Χρηματοδότηση & Χρηματοοικονομική Ανάλυση Γεωργικών Επιχειρήσεων (286)

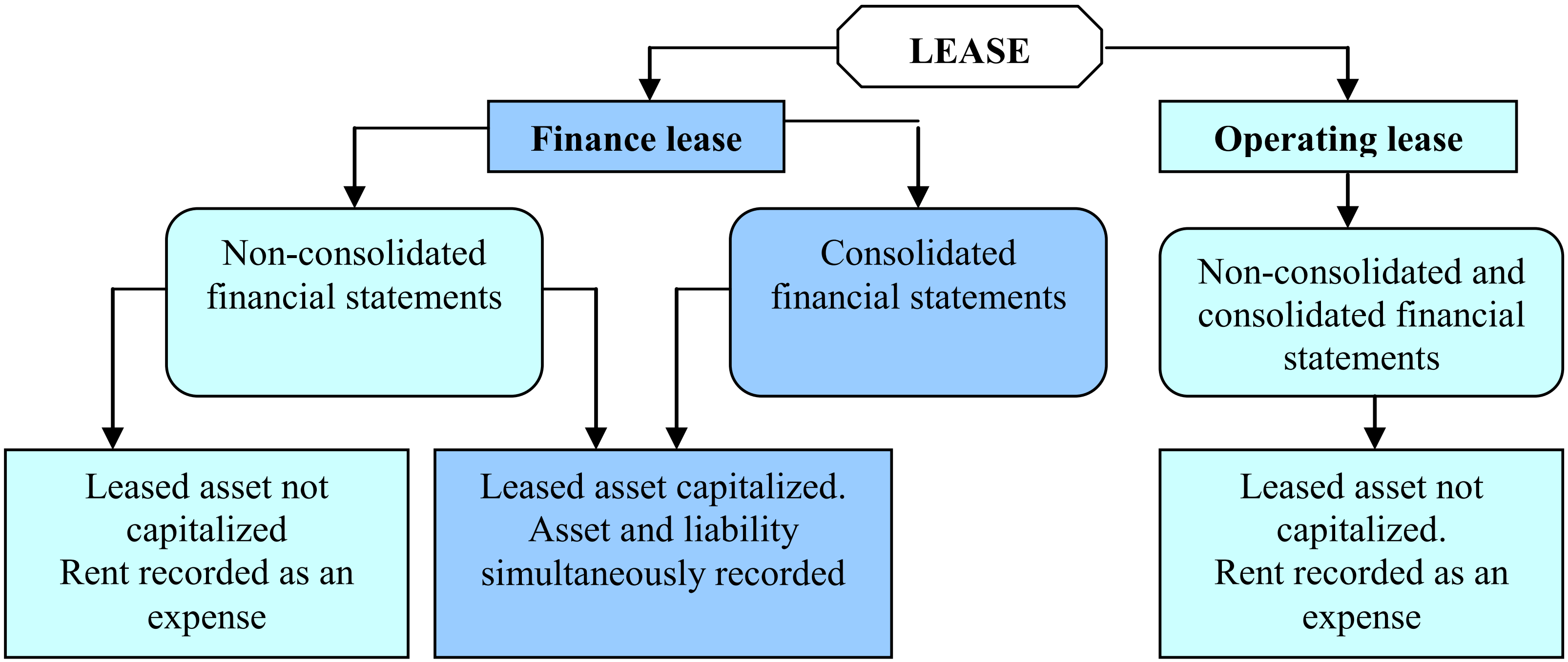
Μισθώσεις

Leased assets (IAS 17 / IFRS 16)

- January 2016: Adoption of IFRS 16 Leases, (effective for annual periods beginning on or after 1 January 2019)
- Supersedes IAS 17
- IAS 17: distinction between finance leases and operating leases, on vs. off-balance sheet discussions
- IFRS 16: single lessee accounting model (equivalent to finance leases)
- We present both IAS 17 and IFRS 16
- From a "Risks and rewards approach" to an asset/liability approach

  Key element in new standard: operating leases have to be capitalized by the lessee as well!

Figure: Accounting treatment of leased assets (under IAS 17 - valid until 1 January 2019)



Capitalization criteria (IAS 17)

Finance lease indicators:

- transfer of ownership by the end of the lease term
- purchase option to the asset
- lease term = major part of the economic life of the asset (US GAAP Guidance: 75%)
- present value of the minimum lease payments*) = at least substantially all of the fair value of the leased asset (US GAAP Guidance: 90%)
- specialized nature of the leased asset

*)lease payments adjusted by several items

Capitalization criteria (SFAS 13)

- Transfer of ownership by the end of the lease term
- Bargain purchase option
- Lease term ≥ 75% of the estimated economic life of the leased asset
- Present value of the minimum lease payments ≥ 90% of the fair value of the leased asset

Minimum Lease Payments (MLPs)

MLPs =

Payments over lease term

+ Guaranteed residual value

+ Bargain purchase option

– Contingent rent

– Reimbursement of costs paid by lessor

(e.g. maintenance, insurance, taxes, supplies, replacement parts)

Commonly referred to as executory costs:
The lessee reimburses the lessor for the lessor's expense payments

