



# IFRS 16 - Prepare for lease accounting changes

## Start planning for changes

The new *IFRS 16: Leases* standard has been issued by the IASB. The core principle of the new standard is that lessees should recognise all leases on their balance sheet.



### Timetable for compliance

The new leasing standard becomes effective for fiscal years beginning on or after **1 January 2019** with earlier adoption permitted if *IFRS 15 Revenue from contracts with customer* has also been applied.

## Areas where you might encounter change

The new pronouncements may not only necessitate updates to existing financial accounting policies, procedures and systems, but also affect controls and contracts. Even if accounting policies are not affected, significant new disclosures and lease management activities are required that suggest the need for planning.

We believe that most companies will need to consider making changes in the following areas:

- accounting policies and disclosures;
- application of judgment and estimation;
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes;
- systems to capture, process and maintain new lease data and for ongoing maintenance;
- corporate and other taxes; and
- debt covenant compliance.

## Considerations for change

IFRS 16 requires all leases to be accounted for on balance sheet, a major departure from the requirements of IAS 17 in respect of operating leases. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets (\$5,000 threshold); and
- short-term leases (less than 12 months).

Despite being a joint project between the IASB and the FASB, there are a number of differences between the final standards, IFRS 16 and ASC 842, which are outlined in the table below.

Balance sheet	IFRS 16	ASC 842	
		Finance leases	Operating leases
Recognition	All leases on balance sheet	✓	✓
	Exemption for short-term leases	✓	✓
	Exemption for leases of low-value assets	✓	----
Measurement	Lease liabilities on a discounted basis	✓	✓
	Initial lease asset = lease liability	✓	✓
Income statement	Operating costs	Depreciation	Depreciation
	Finance costs	Interest	Interest
Cash flow statement	Operating activities	Interest	Interest
	Financing activities	Principal	Principal

## Methodology

Our lease transformation process is collaborative with a focused outcome based approach. Grant Thornton and your team will operate seamlessly together and communicate regularly throughout the process to provide you with the most comprehensive service. The three phases of our methodology, from analysis through to deployment, allows us to demonstrate value to your company.

	Analyse	Design	Deploy
Identify leases	<ul style="list-style-type: none"> <li>obtain the lease population; and</li> <li>analyse lease information collected versus required information.</li> </ul>	<ul style="list-style-type: none"> <li>design future state processes for identifying and collecting lease information;</li> <li>create new lease identification; and</li> <li>policies and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>manage shift to new policies and procedures; and</li> <li>update relevant documentation and to manage change.</li> </ul>
Recognise and measure leases	<ul style="list-style-type: none"> <li>calculate the balance sheet value of existing asset base; and</li> <li>determine the information required to complete all future calculations.</li> </ul>	<ul style="list-style-type: none"> <li>design disclosure information required to update financial statements; and</li> <li>update monthly close process to include lease calculations and journal entries.</li> </ul>	<ul style="list-style-type: none"> <li>finalise new lease data and consider uploading data into a designated sub ledger; and</li> <li>document assumptions and discount rates for all lease categories.</li> </ul>
Maintain leases	<ul style="list-style-type: none"> <li>assess options for managing leases through software; and</li> <li>document business requirements for any lease management solution.</li> </ul>	<ul style="list-style-type: none"> <li>select best lease management solution for existing requirements; and</li> <li>design solution to interact with existing processes.</li> </ul>	<ul style="list-style-type: none"> <li>manage migration of all existing lease information; and</li> <li>create reporting package to support statutory financial reporting and tax requirements.</li> </ul>

## Our integrated approach

Grant Thornton can assist you with implementation of the new leasing standard through our advisory professionals who will focus on your industry.

Our services include a variety of offerings, ranging from an initial impact assessment to help you focus implementation efforts, through full-scale implementation using our phased implementation methodology tailored for your needs.



## Further information

IFRS 16 'Leases' represents the first major overhaul of lease accounting in over 30 years. The Standard brings fundamental changes to lease accounting, replacing previous accounting that is no longer considered fit for purpose. For further information on IFRS 16 see our IFRS News Special Edition - Major reforms to global lease accounting.

We hope you found this information helpful in giving you an overview of IFRS 16. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact, or get in touch with Semba Maipose on 370 7153 or [semba.maipose@bw.gt.com](mailto:semba.maipose@bw.gt.com).

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