



Australian Government  
Department of Finance

# ***AASB 16 Leases* IMPLEMENTATION UPDATE**

Veronique Row, AASB 16 implementation  
project manager

Accounting & Frameworks Branch

Financial Analysis, Reporting &  
Management Division

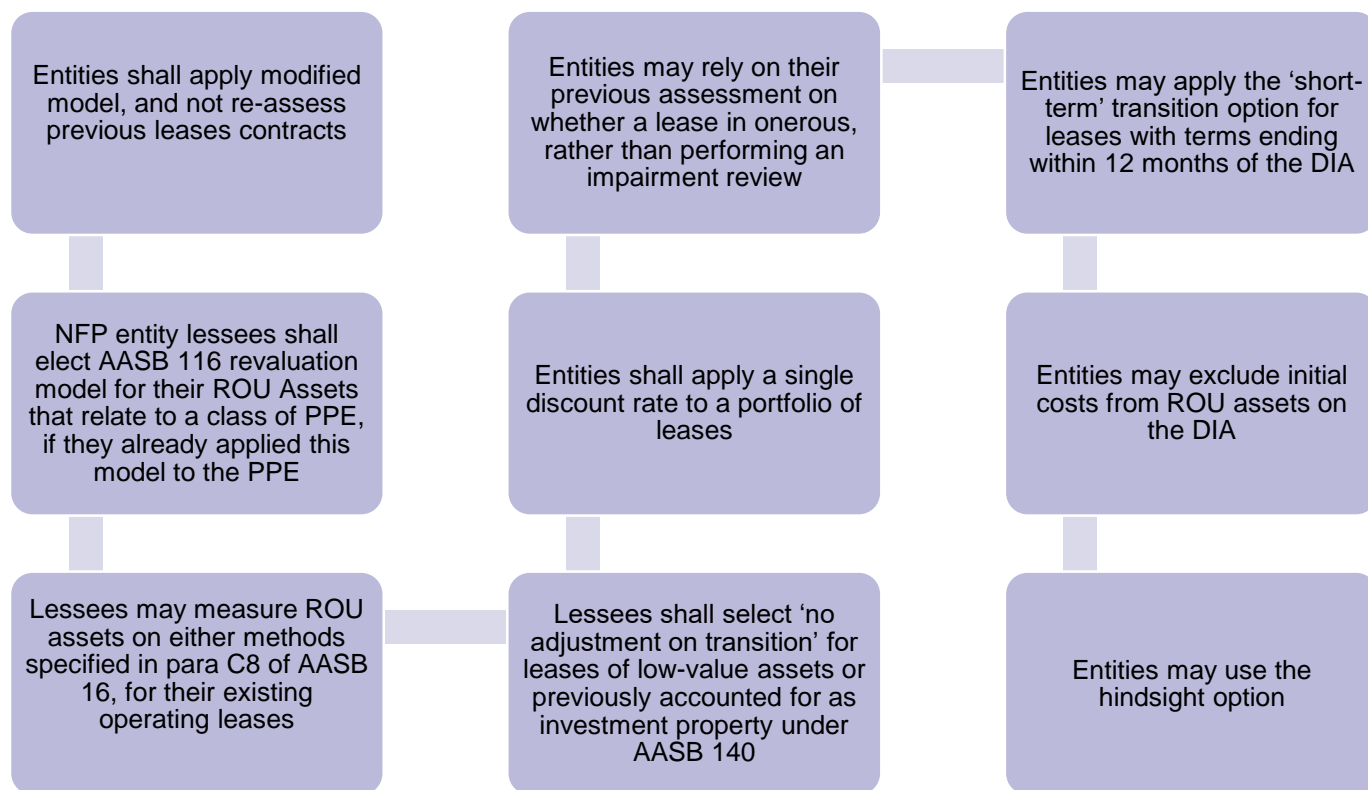
Department of Finance

## AASB 16 Leases

# AASB 16 Implementation Update



# Recap: Finance Positions on Implementation Options for AASB 16



# AASB 16 Leases

## AASB 16 Accounting Issues Proposed Guidance

- 'low value'/'short term' leases
- Lease /non lease components
- Portfolio of leases



