Alerte de votre conseiller – *Aperçu d'IFRS 16 – Présentation et informations à fournir*

Septembre 2019

Aperçu

L'équipe IFRS de Grant Thornton International a publié le bulletin *Insights into IFRS 16 – Presentation and disclosure* (en anglais seulement).

La série *Insights into IFRS 16* fournit des informations sur l'application d'IFRS 16, *Contrats de location*, dans des domaines clés. Chaque édition mettra l'accent sur un aspect d'IFRS 16 afin de vous aider à vous préparer aux changements apportés par l'adoption de la norme.

Le bulletin *Insights into IFRS 16 – Presentation and disclosure* donne des indications sur les obligations en matière de présentation et d'informations à fournir, ainsi que des exemples d'informations à fournir dans les notes.

Enjeu

IFRS 16 exige que les preneurs et les bailleurs fournissent des informations sur leurs activités de location dans leurs états financiers. La norme explique quelles informations sont obligatoires et comment ces informations doivent être présentées dans le corps des états financiers. En ce qui a trait aux notes, la norme tend à se concentrer sur les détails des informations à fournir et laisse aux préparateurs le soin de décider de la manière de les présenter.

Le bulletin indique les obligations et donne une série d'exemples illustrant une manière possible de présenter les informations à fournir dans les notes.

Ressource

Le bulletin *Insights into IFRS 16 – Presentation and disclosure* est joint à la présente *Alerte de votre conseiller*.

Accounting

Advisory

Global

Insights into IFRS 16

Presentation and disclosure

IFRS 16 requires lessees and lessors to provide information about leasing activities within their financial statements. The Standard explains how this information should be presented on the face of the statements and what disclosures are required. In this article we identify the requirements and provide a series of examples illustrating one possible way the note disclosures might be presented. When it comes to the notes, the Standard tends to focus on the details of the information to be provided, leaving it to preparers to decide on the most meaningful way to present it. As a result, your specific disclosures may not look exactly the same as the ones we've chosen.

Presentation

For a lessee, a lease that is accounted for under IFRS 16 results in the recognition of:

- a right-of-use asset and lease liability
- interest expense (on the lease liability)
- depreciation expense (on the right-of-use asset).

The right-of-use asset and lease liability must be presented or disclosed separately from other, non-lease assets and liabilities (except for investment property right-of-use assets which are presented as investment property). Where a lessee chooses not to present its right-of-use assets separately on the face of the balance sheet, they must be presented in the same line item that would be used if the underlying asset were owned. In many, but not all, cases this will be property, plant and equipment.

In the statement of cash flows, lease payments are classified:

- as a financing activity for amounts relating to the repayment of the principal portion of the lease liability
- in the same classification as interest paid on other forms of financing (ie, as either a financing or operating activity) for amounts relating to interest charged on the lease liability
- as operating activities for amounts relating to short-term and low-value asset leases that are accounted for off-balance sheet and for variable payments not included in the lease liability.

For a lessor, the requirements are largely the same as IAS 17's:

- for finance leases the net investment is presented on the balance sheet as a receivable, and
- assets subject to operating leases continue to be presented according to the nature of the underlying asset.

Disclosures

IFRS 16 requires different and more extensive disclosures about leasing activities than IAS 17. The objective of the disclosures is to provide users of financial statements with a basis to assess the effect of leasing activities on the entity's financial position, performance and cash flows. To achieve that objective, lessees and lessors disclose both qualitative and quantitative information. For lessees, this information is required to be presented in a single note or as a separate section of the financial statements. Information already included in other notes need not be repeated as long as it is appropriately cross-referenced.

