

# **IFRS 16**

## **LEASES**

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## OVERVIEW

- ❑ IFRS 16 was released in January 2016 by the International Accounting Standards Board (IASB), effective from January 2019.

### **The history of IFRS 16 :**

- October 1980: E19 – Accounting for lease
- December 1982: IAS 17 – Accounting for leases
- In 1994, 2003, 2009: Revised IAS 17
- January 2019 : IFRS 16 was released and applied until now.

## 2 SCOPE

Applies to all asset lease transactions, including lease of use rights in sublease, **except for** the following cases:

- Leasing property to exploit or use minerals, petroleum and similar non-renewable resources;
- Lease of biological assets within the scope of IAS 41 – Agriculture held by the lessee;
- Services Empowerment Agreement under IFRIC 12 – Services Empowerment Agreement;
- Intellectual property licenses are issued by the lessor in accordance with IFRS 15 – Revenue from contracts with customers;
- Rights are held by the lessee under a grant agreement under IAS 38 - Intangible assets for items such as moving images, patents, copyrights, etc.

## 2 SCOPE (cont.)

Cases of exemption from IFRS 16:

- Short-term property lease (less than 12 months)
- Rent assets have small value (Laptops, phones, office supplies...)



### 3

## DEFINITION AND CONDITIONS

- ❑ According to IFRS 16, a lease is defined as "a contract, or part of a contract, involving the exchange of payments for the right to control the use of a specified asset over a period of time."
  
- ❑ **Conditions to determine a property lease contract:**
  - Identified assets;
  - Gain the economic benefits when using assets;
  - Having right to use and control the purpose of the property.

### 3 DEFINITION AND CONDITIONS (Cont.)

#### Conditions to determine Lease contracts :

##### 1. Assets are identified when:

- ✓ Clearly defined in the contract;
  - ✓ Implied at the time the asset is ready for use by the lessee.
- 
- ❖ A part of property is considered a defined asset when it can be physically separated. When a part of an asset cannot be physically separated, it will not be considered an identified asset unless that part of the asset accounts for the majority of the function of the asset.

### 3 EXAMPLE

#### ASSETS ARE IDENTIFIED :

##### Example :

Under a contract between a local government authority (L) and a private sector provider (P), P provides L with 20 trucks to be used for refuse collection on behalf of L for a six-year period. The trucks, which are owned by P, are specified in the contract. L determines how they are used in the refuse collection process. When the trucks are not in use, they are kept at L's premises. L can use the trucks for another purpose if it so chooses. If a particular truck needs to be serviced or repaired, P is required to substitute a truck of the same type. Otherwise, and other than on default by L, P cannot retrieve the trucks during the six-year period.

**Conclusion:** The contract is a lease. L has the right to use the 20 trucks for six years which are identified and explicitly specified in the contract. Once delivered to L, the trucks can be substituted only when they need to be serviced or repaired.

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## **DEFINITION AND CONDITIONS (cont.)**

### **Conditions to determine Lease contracts :**

#### **2. Gain the economic benefits when using assets :**

- ✓ The lessee has the right to receive economic benefits from the leased asset throughout the period of use.
- ✓ Economic benefits include main output and by minor products of the use of that asset.

## 3 DEFINITION AND CONDITIONS (cont.)

### Conditions to determine Lease contracts :

#### 3. Having right to use and control the purpose of assets when:

- ✓ Having right to decide how the property is used during the lease period;
- ✓ Having right to make decisions that most directly affect the economic benefits obtained from the use of assets, including :
  - The right to decide the type of output produced by the asset;
  - Right to decide produce time of output products;
  - The right to decide where to produce output products; and
  - The right to decide whether output is produced and the quantity of that output.



### 3 EXAMPLE

#### HAVING RIGHT TO USE AND CONTROL THE PURPOSE OF ASSETS :

##### Example :

A customer (C) enters into a contract with a road haulier (H) for the transportation of goods from London to Edinburgh on a specified truck. The truck is explicitly specified in the contract and H does not have substitution rights. The goods will occupy substantially all of the capacity of the truck. The contract specifies the goods to be transported on the truck and the dates of pickup and delivery.

H operates and maintains the truck and is responsible for the safe delivery of the goods. C is prohibited from hiring another haulier to transport the goods or operating the truck itself.

**Conclusion:** This contract does not contain a lease. Because C does not have the right to direct its use. C does not have the right to direct how and for what purpose the truck is used. Although it is possible for rights to be predetermined in a contract, in this contract C does not have any decision-making rights relating to the use of the asset.

**Sources:** [IFRS 16, Leases](#) | [F7 Financial Reporting](#) | [ACCA Qualification](#) | [Students](#) | [ACCA Global](#)

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## LEASE CONTRACTS

### a) Amendment of lease contract:

- ☐ The lessee needs to account for the lease modification as a separate asset lease if the following two conditions are met:
  - ✓ The increase in the scope of lease by adding the right to use one or more properties;
  - ✓ The payment increases by an amount corresponding to the value of the increased lease scope and any appropriate adjustments to that value to reflect the particular contract situation.

