# **RMG-110 Accounting for Leases**

# Appendix B: AASB 16 Implementation on Transition Date

B1. Retrospective application of AASB 16

AASB 16 extract:

**Paragraph C5:** A lessee shall apply this Standard to its leases either:

(a) retrospectively to each prior reporting period presented applying *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*; or

(b) retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with paragraphs C7–C13.

**Paragraph C7:** If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall not restate comparative information. Instead, the lessee shall recognise the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

Under paragraph C6 of [AASB 16](https://www.aasb.gov.au/admin/file/content105/c9/AASB16_02-16_COMPapr21_04-21.pdf), a lessee is required to apply its selected option under paragraph C5 consistently to all its leases.

To facilitate implementation of AASB 16, Finance requires that Commonwealth entities apply the ‘modified model’ at paragraphs C5(b) and C7.

Retrospective application of AASB 16

Commonwealth entities are required to apply the modified model (at paragraphs C5(b) and C7) on initial application of AASB 16.

B2. Identification of leases

**AASB 16** extract**:**

**Paragraph C3:** As a practical expedient, an entity is not required to re-assess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted:

(a) to apply this Standard to contracts that were previously identified as leases applying AASB 117 Leases and Interpretation 4 Determining whether an Arrangement contains a Lease. The entity shall apply the transition requirements in paragraphs C5–C18 to those leases.

(b) not to apply this Standard to contracts that were not previously identified as containing a lease applying AASB 117 and Interpretation 4.

Commonwealth entitiesmust not re-assess previous contracts on transition to
AASB 16 – this must be applied to all contracts and disclosed. However, in accordance with paragraph 11 of AASB 16, entities will be required to re-assess whether a contract contains a lease where contractual terms subsequently change.

Identification of leases

Commonwealth entities are required to apply the ‘no re-assessment of previous leases’ option as provided in paragraph C3 of AASB 16.

B3. Right-of-use assets previously accounted for as operating leases

AASB 16 **extract**:

**Paragraph C8(b):** If a lessee elects to apply this Standard in accordance with paragraph C5(b), the lessee shall:

(b) recognise a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying AASB 117. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:

 (i) its carrying amount as if the Standard had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate at the date of initial application; or

 (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

When AASB 16 is applied retrospectively under paragraph C5(b) on the transition date, lessees can initially recognise ROU assets under paragraph C8(b) on a lease-by-lease basis. However, paragraph 2 of AASB 16 requires the standard to be applied consistently to contracts with similar characteristics and in similar circumstances. Therefore, lessees will need to justify to their audit team where the implementation options under paragraph C8(b) of AASB 16 are not consistently applied to all leases.

Finance recommends the implementation option at paragraph C8(b)(ii) of AASB 16 as it is likely to be a simpler method of calculating the ROU asset on transition. Where the implementation option at paragraph C8(b)(i) is applied, the impact on the opening equity as at transition date will need to be included in the 2019-20 Supplementary Reporting Pack (SRP), so Finance can report all leases under option C8(b)(ii) in the CFS.

Right-of-use assets previously accounted for as operating leases

Where the implementation at option C8(b)(ii) of AASB 16 is not applied to all leases on transition, entities will need to:

* justify to their audit team how their approach remains consistent with AASB 16(2)
* include details of the adjustments to opening equity on transition date in the SRP, to allow consistency in preparing consolidated financial statements.

B4. Right-of-use assets previously accounted for as finance leases

ROU asset classes may include some leases that were previously accounted for as finance leases under [AASB 117](https://www.aasb.gov.au/admin/file/content105/c9/AASB117_08-15.pdf). Prior to 2019-20, these ROU assets were included in non-financial asset classes measured at fair value, under clause 17 of the [FRR](https://www.legislation.gov.au/Series/F2015L00131).

Reclassifying those ROU assets into separate ROU specific asset classes held at cost under AASB 16 is a change in accounting policy under [AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors](https://www.aasb.gov.au/admin/file/content105/c9/AASB108_08-15_COMPmay19_01-20.pdf) (AASB 108).

