Are you ready for 31 December 2022 reporting?

15 November 2022

Your facilitators are...

Kim Heng

Partner

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Manager

What is our reporting context?

IASB and IFRIC

AASB

Risks and uncertainty

Climate change

ASIC

Australian financial reporting framework

Agenda

New standards

New standards: 31 December 2022 Y/Es

AASB 2021-3 *Covid-19 Related Rent Concessions beyond 30 June 2021* [AASB 16]

Refer to 30 June 2021 webinar

AASB 1060 + AASB 2021-1 *General Purpose Financial Statements – Simplified disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

AASB 2020-2 *Removal of Special Purpose*

New standards: 31 December 2022 Y/Es and H/Ys

AASB 2020-3 *Annual Improvements 2018-2020 and Other Amendments*

Onerous Contracts—Cost of Fulfilling a Contract

[Amendments to AASB 137]

Property, Plant and Equipment: Proceeds before Intended Use
[Amendments to AASB 116]

Proceeds before an asset's intended use

Property, Plant and Equipment: Proceeds before Intended Use [Amendments to AASB 116]

Proceeds from selling items before related item of PPE is available for use **is recognised in profit or loss**, together with **costs of producing those items.**

- Effective 1 January 2022
- Applied retrospectively
- May require additional disclosures
- Potential **judgement** to distinguish between costs to make the item of PPE available for its intended use and **costs to produce items being sold**

Refer to 30 June 2022 webinar

Other standards available for early adoption

AASB 17 *Insurance Contracts* and amendments to AASB 17 *Insurance Contracts*

AASB 2021-5
Deferred Tax related to Assets and Liabilities arising from a Single Transaction [AASB 112]

AASB 2021-2 *Disclosure of Accounting Policies and Definition of Accounting Estimates*

[AASB 101 and AASB 108]

Classification of Liabilities as Current or Non-Current
[IAS 1/ AASB 101]

Application deferred to 1 January 2024

Lease liability in a sale-and-leaseback
[IFRS 16/ AASB 16]

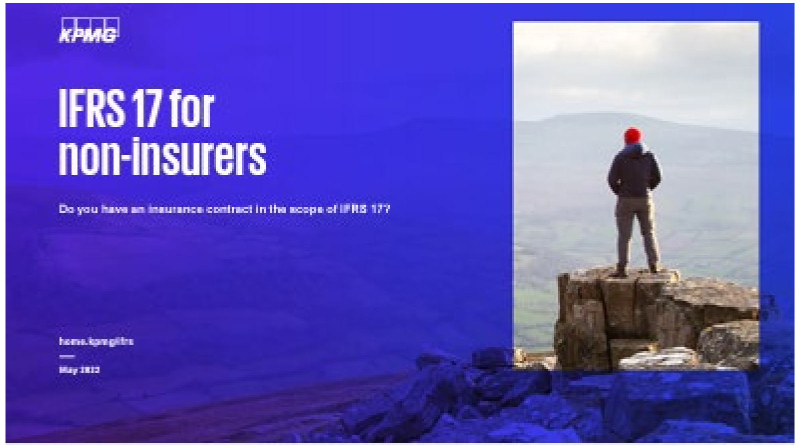
Sale or contribution of assets between an investor and its associate or joint venture
[AASB 3 & AASB 128]

Annual reporting periods beginning on or after 1 January 2023

Annual reporting periods beginning on or after 1 January 2024

Annual reporting periods beginning on or after 1 January 2025

AASB 17 Insurance Contracts



- **Effective 1 January 2023**
- Applies to contracts
- There are scope exemptions
- Scope goes beyond the insurance industry
- **Quantitative disclosures are expected for 31 December 2022 YE as required by AASB 108.30(b), if impact is material.**

Refer to 30 June 2021 webinar

"An insurance contract is a **contract** under which one party (the issuer) accepts '**significant insurance risk'** from another party (the policyholder) by agreeing to compensate the policyholder if a **specified uncertain future event** (the insured event) **adversely affects the policyholder**."

Recognising deferred tax on certain transactions

AASB 2021-5
Deferred Tax related to Assets and Liabilities arising from a Single Transaction [AASB 112]

Initial recognition exemption (IRE) <u>does not apply</u> to transactions that give rise to equal and offsetting temporary differences. Effective 1 January 2023.

Approach to IRE pre-amendments	**Deferred tax recognition pre-amendments**	**Impact**
Apply IRE separately to asset and liability	<u>No deferred tax recognjsed.</u> Tax impacts recognised as 'permanent difference"	**HIGH!** DTA and DTL to be recognised with any cumulative effect recognised in equity in comparative period.
Assess asset and liability together as a single or "integrally linked" transaction on a net basis	Recognise <u>deferred tax on a net temporary difference</u> that arises after the initial recognition and is not subject to the IRE	**MEDIUM** Likely be limited to a gross up of DTA and DTL at transition date
Did not to apply IRE or integrally linked approach	<u>Recognise deferred tax</u>	**NO impact**

Recognising deferred tax on certain transactions

AASB 2021-5
Deferred Tax related to Assets and Liabilities arising from a Single Transaction [AASB 112]

Scenario

- On 1 January 2018 Smile Enterprise (SE) enters into a 10-year lease of a building and recognises a ROU asset and a lease liability of $100m (DR ROU assets; CR Lease liability)
- SE previously applied IRE and recognised no deferred taxes on leases
- SE adopts amendments in their 31 December 2023 financial report and present comparatives for 1 year
- Corporate tax rate is 30%
- ROU asset and the lease liability at the relevant dates:

	ROU asset $m	Lease liability $m
1 January 2018	100	(100)
1 January 2022	**60**	**(69)**
1 January 2023	50	(60)
31 December 2023	40	(50)

Q1: What are the temporary differences to be recognised on transition, i.e. 1 January 2022?