Lessee disclosures

Disclosure area	Summary of requirements
Quantitative information about leases (generally provided in a tabular format)	• depreciation charge for right-of-use assets by class of underlying asset • interest expense on lease liabilities • expense relating to low-value and short-term leases (other than leases of 1 month or less) if exemption(s) elected • commitments for short-term leases if the expense disclosed for such leases in the current period arose from a portfolio that differs significantly from the portfolio in place at period-end (this disclosure applies only when the short-term lease exemption has been elected) • expense relating to variable lease payments not included in lease liabilities • income from subleasing • total cash outflow for leases • additions to right-of-use assets • gains or losses from sale and leaseback transactions • the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset • maturity analysis of lease liabilities • additional information about right-of-use assets that meet the definition of investment property or are measured at revalued amounts under IAS 16
Additional qualitative and quantitative information as necessary to meet the disclosure objective	• nature of leasing activities • exposure to future cash outflows not reflected in the lease liabilities, including: – variable lease payments – extension and termination options – residual value guarantees – leases that have not yet commenced • restrictions or covenants imposed by leases • sale and leaseback transactions

Lessor disclosures

Disclosure area	Summary of requirements
Finance leases	• selling profit or loss • finance income on the net investment in the lease • income relating to variable lease payments not included in the measurement of the net investment in the lease • qualitative and quantitative explanation of significant changes in the net investment in the lease • maturity analysis of lease payments receivable • reconciliation of undiscounted lease payments to the net investment in the lease
Operating leases	• lease income, separately disclosing income for variable lease payments that do not depend on an index or rate • as applicable for underlying asset, relevant disclosures in – IAS 16 for leases of property, plant and equipment, disaggregated by class – IAS 36 'Impairment', IAS 38, IAS 40 and IAS 41 • maturity analysis of lease payments
Other	• additional qualitative and quantitative information about leasing activities as necessary to meet disclosure objectives, including but not limited to: – nature of leasing activities – how the risk associated with any rights retained in the underlying asset is managed

Appendix

Key assumptions

The illustrative disclosures provided below are based on the following assumptions:

- the examples do not represent a full set of financial statements
- the primary financial statement captions and illustrative note disclosures presented in this appendix are only those impacted by IFRS 16
- the date of initial application of IFRS 16 by the Group is assumed to be 1 January 2019, and therefore the Standard was not adopted early
- the Group is both a lessee and a lessor
- this appendix includes only those disclosures applicable to the Group and does not anticipate all possible types of lease transactions
- no consideration has been given to the tax implications of adopting the Standard, as this is expected to vary between jurisdictions
- whilst this has document not been prepared for transition purposes, the first-year disclosures in respect of the change in accounting policy have been included, with the assumption that the Group has applied the Standard using the modified retrospective approach.

Contents

Consolidated statement of financial position

as at 31 December 2019
(expressed in thousands of currency units, except per share amounts)

		Notes	31 Dec 2019	31 Dec 2018
IAS 1.51(c) IAS 1.51(d-e)				
	Assets			
IAS 1.60 IAS 1.66-67	**Non-current**			
IAS 1.54(a), IFRS 16.47(a)	Property, plant and equipment		**X**	X
IAS 1.54(b) IFRS 16.48	Investment property		**X**	X
IAS 16.67	Finance lease receivables		**X**	X
	Current			
IFRS 16.67	Finance lease receivables		**X**	X
	Equity and liabilities			
	Equity			
	Equity attributable to owners of the parent			
IAS 1.54(r)	Retained earnings		**X**	X
	Liabilities			
IAS 1.60 IAS 1.69	**Non-current**			
IFRS 16.47(b)	Lease liabilities		**X**	X
IAS 1.60 IAS 1.69	**Current**			
IFRS 16.47(b)	Lease liabilities		**X**	X

Guidance note:
The new Standard increases assets and liabilities for leases previously accounted for as operating leases which are now capitalised on the balance sheet as right-of-use assets and lease liabilities.

IFRS 16 allows a lessee to present right-of-use assets separately from other assets on the face of the balance sheet or within the same line item as the corresponding assets are in if they are owned. If right-of-use assets are not disclosed separately then the lessee must disclose in the notes which line item in the balance sheet the right-of-use assets are in. This appendix presents right-of-use assets with equivalent owned assets in property, plant and equipment.