Under paragraph 19 of AASB 108, changes in accounting policy resulting from the initial application of an Australian accounting standard should be applied in accordance with the transitional provisions in that standard. The Australian Government is applying AASB 16 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, under paragraphs C5 and C7 of AASB 16.

Under paragraph C11 of AASB 16, ROU assets previously recognised by lessees as finance leases under AASB 117 are to be initially recognised, on AASB 16 transition date, at the carrying amount of those lease assets under AASB 117 immediately prior to transition. These amounts reflect deemed cost of the ROU asset on the transition date under AASB 16.

Right-of-use assets previously accounted for as finance leases

ROU assets previously recognised by Commonwealth lessees as finance leases under AASB 117 must be reclassified into the separate ROU asset classes created under AASB 16 at their existing carrying values. The reclassification must occur on the AASB 16 transition date of 1 July 2019. Disclosure of the accounting policy change must be made, as required by paragraph 28 of AASB 108.

B5. Lease incentive provisions

Where AASB 16 transitional option C8(b)(ii) is applied in initially recognising ROU assets, Commonwealth entities have sought clarification on whether outstanding lease incentive and straight-lining provisions on transition date carried over from AASB 117 and [Interpretation 115 Operating Leases – Incentives](https://www.aasb.gov.au/Pronouncements/Interpretations.aspx) should be:

* offset against the relevant ROU asset balances
* cleared to opening retained earnings.

The election by Finance to apply the modified model on initial application of AASB 16, requires lessees to recognise the cumulative effect of initially applying AASB 16 as an adjustment to the opening balance of retained earnings at the date of initial application.

Lease incentive and lease straight-lining provisions that are outstanding on transition date are not assessed to be accrued lease payments for the purposes of paragraph C8(b)(ii) of AASB 16. Therefore, these balances should be cleared to retained earnings on transition.

Worksheet A in the [Example lease journals](https://www.finance.gov.au/sites/default/files/2021-10/Example%20Lease%20Journals.xlsx) illustrates accounting for lease incentive provisions on transition date.

Lease incentive provisions

Where the AASB 16 transitional option at paragraph C8(b)(ii) is applied, lessees are to adjust retained earnings for the de-recognition of lease incentive and straight-lining provisions previously recognised under AASB 117 and Interpretation 115.

B6. Impairment on AASB 16 transition

**AASB 16 extract:**

**Paragraph 33:** A lessee shall apply *AASB 136 Impairment of A*ssets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Paragraph 33 of AASB 16 requires a lessee to apply AASB 136 for determining if the ROU asset held at cost is impaired. However, paragraph C10 of AASB 16 provides options for retrospectively applying the standard in accordance with paragraph C5(b) of AASB 16 to leases previously classified as operating leases applying AASB 117.

**AASB 16 extract:**

**Paragraph C10(b):** a lessee may rely on its assessment of whether leases are onerous applying *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review. If a lessee chooses this practical expedient, the lessee shall adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application.

Note: For all the practical expedients in this paragraph, see [paragraph C10 of AASB 16](https://www.aasb.gov.au/admin/file/content105/c9/AASB16_02-16_COMPapr21_04-21.pdf).

If the lessee elects to use the AASB 137 assessment, they must adjust the ROU asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application. Entities must document how the standard has been applied consistently under paragraph 2 of AASB 16 where the implementation option at paragraph C10(b) of AASB 16 has not always been applied.

Worksheet A in the [Example lease journals](https://www.finance.gov.au/sites/default/files/2021-10/Example%20Lease%20Journals.xlsx) illustrates accounting for impairment of ROU assets on transition date.

Impairment on AASB 16 transition

On AASB 16 transition date, entities may rely on their previous assessment on whether a lease is onerous, rather than performing an impairment review. Commonwealth entities must disclose where they have not always applied the implementation option at paragraph C10(b) of AASB 16 when available.