## AASB 16 Leases

# AASB 16 Accounting Issues Proposed Guidance (cont'd)

- Lessee's lease incentives
- Prepayments
- Subleases



# AASB 16 Leases

## AASB 16 Accounting Issues Proposed Guidance (cont'd)

- Changes due to a market rent review
- AASB proposal: 'peppercorn leases'- temporary fair value relief (ED 286)
- Interest Rate Implicit in the lease (IRI) or Lessee's Incremental Borrowing Rate (IBR)



# AASB 16 Leases

## Finance – AASB 16

## Lease Calculation Model Overview





Australian Government  
Department of Finance

# LEASE TRANSITION MODEL & LEASE CALCULATION MODEL

Mary Lin, Assistant Director  
Accounting Policy & Advice  
Accounting & Frameworks Branch  
Financial Analysis, Reporting and  
Management Division

CFO Forum  
AASB 16 Leases Implementation



**FOR LESSEES ONLY**

**Existing Leases Transitioning to AASB 16**

**LEASE TRANSITION MODEL (LTM)**

**New Leases Commencing in 2019-20**

**LEASE CALCULATION MODEL (LCM)**



## NOT APPLICABLE TO:

- ❖ short term leases with a lease term of 12 months or less
- ❖ leases for which the underlying asset is of low value (\$10,000 or less)
- ❖ an existing lease with the remaining term of 12 months or less
- ❖ peppercorn leases



# LEASE LIABILITY

**Incremental Borrowing Rate at IAD or  
Implicit Interest Rate (%)**

Net Lease Payment (NLP) (\$)	Net Present Value of AASB 16 Lease Liability (for the remaining of the lease term) (\$)	Interest Expense (\$)	Reduction in Lease Liability (\$)	Balance of Lease Liability at Year End (\$)
---------------------------------	---	--------------------------	--------------------------------------	---



# NET LEASE PAYMENT COMPONENTS

- + Fixed Lease Payments
- + Variable Lease Payments
- + Other Payments (e.g. Guaranteed Residual Value)

Less the following:

- Lease Incentives **Receivable** from Lessor
- Executory Costs (included in lease payments)
- Contingent Payment



# RIGHT-OF-USE ASSET – LTM

- Present value of lease liability
- Adjustment components recognised immediately before the initial application date:

***Plus:*** Prepayments

***Less:*** Accrued payments

***Less:*** Lease Incentives **Received** from Lessor

***Less:*** Impairment loss identified for an onerous lease

- Depreciation



# RIGHT-OF-USE ASSET - LCM

- Present value of lease liability
- Adjustment components at the commencement day:

***Plus:*** Initial direct costs incurred by Lessee

***Plus:*** Prepaid amounts (e.g. deposit)

***Plus:*** Estimated costs to be incurred by Lessee (e.g. provision for make good or restoration costs)

***Less:*** Lease Incentives **Received** from Lessor

- Depreciation





Australian Government

Department of Finance

# INCREMENTAL BORROWING RATE CALCULATION

Mary Lin, Assistant Director  
Accounting Policy & Advice  
Accounting & Frameworks Branch  
Financial Analysis, Reporting &  
Management Division

CFO Forum  
AASB 16 *Leases* Implementation

# IBR CALCULATION STEPS

**Step 1** – calculating the present value of net leasing payments by discounting annual lease payments using zero-coupon yields.

Year	Net Lease Payments (NLP) (\$)	Zero-Coupon Yield	Present Value of NLP at zero-coupon yield (\$)
1	280,000	1.5113%	280,000
2	290,000	1.9339%	284,498
3	300,000	2.0056%	288,319
4	310,000	2.0690%	291,528
5	320,000	2.1696%	293,673
6	330,000	2.2820%	294,794
7	340,000	2.3846%	295,170
8	350,000	2.4714%	295,019
9	360,000	2.5455%	294,422
10	370,000	2.6053%	293,545
<b>Total</b>	<b>3,250,000</b>		<b>2,910,967</b>