IFRS 16 allows a lessee to present lease liabilities separately on the statement of financial position or within other liabilities (this includes borrowings, trade and other payables and other liabilities). If the lessee chooses not to disclose lease liabilities separately, they must disclose in the notes which line item they are in. This appendix presents lease liabilities separately from other liabilities.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December
(expressed in thousands of currency units, except per share amounts)

		Notes	2019	2018
IAS 1.51(c) IAS 1.51(d-e)				
IAS 1.82(a)	Revenue		**X**	X
IAS 1.85	Change in fair value of investment property		**X**	X
IAS 1.85	Depreciation, amortisation and impairment of non-financial assets		**X**	X
IAS 1.85	Other expenses		**X**	X
	Operating profit		**X**	**X**
IAS 1.82(b)	Finance costs		**X**	X
	Profit before tax		**X**	**X**

Guidance note:
For a lessee under IAS 17, operating lease expenses were shown as short-term expenses. Under IFRS 16 there has been a change in the amount and presentation of these expenses; they are now split between depreciation expense and finance costs. This could impact profit before tax amounts. However, some expenses remain within operating expenses. Variable lease payments not dependent on an index or rate are not included within the lease liability and are expensed as lease expenses as incurred and included within operating expenses. In addition, if a lessee applies the short-term lease and low value asset exceptions, these costs will also be lease costs expensed as incurred and included within operating expenses.

Other comprehensive income is not impacted by IFRS 16 and therefore has not been shown above.

Consolidated statement of changes in equity

For the year ended 31 December
(expressed in thousands of currency units, except per share amounts)

		Notes	Share capital	Share premium	Other components of equity	Retained earnings	Total attributable to owners of parent	Non-controlling interest	Total equity
IAS 1.51(c) IAS 1.51(d-e)									
IAS 1.106(d)	**Balance at 1 January 2019**		**X**	**X**	**X**	**X**	**X**	**X**	**X**
IAS 1.106(b)	Adjustment from the adoption of IFRS 16		–	–	–	X	X	X	X
	Adjusted balance at 1 January 2019		**X**	**X**	**X**	**X**	**X**	**X**	**X**

Guidance note:
On adoption, IFRS 16 provides lessees with a choice between two transition methods; full retrospective application and modified retrospective application. For the latter, the cumulative effect of adoption is recognised as an adjustment to retained earnings. This disclosure has been demonstrated in the above extract of the statement of changes in equity.

Consolidated statement of cash flows

For the year ended 31 December
(expressed in thousands of currency units, except per share amounts)

		Notes	2019	2018
IAS 1.51(c) IAS 1.51(d-e)				
IAS 7.10	**Operating activities**			
	Profit before tax		**X**	X
	Non-cash adjustments		**X**	X
	Net changes in working capital		**X**	X
	Net cash from operating activities		**X**	**X**
IAS 7.10	**Financing activities**			
	Proceeds from borrowings and leasing liabilities		**X**	–
IFRS 16.50(a)	Repayment of borrowings and leasing liabilities		**X**	X
IAS 7.31	Interest paid		**X**	X
	Net cash from (used in) financing activities		**X**	**X**

Guidance note:
The principal portion of the lease payments is included in financing activities. Under IAS 17, if the lease was classified as an operating lease these were included in operating activities.

IAS 7 permits the interest paid to be included in either operating activities or financing activities and the extract above demonstrates interest paid being in financing activities.

Payments relating to short term leases, leases of low-value assets or variable lease payments not included in the calculation of the lease liability are included in operating activities.

Notes to the IFRS Example Consolidated Financial Statements

For the year ended 31 December 2019
(expressed in thousands of currency units, except per share amounts)

1. Accounting policies

Leased assets

The Group as a lessee

IFRS 16.9
IFRS 16.B9-B31

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract

the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

IFRS 16.24

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

IFRS 16.32-33

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

IFRS 16.26

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

IFRS 16.27

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

IFRS 16.36

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

IFRS 16.39

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

IFRS 16.60

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

IFRS 16.47-48

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

The Group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period.

IFRS 16.61

As a lessor the Group classifies its leases as either operating or finance leases.

IFRS 16.62

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

2. New accounting standards

Guidance note: The following note extract applies in the year of transition to IFRS 16. As we have assumed that the date of initial application is 1 January 2019, this note is only to be included in the Group's financial statements for the year ended 31 December 2019.

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IAS 8.28(a)
IFRS 16.C5(b)
IAS 8.28(c)

IFRS 16 'Leases'
IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

IFRS 16.C7
IAS 8.28(b)

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

IAS 8.28(d)

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

IFRS 16.C3

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

IFRS 16.C10(d)
IFRS 16.C8b(ii)

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

IFRS 16.C10(b)

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

IFRS 16.C10(c)
IFRS 16.C9(a)

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

IFRS 16.C11

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

IFRS 16.C12(a)

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was X%.

