



# AASB 16 Leases

---

This standard looks at the recognition, measurement, presentation and disclosure of leases for both the lessee (i.e. the entity who holds the lease of an asset) and the lessor (i.e. the entity who leases an asset to another).

AASB 16 Leases (AASB 16) replaces AASB 117 Leases (AASB 117) and is applicable for annual reporting periods beginning on or after 1 January 2019<sup>1</sup>.

If your reporting unit has a material quantity or value of operating leases then this new standard will have an impact on your balance sheet and profit and loss.

## What are the key changes?

### Definition of a lease

AASB 16 contains a new definition of a lease. The effect of this change in definition is significant for a **lessee** for the following reasons:

1. it removes the operating/finance lease classifications; and
2. a lessee will need to recognise in their balance sheet:
  - a lease liability; and
  - a corresponding right-of-use asset

Please note that a corresponding right-of-use asset is not required if:

---

<sup>1</sup> Early adoption is permitted if the reporting unit applies AASB 15 Revenue from Contracts with Customers at or before the initial application of AASB 16.



<b>Short-term lease</b>	The lease term is 12 months or less with no purchase option
<b>Low value asset</b>	Applied on an asset-by-asset basis when asset is new (e.g. a threshold of \$2,000-\$10,000 may be considered relevant)



Such leases are accounted for like operating leases under AASB 117 by expensing lease payments typically on a straight-line basis, over the lease term.

For **lessors**, the lease accounting remains substantially unchanged with leases continuing to be accounted for as either operating or finance leases.

### Peppercorn leases

Reporting units may enter into arrangements with other entities where they are provided a right-of-use over an asset e.g. a building/office space for no or nominal lease payments (i.e. peppercorn leases). Reporting units which are not-for-profit entities are required to account for such leases at fair value as follows:

- the right-of-use asset is measured at fair value at inception;
- the lease liability is measured at the present value of the peppercorn lease payments (e.g. nil); and
- any difference between the right-of-use asset and lease liability is recognised as income under AASB 1058 Income for Not-for-Profit Entities<sup>2</sup>.

---

<sup>2</sup> A temporary option has been provided for NFPs to not apply fair value on initial recognition of peppercorn leases AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities.



## How leases are accounted for in the balance sheet for lessees

The table below looks at how the lease liability and a corresponding right-of-use asset will be accounted for in the balance sheet.

	Lease liability	Right-of-use asset
<b>Definition</b>	An obligation to make lease payments	A right to use the underlying leased asset
<b>Initial measurement</b>	Measured as the present value of future lease payments over the lease term including reasonable possible extension options	Measured equal to the lease liability, with adjustments for pre-payments, lease incentives received, initial direct costs incurred and dismantling costs
<b>Ongoing treatment</b>	Lease payments are discounted using the interest rate implicit in the lease or if not determinable, the lessee's incremental borrowing rate	
<b>Subsequent measurement</b>	Measured similarly to a financial liability using the effective interest method  Increased due to interest expense and decreased by payments made	Measured similarly to other property, plant and equipment assets and subject to amortisation



## So how does this affect a reporting unit and what needs to be considered?

1. All leases will now be recognised in a reporting unit's balance sheet. This will therefore impact both the balance sheet and profit and loss statement by:
  - increasing the value of assets and liabilities;
  - decreasing lease expenses; and
  - increasing depreciation/amortisation expense.
2. If a reporting unit is a **lessee** the following will need to be considered:
  - review the classification of all leases
  - determine whether any short-term leases or low-value assets exist
  - review all commercial supply contracts (not only lease contracts) to determine if an identified asset exists
  - confirm if a peppercorn lease exists
  - determine the appropriate discount rate to calculate the present value of future lease payments for each lease
3. The financial report of the reporting unit will require increased disclosures relating to leases.
4. AASB 16 provides lessees with two transition methods to account for this new accounting standard for the first time. This is either:
  - option one: full retrospective; or
  - option two: modified retrospective

A reporting unit should discuss the most appropriate transition method for their circumstances with their accounting professional.

Please note the effect on comparative figures with option one, full retrospective. The timeframe below relates to a reporting unit with an end of financial year of 31 December.



Fair Work  
Commission



Example of the timeframe based on a reporting unit with a financial year ending 31 December.

© Commonwealth of Australia 2023

This fact sheet is not intended to be comprehensive. The Fair Work Commission does not provide legal advice. Users must rely upon the relevant legislation, which is set out in the *Fair Work (Registered Organisations) Act 2009*, the *Fair Work Act 2009*, the *Fair Work (Transitional Provisions and Consequential Amendments) Act 2009* and the *Fair Work (Registered Organisations) Regulations 2009*.