# IBR CALCULATION STEPS

**Step 2** – working out IBR for the lease by using the following formula:

$$P = \sum_{t=1}^n \frac{C_t}{(1+i)^t}$$

Where:

- P is the present value of net lease payments
  - $C_t$  is an annual net lease payment
  - n is the lease term
  - i is the incremental borrowing rate of the lease
- Computing IBR using Excel 'Goal Seek' function



# IBR CALCULATION

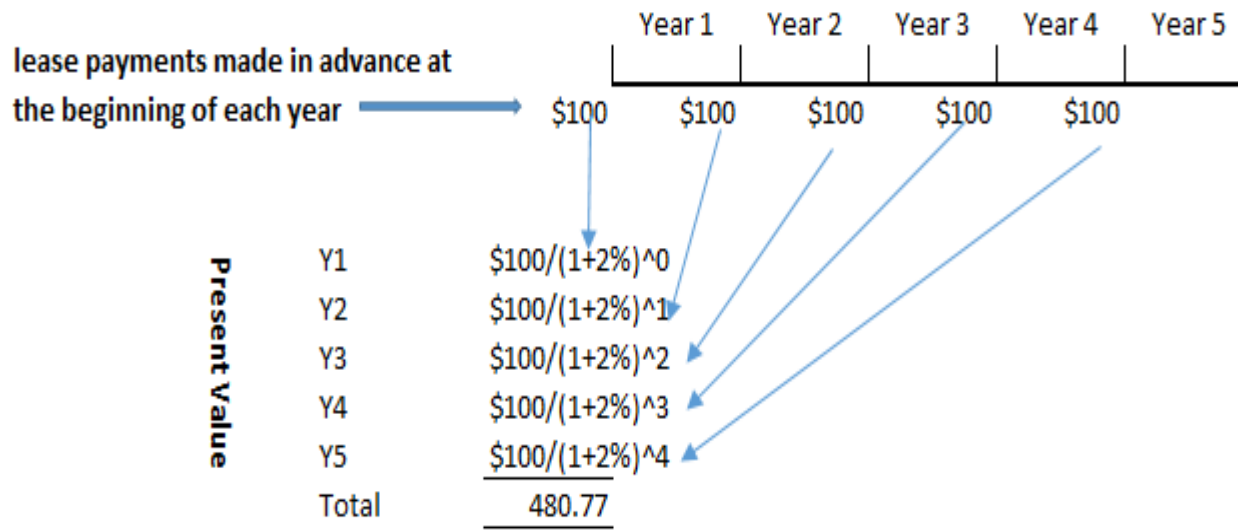
Incremental Borrowing Rate     2.3940%

Year	Net Lease Payments (NLP) (\$)	Present Value of NLP at IBR (\$)
1	280,000	280,000
2	290,000	283,220
3	300,000	286,136
4	310,000	288,761
5	320,000	291,107
6	330,000	293,185
7	340,000	295,007
8	350,000	296,584
9	360,000	297,925
10	370,000	299,042
<b>Total</b>	<b>3,250,000</b>	<b>2,910,967</b>

