

Getting value
out of IFRS 16
(AASB 16)
reporting



Contents

| | |
|---|---|
| What is IFRS 16 (AASB 16)? | 4 |
| Who does it affect? | 5 |
| How does it affect your organisation? | 5 |
| The benefits of IFRS 16 for your organisation - now and into the future | 6 |
| What steps are required for compliance? | 7 |
| The Nomos One lease accounting and lease management solution | 8 |



In 2016, IFRS 16 was introduced to result in a more accurate representation of a company's assets and liabilities and greater transparency about the company's financial leverage and capital position.

Since it became effective as of January 1 2019, it has supposedly reduced the need to make adjustments to amounts reported on balance sheets and helps to improve comparisons between companies that lease assets and those that borrow to buy. As a result, it is designed to create a more level playing field in providing information about leases to market participants.

But, now, several years in, is this the reality? What benefits have resulted from the introduction of IFRS 16? And what value can we expect to get out of this standard in the future?



What is IFRS 16?

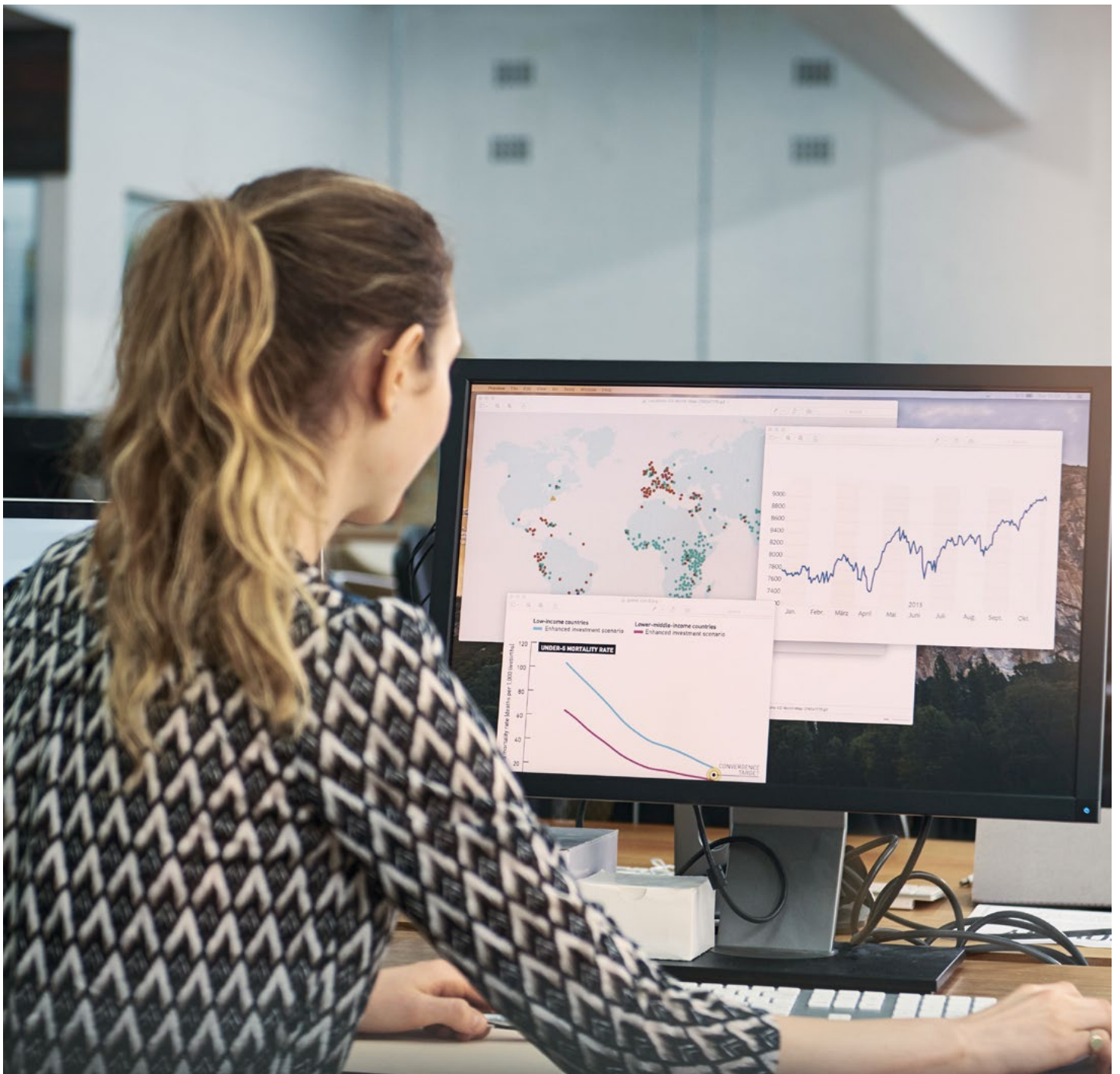
International Financial Reporting Standard ('IFRS') 16 Leases is the accounting standard on leases. It was introduced in 2016 and became effective as of January 2019. The standard replaced IAS 17 Leases and associated interpretations. While the accounting requirements from a lessor's point of view were relatively in line with IAS 17, there have been significant changes to lessee accounting since its introduction.

