

IFRS 16  
PSAK 73  
Leases



THE POWER OF BEING UNDERSTOOD  
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The Indonesian Financial Accounting Standard Board has published the leasing standard PSAK 73 which comes into effect for annual reporting periods commencing on or after 1 January 2020. Earlier application is permitted if PSAK 72: Revenue from contracts with customers has also been applied. Every company that uses leasing, hire purchase or rental arrangements as a financing solution will be affected by the new standard.

The new standard eliminates off balance sheet accounting by lessees in respect of their operating leases. In most cases, this results in the recognition of a lease liability on the balance sheet and a corresponding asset which is referred to in the standard as a 'right of use' asset. It does however provide an exemption for assets that are low value when new and those with lease terms of less than one year and containing no purchase option. After initial recognition, the lease liability will need to be adjusted for the effective interest included in the rental payments and the 'right of use asset' will need to be depreciated. In other words, straightforward operating leases will now be treated in a very similar way to financial leases, with the main difference being that the initial debit is the right to use the specified asset for a period of time rather than the actual asset itself.

## HOW WILL IT IMPACT YOU?

- Due to a higher initial interest charge and constant depreciation rate, the cost of renting the asset is accelerated in the earlier years compared to the cost that would have been recognised under the old operating lease accounting rules.
- Key performance ratios such as EBITDA, interest cover, gearing levels, asset turnover, operating profit, earnings per share, return on capital employed and operating cash flows could be affected.
- Transition could affect the cost of financing, covenants and credit ratings.
- Lease agreements may need to be revisited to understand and assess the impact and potentially restructured.
- Software may need to be adapted or replaced to deal with the new accounting requirements.

## WHAT ACTION DO YOU NEED TO TAKE?

- ☑ Look at the transitional arrangements and options available and how they should be applied.
- ☑ Identify which key performance ratios will be affected.
- ☑ Communicate with lenders well in advance of the changes taking effect.
- ☑ Assess whether your accounting software is fit for purpose.
- ☑ Assess whether you have the right information and reporting tools to ensure that you can comply with the new disclosure requirements.

## HOW WE CAN HELP

RSM has the experience and the expertise to help:

- Assess the impact of the new standard on your key performance measures, loan and employee agreements.
- Help you understand the impact of implementation on your financial statements and your business.
- Identify, collate and analyse the data required to help you determine what financing decisions, if any, you need to make.
- Develop an implementation plan to ensure a smooth and cost effective transition and project manage the implementation process.
- Assess whether your existing systems will be able to cope with the implementation of the new standard and advise on a selection of software vendors.
- Establish an appropriate business process and system of internal control.
- Assess the impact of any modifications to the lease terms and how they will be accounted for.

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