

IFRS 16 Summary

Finance Lease

Lessor:

Initial Recognition

Recognise GIL (lease receivable) and de-recognise lease asset

Dr Gross investment in finance lease [A] [MLP]
Cr Leased Asset [A] [PV of MLP]
Cr Unearned finance income [L] [Balancing Figure]

MLP = Total Lease payments + guaranteed residual

Subsequent Measurement

Lease cash payment set off against Gross Finance lease receivable:

Dr Cash [A]
Cr Gross investment in finance lease [A]

Recognise finance income in P&L and set off against unearned finance liability:

Dr Unearned finance income [L]
Cr Finance income [Inc]

Lessee:

Initial Recognition

Recognise ROU Asset and Lease liability

Dr ROU Asset [A]
Cr Lease Liability [L]

Subsequent Measurement

Lease cash payments set off against lease liability

Dr Lease liability [L]
Cr Bank [A]

Depreciation for ROU Asset over the lease term

Dr Depreciation [Exp]
Cr Acc Depreciation – ROU Asset [A]

Interest accrued on lease liability

Dr Interest [Exp]
Cr Lease liability [L]

Operating Lease

Lessor:

Dual accounting model – operating or finance model depending on criteria.

Initial Recognition

Less or continues to present the underlying asset on the balance sheet – No entries required.

Subsequent Measurement

Recognise rental income in P&L

Dr Rental income [Inc]
Cr Bank or Lease Receivable [A]

Depreciation on PPE if depreciable under IAS 16

Dr Depreciation [Exp]
Cr Acc Depreciation – PPE [A]

Lessee:

Lessee applies a single accounting model of either the finance lease model or applies the exemption if IFRS 16 finance lease criteria is not met. I.e. if the exemption is not met they must apply the finance lease model.

Deferred Tax

ROU asset recognised in terms of a lease is not treated as a purchased asset for tax purposes i.e no capital allowances are granted for the cost of the asset but instead a deduction is granted for actual lease payments made. For accounting purposes, where the ROU asset is a depreciable asset depreciation is charged against the cost of the asset and finance charge are incurred on the lease liability, thus giving rise to deferred tax implications.

Exemption from IFRS 16 Lease Accounting: Low value and Short Term

Recognise related lease payments on a straight line basis over the lease term or another systematic basis representative if that basis is more representative of the pattern of the lessee's benefit.