IFRS 16.C10(e)

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

For the year ended 31 December 2019 (expressed in thousands of currency units, except per share amounts)

IAS 8.28(f)

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying amount at 31 December 2018	Reclassification	Remeasurement	IFRS 16 carrying amount at 1 January 2019
Property, plant and equipment	X	X	X	X
Lease liabilities	X	X	X	X
Deferred gain on sale and leaseback (current)	X	X	X	X
Deferred gain on sale and leaseback (non-current)	X	X	X	X
Total	**X**	**X**	**X**	**X**

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

IFRS 16.C12(b)

Total operating lease commitments disclosed at 31 December 2018		**X**
Recognition exemptions:		
• Leases of low value assets	X	
• Leases with remaining lease term of less than 12 months	X	
Variable lease payments not recognised	X	
Other minor adjustments relating to commitment disclosures	X	
		X
Operating lease liabilities before discounting		X
Discounted using incremental borrowing rate		X
Operating lease liabilities		X
Reasonably certain extension options		X
Finance lease obligations (Note 13)		X
Total lease liabilities recognised under IFRS 16 at 1 January 2019		**X**

3. Critical accounting estimates and judgements

Guidance note: IAS 1.122 requires entities to disclose judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. In addition, IAS 1.125 requires entities to disclose the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period. The assumptions disclosed should have a significant risk of resulting in a material adjustment to the financial performance and position of the entity within the next financial year.

IFRS 16 requires entities to make certain judgements and estimations, and those that are significant should be disclosed here or within the asset and liability notes within the financial statements. Critical judgements are often required when an entity is, for example:

- determining whether or not a contract contains a lease
- establishing whether or not it is reasonably certain that an extension option will be exercised
- considering whether or not it is reasonably certain that a termination option will not be exercised
- determining whether or not variable leased payments are truly variable, or in-substance fixed
- for lessors, determining whether the lease should be classified as an operating or finance lease.

Examples of key sources of estimation and uncertainty include:

- calculating the appropriate discount rate to use
- estimating the lease term
- estimating variable lease payments dependant on an index or rate.

An example disclosure has been included below. These disclosures should be specifically tailored to the circumstances of the entity.

Extension options for leases

When the entity has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. CU X of potential lease payments have not been included in the lease liabilities as it is not reasonably certain the extension option will be exercised.

For the year ended 31 December 2019 (expressed in thousands of currency units, except per share amounts)

4. Property, plant and equipment

Details of the Group's property, plant and equipment and their carrying amounts are as follows:

		Office building	Warehouse & related facilities	Vehicles	IT equipment	Plant & Machinery	Total
IAS 16.78(a)	**Gross carrying amount**						
IAS 16.73(d)	Balance 1 January 2019	X	X	X	X	X	X
	Adjustment on transition to IFRS 16	X	X	X	X	X	X
IAS 16.73(e)(i)	Additions	X	X	X	X	X	X
IAS 16.73(e)(iii)	Acquisition through business combination	X	X	X	X	X	X
IAS 16.73(e)(ii)	Disposals	X	X	X	X	X	X
IAS 16.73(e)(iv)	Revaluation increase	X	X	X	X	X	X
IAS 16.73(e)(viii)	Net exchange differences	X	X	X	X	X	X
IAS 16.73(d)	**Balance at 31 December 2019**	**X**	**X**	**X**	**X**	**X**	**X**
	Depreciation and impairment						
IAS 16.73(d)	Balance at 1 January 2019	X	X	X	X	X	X
IAS 16.73(e)(ii)	Disposals	X	X	X	X	X	X
IAS 16.73(e)(viii)	Net exchange differences	X	X	X	X	X	X
IAS 16.73(e)(vii)	Depreciation	X	X	X	X	X	X
IAS 16.73(d)	**Balance 31 December 2019**	**X**	**X**	**X**	**X**	**X**	**X**
	Carrying amount 31 December 2019	**X**	**X**	**X**	**X**	**X**	**X**

Included in the above line items are right-of-use assets over the following:

		CU
IFRS 16.53(j) IFRS 16.47(a)(ii)	Office building	X
	Warehouse & related facilities	X
	Vehicles	X
	IT equipment	X
	Plant & machinery	X
		X

Guidance note: The above property, plant and equipment note is based on an example where the right-of-use assets are included in property, plant and equipment on the statement of financial position with separate disclosure in the notes.