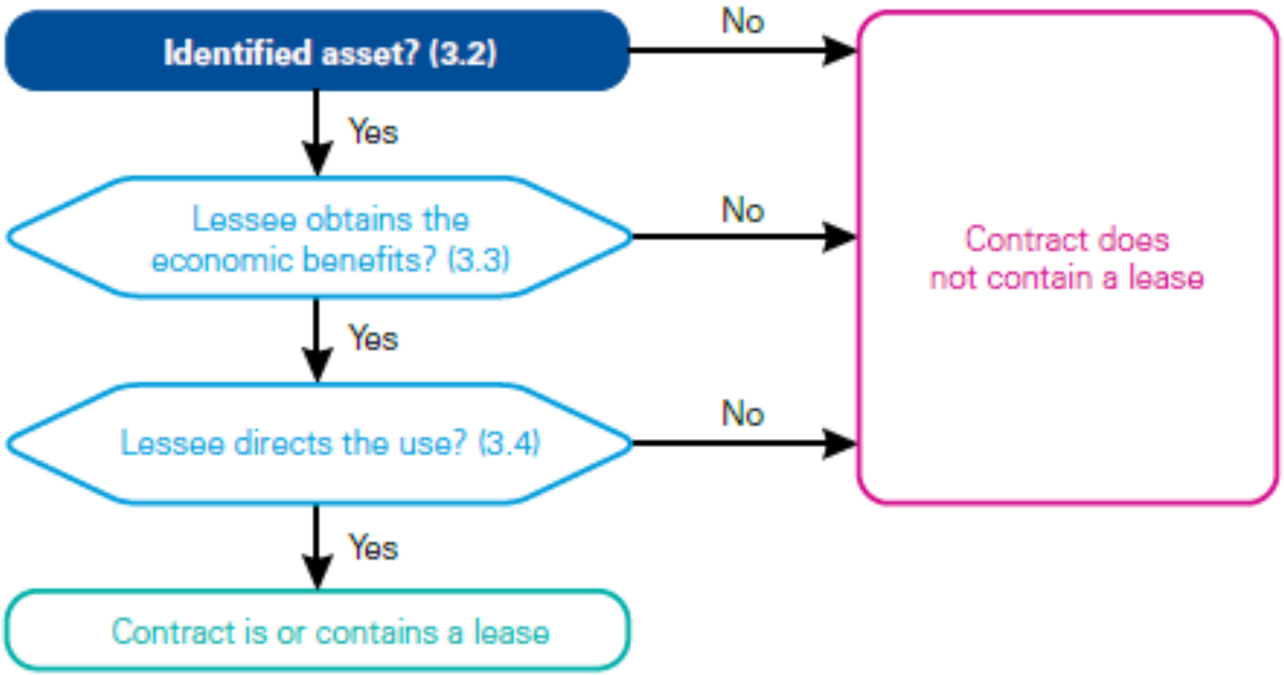
All leases (IFRS 16) (1)

- IFRS 16 applies to all leases, with two exceptions:
  - (a) short-term leases (< 12 months)
  - (b) leases for which the underlying asset is of low value (< USD 5k)
- A short-term lease is defined as a 'lease that, at the commencement date, has a lease term of 12 months or less. A lease that contains a purchase option is not a short-term lease.' (IFRS 16)

All leases (IFRS 16) (2)

- ‘An underlying asset can be of low value only if:
  - (a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
  - (b) the underlying asset is not highly dependent on, or highly interrelated with, other assets’ (§ B5)
- ‘Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones’ (§ B8)

Lease definition (IFRS 16)



Example of accounting for leased assets (example based on IAS 17 and still valid with IFRS 16)

- Capital Lease	
- Value of the equipment (FV)	600 CU
- Annual Lease Payment	150 CU
- Purchase price option at the end of the lease	10 CU
- Total payments (5 x 150 + 10)	760 CU
- UEL of the asset	8 years
- Duration of the Contract	5 years

$$\text{Value of the leased equipment} = \text{Lease payment} \times \sum_{t=1}^{5} \frac{1}{(1+i)^t} + \frac{\text{Purchase option}}{(1+i)^5}$$

$$= 150 \times \sum_{t=1}^{5} \frac{1}{(1+i)^t} + \frac{10}{(1+i)^5}$$

rate of interest **i** = 8.357%.

The implicit rate of the lease is the discounting rate that causes the PVMLP + Residual Value = FV + Initial Direct Costs for establishing the lease

Table: Repayment schedule of the debt

FV of the equipment = Lease obligation (in the BS)