Previously, lessees categorised leases as either finance leases (where the lessee takes on significant risks and rewards of ownership of the asset) or operating leases (where risks and rewards have not been transferred to the lessee). Operating leases were not recorded on the lessee's

balance sheet; instead, the lease payments were recognised as an expense on a straight-line basis over the lease term.

Pre-IFRS 16, finance leases were recognised on the lessee's balance sheet, but because of the nature of many lease contracts and arrangements, transferring risks and rewards to the lessee was not common. Therefore most lease transactions were only recognised as lease expenses.

IFRS 16 introduced a single accounting model for leases held by lessees – with no differentiation of finance and operating leases.



Who does it affect?

All companies with leasing activity are required to comply with the requirements of IFRS 16, with just two exceptions.

Two types of lease don't come under IFRS 16 leases and aren't recorded as an asset:

- A lease where the value of the item when new is 'low value'
- A lease with a shorter than 12-month term with no purchase options

How does it affect your organisation?

The magnitude of IFRS 16's impact depends on the level and complexity of leasing activity within your organisation. For organisations with substantial numbers of leases and/or where leasing is a material part of activities, IFRS 16 can result in significant incremental assets and liabilities being recognised.



The benefits of IFRS 16 for your organisation - now and into the future.

Since IFRS 16 came into effect, several benefits have been realised, including increased visibility over lease information and data. Not only is the information more visible, but it's also better quality as the standard has meant a data cleansing exercise has had to occur.

Visible, easy to access and good quality data results in operational benefits to BAU and overarching strategic and commercial benefits. For example, the standard ensures your organisation looks past the next renewal. The nature of IFRS 16 will prompt broader strategic discussions and forecasting by asking questions like how long an asset will be kept altogether.

IFRS 16 has also brought together the property and finance functions where close collaboration is now required regularly. Non-accountants are now collaborating with accountants aiding business congruence between teams. Rather than only coming together at budget or annual report time, property and finance teams regularly work together - strengthening bonds and driving efficiencies.



What steps are required for compliance?

There are three general stages to IFRS 16 reporting:

1. Identify your assets defined as leases under IFRS 16 (property, vehicles, equipment, etc.).
2. Collect all the information on these leases – term, end of lease options, rentals payable, interest rate (if available).
3. Accounting for your leases to recognise assets and liabilities.

While your business might have lease management and/or lease accounting systems or processes in place, IFRS 16's advanced requirements – managing lease payments or calculations and managing upcoming events and dates – mean that using an Excel spreadsheet is inadequate, inefficient and prone to mistakes.

The amount of information in a lease contract that becomes relevant to accurately calculate lease liability and right of use asset numbers has risen with the enforcement of the standard. Therefore obtaining, storing and managing accurate lease information is vital to comply with the requirements of IFRS 16.

This information needs to be up to date and able to be reviewed and updated at any time while maintaining compliance. Therefore, automating IFRS 16 compliance as much as possible makes sense. A solution like Nomos One can help.

The Nomos One lease accounting and lease management solution.

A software solution like Nomos One allows your organisation to tap into the benefits of the IFRS 16 standard. From the ability to make more strategic decisions to the efficiency and productivity advantages of better collaboration between departments, Nomos One makes lease management and lease accounting painless.

Onboarding with a team of professionals who understand the ins and outs of lease accounting and lease management gives you access to accurate, clean and useful data. A friendly user interface houses your real-time data which finance and property teams can access anytime and anywhere. Workflows based on real-life requirements assure efficiency, and automation like event management guarantees the team will never miss an important date

or milestone. Customisable fields allow your team to add data fields relevant to your specific organisation and agreements, alongside tailored report formats, templates and notifications to keep productivity on track.

As we've seen across the pandemic, our industry is always changing. Using a SaaS solution that shifts to adapt to industry transformation means you can rise above the business as usual mindset. Shift your company's thinking from day-to-day repetitive and routine tasks to strategic value-adding work with Nomos One. Explore how we can help.



Talk to us today

For further information visit www.nomosone.com

To schedule a free demonstration visit www.nomosone.com/schedule-a-demo

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