5. Leases

IFRS 16.59(a)

The Group has leases for the main warehouse and related facilities, an office and production building, plant and machinery, some IT equipment and some vehicles. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see Note X).

IFRS 16.60

Leases of vehicles and IT equipment are generally limited to a lease term of X to X years. Leases of property generally have a lease term ranging from X years to X years however most leases of property are now generally expected to be limited to X years or less except in special circumstances. Lease payments are generally fixed however the Group has one lease where rentals are linked to revenue, and a limited number of property leases where rentals are linked to annual changes in an index (either RPI or CPI).

IFRS 16.59(c)

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

IFRS 16.59

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

IFRS 16.59(b)(ii)

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with options to purchase	No of leases with variable payments linked to an index	No of leases with termination options
Office building	X	X - X years	X years	X	X	X	X
Warehouse and related facilities	X	X - X years	X years	X	X	X	X
Vehicles	X	X - X years	X years	X	X	X	X
IT equipment	X	X - X years	X years	X	X	X	X
Plant and machinery	X	X - X years	X years	X	X	X	X

The Group operates a factory shop which is subject to a X-year lease and is included in warehouse and related facilities. All the rentals are based on X% of sales achieved from that shop. Those lease payments are expensed as incurred (see further variable lease payments below).

The Group has provided residual value guarantees to the lessor in respect of X vans. At 31 December 2019 the expected payment due under that guarantee is CU X. That amount is reflected in the related right-of-use assets and lease liabilities and is re-assessed if there is an indication that circumstances relating to those assets have changed since commencement of the leases. Factors that affect the amount of the guarantee include changes in market prices, actual use of the van against anticipated use, and the condition of the vans at the end of the lease.

For the year ended 31 December 2019 (expressed in thousands of currency units, except per share amounts)

Right-of-use assets

IFRS 16.54

Additional information on the right-of-use assets by class of assets is as follows:

IFRS 16.53(a)(h)(j)

	Asset	Carrying amount (CU)	Additions (CU)	Depreciation (CU)	Impairment (CU)
Office building	X	X	X	X	X
Warehouse and related facilities	X	X	X	X	X
Vehicles	X	X	X	X	X
IT equipment	X	X	X	X	X
Plant and machinery	X	X	X	X	X
	X	**X**	**X**	**X**	**X**

IFRS 16.49(a)

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

Lease liabilities

IFRS 16.47(b)

Lease liabilities are presented in the statement of financial position as follows:

IFRS 16.52

	31 December 2019	31 December 2018
Current	X	X
Non-current	X	X
	X	**X**

Additional information on the lease liabilities and amounts in respect of possible future lease termination options not recognised as a liability are as follows:

IFRS 16.59(b)(ii)

Right-of-use asset	Lease liability (CU)	Lease termination options recognised as part of lease liability (CU)	Lease termination options not recognised as a liability (CU)	Historical rate of exercise of termination options (%)	Number of leases with an extension option that is not considered reasonably certain of exercise (No.)	Additional lease liabilities that would be incurred were it to become reasonably certain that the extension option would be exercised (CU)
Office buildings	X	X	X	X%	X	X
Factory premises	X	X	X	X%	X	X
Vehicles	X	X	X	X%	X	X
Office equipment	X	X	X	X%	X	X
Plant and machinery	X	X	X	X%	X	X
	X	**X**	**X**	**X%**	**X**	**X**

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

For the year ended 31 December 2019 (expressed in thousands of currency units, except per share amounts)

At 31 December 2019 the Group had committed to leases which had not commenced. The total future cash outflows for leases that had not yet commenced were as follows:

Type of asset	CU
Office building	X
Warehouse and related facilities	X
Vehicles	X
IT equipment	X
Plant and machinery	X
	X

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at 31 December 2019 is as follows:

