

Right-of-use assets of not-for-profits

Reporting Update

11 January 2019, 19RU-001



Temporary choice of measuring at fair value or cost for right-of-use asset relating to peppercorn leases

Government allowed to measure at fair value or cost

Choice on transition and ongoing

Additional disclosures when right-of-use asset measured at cost

Highlights

- Options for measurement basis of certain right-of-use assets
- Disclosures where measure right-of-use asset at cost
- Effective date and duration of option
- Background

Options for measurement basis of certain right-of-use assets

The AASB issued [AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities](#) providing a **temporary option** for not-for-profit (NFP) entities to measure a **class or classes** of right-of-use (ROU) assets arising from the application of the new leases standard, AASB 16 *Leases*, to ‘peppercorn’ or concessionary leases* at:

- fair value in accordance with AASB 13 *Fair Value Measurement* **or**
- cost in accordance with AASB 16, which would incorporate the measurement of the lease liability.

* A ‘peppercorn’ or concessionary lease is a lease that has significantly below-market terms and is principally for the NFP to further its objectives.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* has also been amended to provide a temporary option for governments to measure a class or classes of ROU assets at fair value or at cost.

The option applies **both** on transition to AASB 16 and for new leases entered into after initial application of the standard.

Disclosures where measure right-of-use asset at cost

Where the NFP entity chooses to measure the ROU asset at cost, it discloses additional qualitative and quantitative information necessary for users of the financial statements to assess the effect that such leases have on the financial position, financial performance and cash flows of the lessee. This would include disclosure of:

- the entity’s dependence on leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives; and
- the nature and terms of the leases, including:
 - the lease payments
 - the lease term
 - a description of the underlying assets and
 - restrictions on the use of the underlying assets specific to the entity.

1 January 2019 effective date

Practical challenges and impact of ongoing AASB projects and ACNC Legislative Review outcomes

Effective date and duration of option

Effective date

The amendments apply for financial years beginning on or after 1 January 2019 (with earlier application permitted, provided that AASB 1058 *Income of Not-for-profit Entities* is also applied at the same time) – the same application date of AASB 1058 and AASB 16.

Duration of option

The AASB has not set a timeline for removing the temporary option. The AASB has indicated it will consider a permanent option at a later time.

Background

When AASB 1058 was issued in December 2016, Australian-specific paragraphs were inserted to AASB 16. These paragraphs require a NFP lessee to measure a right-of-use asset at fair value (in accordance with AASB 13) where the lease is at significantly below-market terms and principally for the NFP to further its objectives (a 'peppercorn' lease).

The AASB received feedback from stakeholders of the challenges in the practical application of fair valuing such right-of-use assets. The AASB therefore decided to provide temporary optional relief from this requirement as further guidance is expected to be developed to assist not-for-profit entities in measuring right-of-use assets at fair value.

In addition, as a result of future recommendations stemming from the ACNC Legislative Review, NFP private sector entities at the lower level of reporting thresholds, may not need to apply the AASB 16 fair value measurement of the right-of-use asset requirement. The temporary option would therefore also avoid the fair value initial measurement requirement for such assets when they might not need to apply these requirements in the future.

19RU-001 Right-of-use assets of not-for-profits

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).