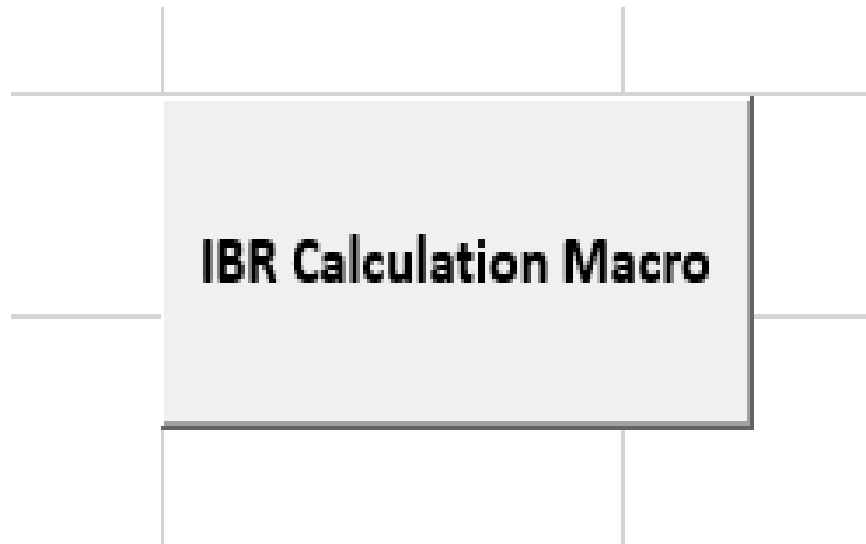


# Simple Illustration: Discounting Lease Payments

Simple illustration: fixed annual lease payment of \$100, discount rate of 2%



## RELAX – MACRO BUTTON CAN HELP!





Australian Government  
Department of Finance

# AASB16 Implementation – EM, CBMS and Budget Framework

Dario Forner, A/g Assistant Secretary  
Accounting and Frameworks Branch  
Financial Analysis, Reporting &  
Management Division  
Department of Finance