IFRS 16.58

	Minimum lease payments due								
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	10-25 years	Over 25 years	Total
31 December 2019									
Lease payments			X	X	X	X	X	X	X
Finance charges			X	X	X	X	X	X	X
Net present values			**X**	**X**	**X**	**X**	**X**	**X**	**X**
31 December 2018									
Lease payments			X	X	X	X	X	X	X
Finance charges			X	X	X	X	X	X	X
Net present values			**X**	**X**	**X**	**X**	**X**	**X**	**X**

Lease payments not recognised as a liability

The group has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

IFRS 16.54 The expense relating to payments not included in the measurement of the lease liability is as follows:

		CU
IFRS 16.53(c)	Short-term leases	X
IFRS 16.53(d)	Leases of low value assets	X
IFRS 16.53(e)	Variable lease payments (see below)	X
		X

IFRS 16.55 At 31 December 2019 the Group was committed to short term leases and the total commitment at that date was CU X.

IFRS 16.59(b)(i) Variable lease payments not recognised in the related lease liability are expensed as incurred and include rentals based on revenue from the use of the underlying asset, usage payments such as excess mileage allowance on vehicles and excess use charges on plant and machinery.

For the year ended 31 December 2019 (expressed in thousands of currency units, except per share amounts)

Additional information on variable lease payments is as follows:

Type of variable payment	No of agreements	Effect of X% increase in…	Increase in expense (CU)
Excess mileage charges in vehicles	X	Mileage	X
Revenue based rental charges on the factory shop	X	Revenue	X
Excess usage payments on plant and machinery	X	Hours used	X

The above variable lease payments are generally required by the lessor however such arrangements can be very cost effective where it is likely that the actual use of an asset will not exceed its anticipated use. During the year the variable lease payments in respect of the above leases were X% of the total fixed lease payments.

The revenue-based rentals on the shop align well with the demand for goods sold. Goods sold in the shop are mainly seconds and it is often the case that due to improvements in the manufacturing processes or peaks in internet-based sales that the availability of seconds is limited.

Additional profit or loss and cash flow information

		CU
IFRS 16.53(f)	Income from subleasing office premises	X
IFRS 16.53(g)	Total cash outflow in respect of leases in the year	X
IFRS 16.53(i)	(Gain)/loss from sale and leaseback transactions	X

IFRS 16.53(b) For interest expense in relation to leasing liabilities, refer to finance costs (Note X).

Sale and leaseback transactions

There have been no sale and leaseback transactions in the current year. However, refer to the other liabilities note (Note X) for details of a sale and leaseback transaction that occurred prior to the adoption of IFRS 16.

6. Investment property

IAS 40.5 Investment property includes real estate properties in the European Union and in the United States, which are owned to earn rentals and for capital appreciation.

Note X sets out how the fair value of the investment properties has been determined.

IFRS 13.93(a), IAS 40.76 Changes to the carrying amounts are as follows:

		2019	2018
	Carrying amount 1 January	**X**	**X**
IAS 40.76(a)	Additions:		
IAS 40.76(b)	– Through business combination	X	X
	Change in fair value:		
IAS 40.76(d)	– Net gain	X	X
IAS 40.76(e)	– Net exchange differences	X	X
	Total change in fair value	X	X
	Carrying amount 31 December	**X**	**X**

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IAS 40.75(g) Investment properties valued at CU X are pledged as security for related borrowings (2018: CU X).

IAS 40.75(f)
IFRS 16.92(a)
IFRS 16.90(b)
Investment properties are either leased to third parties on operating leases or are vacant. Rental income of CU X (2018: CU X) is shown within revenue and includes CU X (2018: CU X) from variable lease payments not dependent on an index or rate. Direct operating expenses of CU X (2018: CU X) are reported within other expenses, of which CU X (2018: CU X) is incurred on vacant properties that did not generate rental income.

IFRS 16.92(b) Although the risks associated with rights that the Group retains in underlying assets are not considered to be significant, the Group employs strategies to further minimise these risks. For example, ensuring all contracts include clauses requiring the lessee to compensate the Group when a property has been subjected to excess wear-and-tear during the lease term.

