
 - Lease by lease?
- **Transition could be tailored to suit your organisation**
- **Advance planning will allow you to select the choices that suit you best**



KPMG Resources



Overview – May 2016





Thank you

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