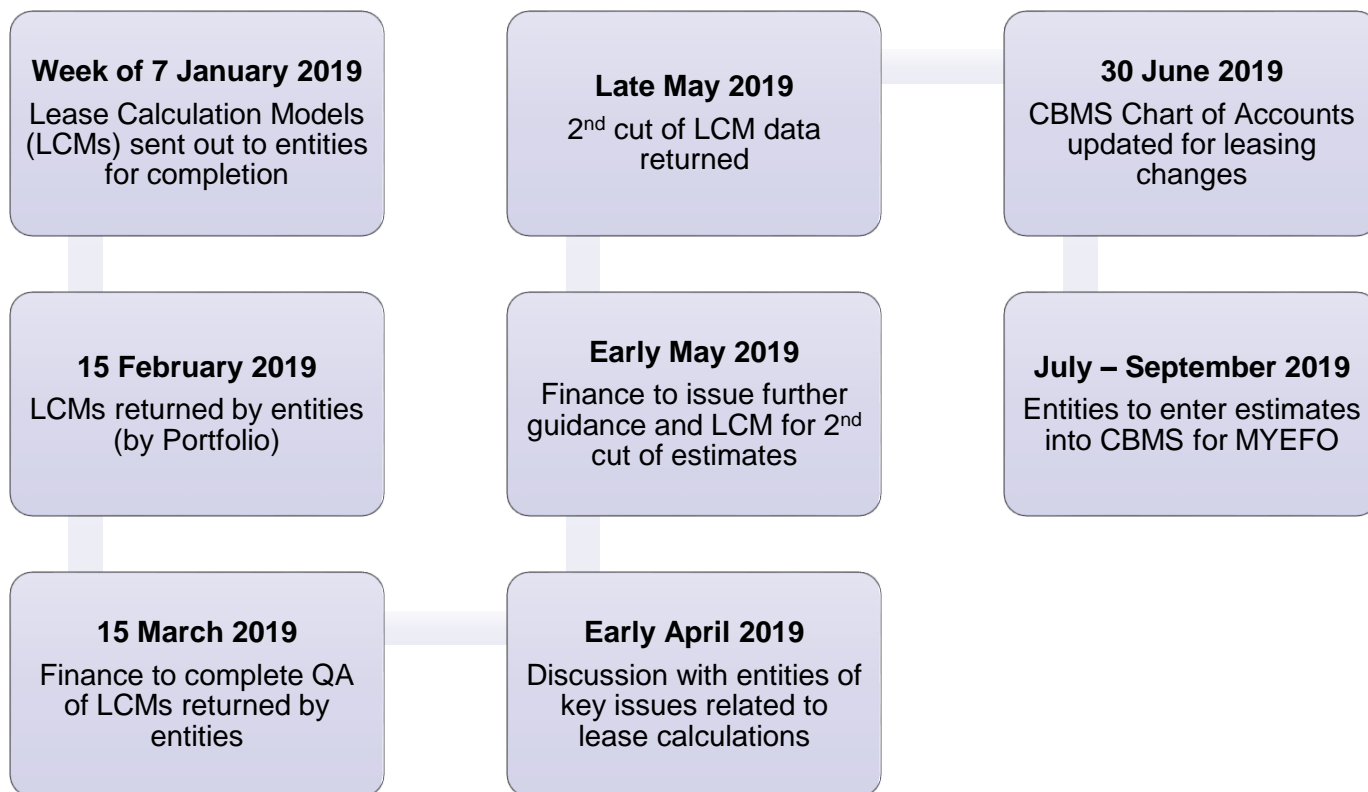
# AASB 16 Leases

## AASB 16 Key Implementation Issues

- Budget Process
- EM
- CBMS



# Draft Timeline of AASB16 Implementation



# Budget Framework Implementation

## Appropriation Funding

- No changes to current funding model
- Leases funding is provided in Appropriation Bill 1
  - Funding will remain as Operating, even though payments will be made directly from the Balance Sheet
  - Ordinary Annual Services and Departmental Capital Budget (DCB) split will not change
  - This removes any requirement for Movements of Funds or reclassifications





# Budget Framework Implementation

## FE3 Creation and NPP Templates

- Non-corporate entities – no changes to templates
- Corporate entities will need to exclude depreciation for leased assets from the templates
- Further advice to be provided in relevant Estimates Memoranda (EMs)



# Budget Framework Implementation

## Portfolio Budget Statements and CBMS Changes

- No changes to 2019-20 Portfolio Budget Statements
- Required Central Budget Management System (CBMS) changes to be completed and tested by 30 June 2019
- Chart of Accounts changes – New Account creations
  - Expenses
    - Depreciation expense (Right-of-Use)
    - Interest expense (Leases)
  - Assets – Movement codes for each asset class
  - Liabilities – Lease provision liability
  - Cashflow – Interest and principal repayments
- Short term (12 months or less) and low value ( $\leq$  \$10k) leases



# Budget Framework Implementation

## Other Issues

- Budget Process Operational Rules (BPORs)
- Chart of Accounts changes
- CBMS Reports / Financial Statements
- Cost Recovery – No impact, as there is no change in funding / cost



# Disclosures for AASB16 in Financial Statements – PRIMA changes

3.2 Non-Financial Assets

CBMS Movement code

3.2A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles

Reconciliation of the opening and closing balances of property, plant and equipment for 20x2

	Land \$'000	Buildings \$'000	Heritage and cultural <sup>1</sup> \$'000	Plant and equipment \$'000	Computer Software <sup>2</sup> \$'000	Other Intangibles \$'000	Total \$'000	
As at 1 July 20x1								
Gross book value	-	-	-	-	-	-	-	
Accumulated depreciation, amortisation and impairment	-	-	-	-	-	-	-	7160
<b>Total as at 1 July 20x1</b>	-	-	-	-	-	-	-	
Additions								
Purchase	-	-	-	-	-	-	-	7121
Internally developed	-	-	-	-	-	-	-	7121
Finance lease	-	-	-	-	-	-	-	7127
<b>AASB 16.53(h) Right-of-use assets</b>								new
Donation/Gift	-	-	-	-	-	-	-	7126
Acquisition of entities or operations (including restructuring)	-	-	-	-	-	-	-	7128
Revaluations and impairments recognised in other comprehensive in	-	-	-	-	-	-	-	7122
Revaluations recognised in net cost of services	-	-	-	-	-	-	-	
Impairments recognised in net cost of services	-	-	-	-	-	-	-	7133
Reversal of impairments recognised in net cost of services	-	-	-	-	-	-	-	7137
Assets held for sale or in a disposal group held for sale	-	-	-	-	-	-	-	
Depreciation and amortisation	-	-	-	-	-	-	-	7153
<b>AASB 16.53(a) Depreciation on right-of-use assets</b>								new
Other movements	-	-	-	-	-	-	-	7125
[Disclose by class]	-	-	-	-	-	-	-	
Disposals	-	-	-	-	-	-	-	7124
From disposal of entities or operations (including restructuring)	-	-	-	-	-	-	-	7134
Other	-	-	-	-	-	-	-	
<b>Total as at 30 June 20x2</b>	-	-	-	-	-	-	-	
Total as at 30 June 20x2 represented by								
Gross book value	-	-	-	-	-	-	-	
Accumulated depreciation, amortisation and impairment	-	-	-	-	-	-	-	7161
<b>AASB 16.53(j) Carrying amount of right-of-use assets</b>								new
<b>Total as at 30 June 20x2</b>	-	-	-	-	-	-	-	
AASB 16.47 A lessee shall either present in the statement of financial position, or disclose in the notes:								
(a) right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:								
(i) include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and								
(ii) disclose which line items in the statement of financial position include those right-of-use assets.								

