

IFRS 16 LEASE CHANGING COMPARED WITH IAS 17



INTRODUCE ABOUT IFRS 16



The IASB (International Accounting Standards Board) issued IFRS 16 (Leases) in January 2016 with an effective day of 1 January 2019.

**It has a major impact on the lessees have a great value and large volume of operating leases.
Lessor accounting will not change.**

IFRS 16 - CHANGING COMPARE WITH IAS 17

Recognition

IFRS 16	<p>The new leasing standard REMOVES the distinction between finance and operating leases for lessees</p> <p>The new standard requires lessees to recognize nearly all leases on the balance sheet, except for short term leases (less than 12 months) and leases of low value assets (laptop, office supplies, etc.)</p>
IAS 17	The lessees needs to distinguish between finance lease and operating lease

The presentation of financial statements

	IFRS 16	IAS 17
Statement of position finance	The new standard requires lessees to recognize nearly all leases on the balance sheet as asset and liability.	The lessees recognize leases outside the balance sheet.
Income statement	The lessees must recognize the depreciation of leased asset.	The lessees must recognize the leased asset expense as period expense
Cash flow	<p>Only the part of the lease payments that reflects interest on the lease liability can be presented as an operating cash flow (depending on the entity's accounting policy regarding interest payments). Cash payments for the principal portion of the lease liability are presented within financing activities.</p> <p>Payments for short-term leases, leases of low-value assets and variable lease payments not included in the measurement of the lease liability remain presented in operating activities.</p>	Lease payments related to leases are classified as operating leases presents entirely cash flow from operating activities.

CONCLUSIONS:



In general, IFRS 16 will affect to virtually statement of position finance, **statement of cash flow** and all commonly used financial ratios and performance metrics such as current ratio, asset turnover, EBITDA, EBIT, etc.

Besides that, the new standard will also make it easier for users of financial statements to compare companies that lease their assets with companies that borrow money to buy their assets, creating a more level playing field.

CONTACT US

Ho Chi Minh City

Dang Xuan Canh **Managing Partner**

Head of Audit Services

T: +84 28 3827 5026

E: canh.dang@rsm.com.vn

5th Floor, Sai Gon 3 Building
140 Nguyen Van Thu Street
Da Kao Ward, District 1
Ho Chi Minh City, Vietnam

T: +84 28 3827 5026

F: +84 28 3827 5027

Hanoi

Nguyen Thanh Lam **Partner**

Head of Hanoi Office

T: +84 24 3795 5353

E: lam.nguyen@rsm.com.vn

7th Floor, Lotus Building
2 Duy Tan Street
Cau Giay District
Hanoi, Vietnam

T: +84 24 3795 5353

F: +84 24 3795 5252

Da Nang

Tran Duong Nghia **Partner**

Head of Da Nang Office

T: +84 23 6363 3334

E: nghia.tran@rsm.com.vn

3th Floor
142 Xo Viet Nghe Tinh Street
Hoa Cuong Nam Ward, Hai Chau District
Da Nang, Vietnam

T: +84 23 6363 3334

F: +84 23 6363 3335



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