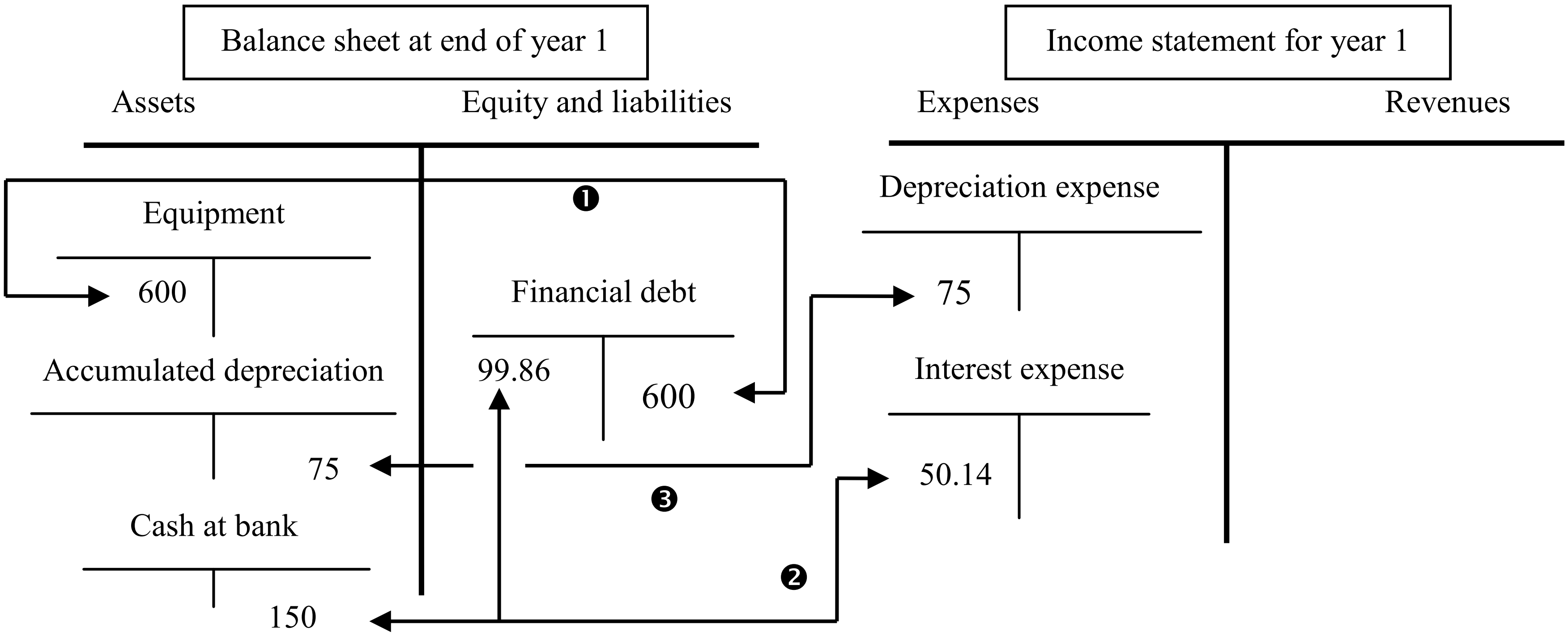
Year	Beginning lease liability	Interest expense	Repayment of liability	Lease payment	Ending lease liability
	(1)	(2)=(1)*8.357%	(3)=(4)-(2)	(4)	(5)=(1)-(3)
Year 1	600.00	50.14	99.86	150.00	500.14
Year 2	500.14	41.80	108.20	150.00	391.94
Year 3	391.94	32.75	117.24	150.00	274.70
Year 4	274.70	22.96	127.04	150.00	147.66
Year 5	147.66	12.34	137.66	150.00	10.00
Purchase option	10.00		10	10.00	0.00
Total		160.00	600.00	760.00	

Table: Depreciation schedule of the leased equipment – on the grounds of UEL of the asset

- If the lessee intends on returning the asset at the end of the lease period the contract duration will be the basis of depreciation.
- Where the lessee intends on purchasing the asset at the end of the lease term the useful economic life of the asset will be the basis of depreciation

Year	Depreciable basis	Depreciation expense	Book value
Year 1	600	75	525
Year 2	525	75	450
Year 3	450	75	375
Year 4	375	75	300
Year 5	300	75	225
Year 6	225	75	150
Year 7	150	75	75
Year 8	75	75	0

Figure: Capitalization of leased equipment



❶ The leased equipment is recorded as both an asset and a liability (for the same amount).
❷ The lease payment (150) is split between interest expense and repayment of the financial debt (figures are derived from Table 12.8).
❸ The leased asset is depreciated over 8 years (figures are derived from Table 12.9).

IFRS 16 vs. IAS 17

All major leases on balance sheet

Balance sheet

Asset
= 'Right-of-use' of underlying asset

Liability
= Obligation to make lease payments

P&L

Lease expense
Depreciation
+ Interest
= Front-loaded total lease expense

- ❑ Improves some measures/ratios and worsens other, impact on covenants should be investigated
- ❑ Likely to affect business models and business propositions

Initial measurement of the right-of-use asset

Initial measurement of the right-of-use asset

At the commencement date, a lessee measures the right-of-use asset at a cost that includes the following.

Lease liability

+

Initial direct costs

+

Prepaid lease payments

+

Estimated costs to dismantle, remove or restore, measured in accordance with IAS 37

−

Lease incentives received

=

Right-of-use asset

Initial measurement of lease liability

Overview

At the commencement date, a lessee measures the lease liability at the present value of the future lease payments.

Lease liability = **Present value of lease rentals** + **Present value of expected payments at end of lease**