# Comprehensive Income Statement

Non-corporate Commonwealth entities

Table 3.1: Comprehensive income statement (showing net cost of services) for the period ended 30 June

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 Forward estimate \$'000
<b>EXPENSES</b>					
Employee benefits					
Suppliers					
Grants					
Depreciation and amortisation (a)					
Finance costs					
Write-down and impairment of assets					
Losses from asset sales					
Other expenses					
<b>Total expenses</b>	-	-	-	-	-
<b>LESS:</b>					
<b>OWN-SOURCE INCOME</b>					
<b>Own-source revenue</b>					
Sale of goods and rendering of services					
Fees and fines					
Interest					
Dividends					
Rental income					
Royalties					
Other					
<b>Total own-source revenue</b>	-	-	-	-	-
<b>Gains</b>					
Sale of assets					
Other					
<b>Total gains</b>	-	-	-	-	-
<b>Total own-source income</b>	-	-	-	-	-
<b>Net (cost of)/contribution by services</b>	-	-	-	-	-
Revenue from Government					
<b>Surplus/(deficit) attributable to the Australian Government</b>	-	-	-	-	-
<b>OTHER COMPREHENSIVE INCOME</b>					
Changes in asset revaluation surplus					
<b>Total other comprehensive income</b>	-	-	-	-	-
<b>Total comprehensive income/(loss)</b>	-	-	-	-	-
<b>Total comprehensive income/(loss) attributable to the Australian Government</b>	-	-	-	-	-

Right-of-use  
Interest Expense  
(depending on  
materiality)



Right-of-use  
Depreciation Expense  
(included in  
Depreciation line-item)



# Balance Sheet

Table 3.2: Budgeted departmental balance sheet (as at 30 June)

New Right-of-Use Asset Classes



	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 Forward estimate \$'000
<b>ASSETS</b>					
<b>Financial assets</b>					
Cash and cash equivalents					
Trade and other receivables					
Investments accounted for under the equity method					
Other investments					
Other financial assets					
<b>Total financial assets</b>	-	-	-	-	-
<b>Non-financial assets</b>					
Land and buildings					
Property, plant and equipment					
Investment property					
Intangibles					
Inventories					
Tax assets					
Other non-financial assets					
<b>Total non-financial assets</b>	-	-	-	-	-
<b>Total assets</b>	-	-	-	-	-
<b>LIABILITIES</b>					
<b>Payables</b>					
Suppliers					
Subsidies					
Personal benefits					
Grants					
Dividends					
Other payables					
<b>Total payables</b>	-	-	-	-	-
<b>Interest bearing liabilities</b>					
Loans					
Leases					
Deposits					
Other interest bearing liabilities					
<b>Total interest bearing liabilities</b>	-	-	-	-	-
<b>Provisions</b>					
Employee provisions					
Other provisions					
<b>Total provisions</b>	-	-	-	-	-
Liabilities included in disposal groups held for sale					
<b>Total liabilities</b>	-	-	-	-	-
<b>Net assets</b>	-	-	-	-	-



Lease Payable Liability



# Statement of Cash Flows

Table 3.4: Budgeted departmental statement of cash flows (for the period ended 30 June)