IFRS 16.92
IFRS 16.97
The lease contracts are all non-cancellable for eight years from the commencement of the lease. Future minimum lease rentals are as follows:

IFRS 16.97

	Minimum lease payments due						
	Within 1 year	1-2 years	2-3 years	3-4 years	4-54 years	After 5 years	Total
31 December 2019	X	X	X	X	X	X	X
31 December 2018	X	X	X	X	X	X	X

7. Finance lease receivables

Finance lease receivables are presented in the statement of financial position as follows:

	31 December 2019	31 December 2018
Current	X	X
Non-current	X	X
	X	**X**

Finance lease arrangements

The group has entered into various lease arrangements as a lessor that are considered to be finance leases. The Group leases plant and machinery and as they transfer substantially all of the risks and rewards of ownership of the assets they are classified as finance leases.

IFRS 16.94 The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

	31 December 2019	31 December 2018
Less than 1 year	X	X
1-2 years	X	X
2-3 years	X	X
3-4 years	X	X
4-5 years	X	X
Total undiscounted lease payments receivable	**X**	**X**
Unearned finance income	X	X
Net investment in the lease	**X**	**X**

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Profit and loss information

		2019	2018
IFRS 16.90(a)(i)	Selling profit or loss	X	X
IFRS 16.90(a)(ii)	Finance income on the net investment in the lease	X	X
IFRS 16.90(a)(iii)	Income relating to variable lease payments not included in the measurement of the net investment in the lease	X	X

8. Other liabilities

	31 December 2019	31 December 2018
Deferred gain	–	X
Other	X	X
Other liabilities – current	**X**	**X**
Contingent consideration for the acquisition of subsidiary	X	–
Deferred gain	–	X
Other liabilities – non-current	**X**	**X**

IFRS 16.C18
IFRS 16.59(d)

The deferred gain relates to the sale and operating leaseback of an office and production building in 20XX. The excess of proceeds received over fair value was deferred and, prior to the adoption of IFRS 16, was being amortised over the lease term of X years. Upon adoption of IFRS 16 in the current year, a right-of-use asset was recognised for the leaseback of the building (note X) and the remaining balance of the deferred gain was deducted from the carrying amount of that asset. In 2018, CU X was recognised in profit or loss in connection with the amortisation of the deferred gain.

9. Depreciation and amortisation expense

Depreciation and amortisation expense consists of the following:

		2019	2018
	Depreciation of property, plant and equipment	X	X
IFRS 16.53(a)	Depreciation of right-of-use assets (Note X)	X	X
	Total depreciation (Note X)	**X**	**X**
	Amortisation of intangible assets (Note X)	X	X
		X	**X**

10. Finance costs

IAS 7.44A

Finance costs for the reporting periods consist of the following:

		2019	2018
IFRS 7.20(b)	**Interest expense for borrowings at amortised cost:**		
	Subordinated shareholder loan	X	X
	Other borrowings at amortised cost	X	X
		X	**X**
IFRS 16.49 IFRS 16.53(b)	Interest expense for leasing arrangements	X	X
	Total interest expense	**X**	**X**

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11. Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

		Long-term borrowings	Short-term borrowings	Lease liabilities	Total
	1 January 2019	**X**	**X**	**X**	**X**
	Adoption of IFRS 16	X	X	X	X
	Revised 1 January 2019	X	X	X	X
	Cash-flows:				
	– Repayment	X	X	X	X
	– Proceeds	X	X	X	X
	Non-cash:				
	– Fair value	X	X	X	X
IAS .7.44(a)	– Additions to right-of-use asset in exchange for increased lease liabilities			X	X
	– Reclassification	X	X	X	X
	31 December 2019	**X**	**X**	**X**	**X**

		Long-term borrowings	Short-term borrowings	Lease liabilities	Total
	1 January 2018	**X**	**X**	**X**	**X**
	Cash-flows:				
	– Repayment	X	X	X	X
	– Proceeds	X	X	X	X
	Non-cash:				
	– Fair value	X	X	X	X
IAS .7.44(a)	– Additions to right-of-use asset in exchange for increased lease liabilities			X	X
	– Reclassification	X	X	X	X
	31 December 2018	**X**	**X**	**X**	**X**

Contact us

We hope you find the information in this article helpful in giving you some detail into aspects of IFRS 16. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.

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