## 4 LEASE CONTRACTS (cont.)

### a) Amendment of lease contract:

#### Example 1 :

On 01<sup>st</sup> January 20x1, company A entered into a factory lease agreement with company B. The lease term is 15 years, leased area is 20,000 m<sup>2</sup>. In June 20x8, the two parties agreed to sign an appendix of the contract **reducing the area to 10,000 m<sup>2</sup> and reducing the rental price** accordingly.

**Situation analysis:** Reducing the leased area is not stipulated by any terms of the original lease contract. Conclusion, this is an amendment of lease contract.

**Conclusion:** Reducing the leased area will affect the remaining value of the leased asset and liabilities.

## 4 LEASE CONTRACTS (cont.)

### a) Amendment of lease contract:

#### Example 2 :

On 1<sup>st</sup> January 20x1, company A entered into a factory lease agreement with company B. The lease term is 15 years, leased area: 20,000 m<sup>2</sup>. In June 20x8, the two parties agreed to sign an appendix of the contract **increasing the lease term by 5 years** compared to the original contract.

**Situation analysis:** Increasing the lease term is not stipulated by any terms of the original lease contract. Conclusion, this is an amendment of lease contract.

## 4 LEASE CONTRACTS (cont.)

### a) Amendment of lease contract:

#### Example 3 :

On 1<sup>st</sup> January 20x1, company A entered into a factory lease agreement with company B. The lease term is 15 years, leased area: 20,000 m<sup>2</sup>. In June 20x8, the two parties agreed to sign an appendix of the contract with the **lease term would be reduced by 3 years** compared to the original lease contract. Company A must pay 1.5 billion VND because of terminating the contract before end term.

**Situation analysis:** Reducing the lease term is not stipulated by any terms of the original lease contract. Conclusion, this is an amendment of lease contract.

## 4 LEASE CONTRACTS (cont.)

### b) Reclassify Lease contract:

☐ Based on the number of payments

#### - **One-time payment contract during the rental period:**

- ✓ Pay the rental fee all at the beginning of the rental;
- ✓ Payment at any time during the rental period;
- ✓ Payment at the end of the rental period.

#### - **Contract with multiple payments throughout the rental period:**

- ✓ Periodic payments with a fixed value;
- ✓ Periodic payments with unfixed value;
- ✓ Payment at any time during the rental period with a fixed value;
- ✓ Payment at any time during the rental period with unfixed value



## 4 LEASE CONTRACTS (cont.)

### b) Reclassify Lease contract:

- ☐ Based on the nature of the payment :
  - A contract with a predetermined payment
  - Contracts with variable payments

### c) Popular types of contracts :

- The contract pays 01 time full amount at the beginning of the rental;
- A contract to pay a fixed amount at the beginning of each period;
- Contract to pay a fixed amount at the end of each period;
- Unfixed payment contract with different payment amounts.

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## DIFFERENCE BETWEEN IFRS 16 AND VAS 06

Content	IFRS 16	VAS 06
<b>Classification of lease contracts</b>	<p>All lease contracts are financial leases except for the following cases which are considered service contracts or operating leases:</p> <ul style="list-style-type: none"> <li>▪ Lease term is less than 12 months;</li> <li>▪ Low value;</li> <li>▪ Record expenses in the period or allocate them.</li> </ul>	VAS 06 classifies financial leases and operating leases for both lessees and lessors.
<b>Recorded on financial statements</b>	All leases are recorded as assets.	<ul style="list-style-type: none"> <li>- Financial leases are recorded as assets</li> <li>- Operating lease is recorded as an expense during the period.</li> </ul>

## 5 DIFFERENCE BETWEEN IFRS 16 AND VAS 06 (Cont.)

Content	IFRS 16	VAS 06
<b>Criteria</b>	The criteria for recognizing assets are control to bring economic benefits, not ownership, and which party bears the risk.	The criteria for classifying assets or not depends on ownership, who bears the risk, and the proceeds from the contract.
<b>Determine lease liabilities</b>	Determine future lease liabilities by applying the discounted cash flow method, even for operating lease assets.	Record liabilities according to the fair value of the leased asset at the beginning of the lease. If the fair value is higher than the present value of the minimum lease payments, record it at the present value of the leased assets. Minimum rental payment.

## 5 DIFFERENCE BETWEEN IFRS 16 AND VAS 06 (Cont.)


Content	IFRS 16	VAS 06
<b>The value after initial recognition of an asset lease to the lessee</b>	IFRS 16 requires periodic assessments of impairment on leased assets using IAS 36 – Impairment of assets.	VAS 06 does not have regulations to review, evaluate and record property losses.

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