	2017-18 Estimated actual \$'000	2018-19 Budget \$'000	2019-20 Forward estimate \$'000	2020-21 Forward estimate \$'000	2021-22 Forward estimate \$'000
<b>OPERATING ACTIVITIES</b>					
<b>Cash received</b>					
Appropriations					
Receipts from Government					
Sale of goods and rendering of services					
Interest					
Dividends					
Net GST received					
Other					
<b>Total cash received</b>	-	-	-	-	-
<b>Cash used</b>					
Employees					
Suppliers					
Borrowing costs					
Net GST paid					
s74 Retained revenue receipts transferred to OPA					
Other					
<b>Total cash used</b>	-	-	-	-	-
<b>Net cash from/(used by) operating activities</b>	-	-	-	-	-
<b>INVESTING ACTIVITIES</b>					
<b>Cash received</b>					
Proceeds from sales of property, plant and equipment					
Proceeds from sales of financial instruments					
Investments					
Other					
<b>Total cash received</b>	-	-	-	-	-
<b>Cash used</b>					
Purchase of property, plant and equipment and intangibles					
Purchase of financial instruments					
Investments					
Other					
<b>Total cash used</b>	-	-	-	-	-
<b>Net cash from/(used by) investing activities</b>	-	-	-	-	-

Interest  
Payment



Principal  
Repayment



# Budget Framework Implementation

## Operating Losses

- Operating Loss rules to be modified to exclude lease transactions from the net-cash funding model
  - This ensures that Operating Loss rules can still be used for financial oversight
  - Introduces an extra layer of complexity – additional transactions to be excluded





# Budget Framework Implementation

## Operating Losses – Operating Surplus/Deficit calculation

Net Cash Operating Result Calculation - NCE				
Operating Surplus /Deficit excluding unfunded depreciation and Leasing adjustments	0	0	0	0
less: Depreciation previously funded through revenue appropriation (P/L)	40	40	40	40
add: Depreciation - Right of use assets (P/L)	0	20	20	20
less: Interest expense - Leased assets (P/L)	0	already included in P&L		
less: Loan payments - Leased assets (CF)	0	5	20	35
<b>Operating Surplus /Deficit</b>	<b>-40</b>	<b>-55</b>	<b>-40</b>	<b>-25</b>





Australian Government  
Department of Finance

# Financial Reporting Rule, PRIMA and Financial Statements Better Practice Guide

Dario Forner, A/g Assistant Secretary  
Accounting and Frameworks Branch  
Financial Analysis, Reporting &  
Management Division  
Department of Finance

# Financial Reporting Rule (FRR) and PRIMA

- The FRR is currently being amended to reflect the adoption of *AASB9 Financial Instruments* from 1 July 2018, and the implementation options as outlined in Finance's Position Paper (issued May 2018)
- There will be a new requirement for entities to split their balance sheet assets and liabilities between current and non-current in accordance with the rules of *AASB101 Presentation of Financial Statements*.
- PRIMA and RMG 125 are expected to be updated and released in February 2019



# Financial Statements Better Practice Guide (BPG)

- The new BPG will guidance in nature, and focuses on preparation of financial statements (as distinct from accounting treatment and disclosures)
- It is split between high level principles and practical resources (checklists, templates, reference links, etc.)
- We will go out for comment on the draft guide in early January 2019
- The guide is due to be published in the first quarter of 2019.



# AASB 16 Queries

Accounting issues:

[AccountingPolicy@finance.gov.au](mailto:AccountingPolicy@finance.gov.au)

Implementation/Budget issues:

[Budget\\_Framework@finance.gov.au](mailto:Budget_Framework@finance.gov.au)



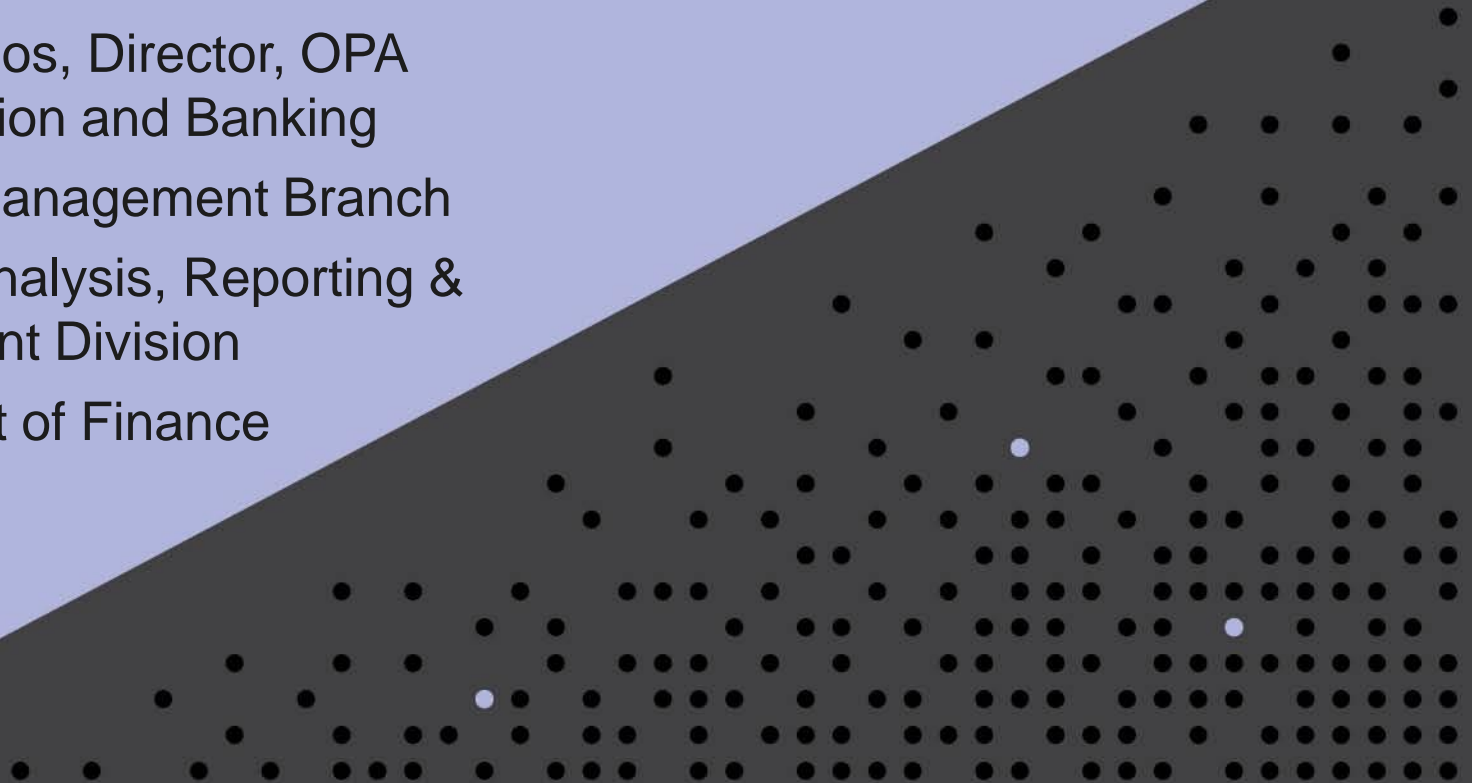


Australian Government

Department of Finance

# Project NeRF

Cleo Boutzios, Director, OPA  
Administration and Banking  
Financial Management Branch  
Financial Analysis, Reporting &  
Management Division  
Department of Finance



# Project NeRF

## Update

- Information packs to Banks and entities
- Forums to Treasury teams will commence shortly

## Phase 1

### **Automating the WoG payment run process in CBMS.**

- E-Learning beginning February 2019
- System ready 1 March 2019
- EOM close and reconciliation 1 March 2019
- Cash Management Module lock out COB 1 – 6 March 2019
- Advance drawdown to cover 1 – 11 March 2019 payments
- Go-Live scheduled for 7 March 2019

## Enquiries

[Project.NeRF@finance.gov.au](mailto:Project.NeRF@finance.gov.au) or Cleo Boutzios, [cleo.Boutzios@finance.gov.au](mailto:cleo.Boutzios@finance.gov.au)