	Carrying amount $m	Deductible (taxable) temporary difference, $m	DTA (DTL) at 30%, $m
ROU assets	60	(60)	(18)
Lease liabilities	(69)	69	21

Q2: What are the accounting entries to be recorded on transition?

DR Deferred tax assets	$21m	
CR Deferred tax liability		$18m
CR Retained earnings		$3m

Sale and leaseback with variable payments

Lease liability in a sale-and-leaseback
[IFRS 16/ AASB 16]

At the date of transaction:

1. Derecognise underlying asset and apply lessee accounting model to leaseback
2. Measure right-of-use (ROU) asset at retained portion of previous carrying amount (i.e. at cost)
3. Recognise only amount of any gain or loss related to rights transferred to lessor

Variable lease payments are included when measuring a lease liability!

Subsequent accounting for a lease liability:

4. Reduce lease liability for an "expected lease payment" as if lease payments estimated at date of the transaction had been paid
5. Recognise any difference between those lease payments and amount actually paid in profit or loss

Refer to Appendix 2 for an illustrative example

Effective 1 January 2024 and applied retrospectively

Watch out for KPMG's publication

Classification of liabilities as current or non-current

Classification of Liabilities as Current or Non-Current
[IAS 1/ AASB 101]

Application deferred to 1 January 2024

Basis for classification	Organisation's **right to defer settlement** for at least 12 months after reporting period **must have substance** and **must exist at the end of the reporting period**.
Covenants on or before reporting date	Only covenants required to be complied **on or before** the reporting date **affect** classification at that date.
Covenants after reporting date	• Covenants required to be complied **after** reporting date **do not affect** classification at that date. • **Additional disclosure** to explain the risk liabilities could become repayable within 12 months after reporting date.
Convertible debt	Convertible debt may become current.

~~**Hypothetical test at balance date**~~

Accounting for loss-making contracts

Which standard applies to a loss-making contract?

External → **Contracts profitability** ← **Internal**

Contracts profitability → **Financial reporting**

Specific standards applies

- Financial instrument (AASB 9)
- On-balance sheet lease (AASB 16)
- Insurance contract (AASB 17)

No specific standard applies – apply AASB 137

- Contract with a customer for goods or services (under AASB 15)
- Non-lease component of a lease contract

Applying AASB 137 to a loss-making contract

Can the loss-making contract be terminated without a penalty?

Yes → No provision

No

Is the contract part of an overall loss-making operation?

No → Are any assets related to the contract subject to the recoverability test under a specific standard?

Yes

Are the contract cash flows clearly distinguishable?

Yes → Are any assets related to the contract subject to the recoverability test under a specific standard?

No → **No provision**

Are any assets related to the contract subject to the recoverability test under a specific standard?

Yes → **Apply requirements of the specific standard before applying AASB 137** → **Perform onerous contract test under AASB 137**

No → **Perform onerous contract test under AASB 137**

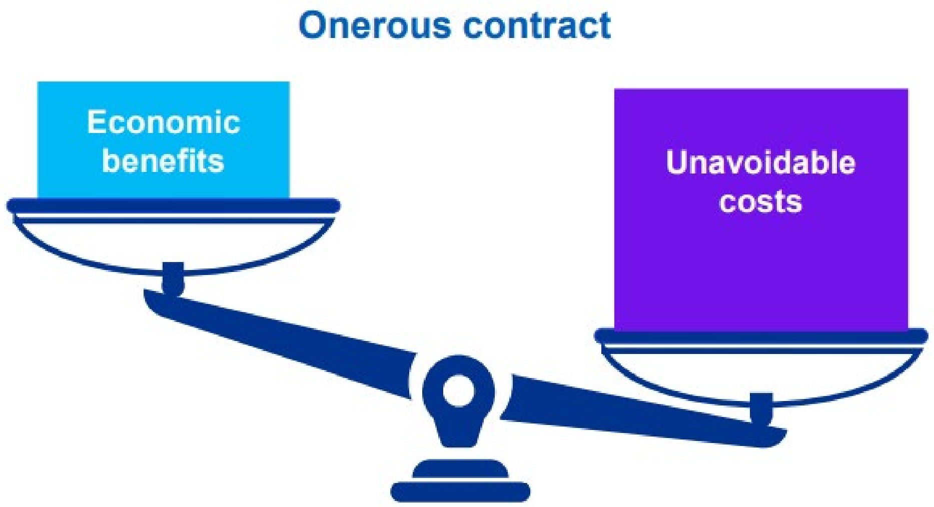
Applying AASB 137 to a loss-making contract

Onerous contract [AASB 137.10]

A contract in which the **unavoidable costs** of meeting the obligations under the contract exceed the **economic benefits** expected to be received under it.

What are the expected economic benefits under the contract?

What are the unavoidable costs under the contract?



What are the unavoidable costs under the contract?

Unavoidable costs is the lower of:

- The **direct costs of fulfilling the contract**;
- The cost of terminating it.

The direct costs of fulfilling a contract include:

- The incremental costs;
- An allocation of other costs that relate directly to fulfilling the contact

Amendments to AASB 137

Effective date 1 January 2022

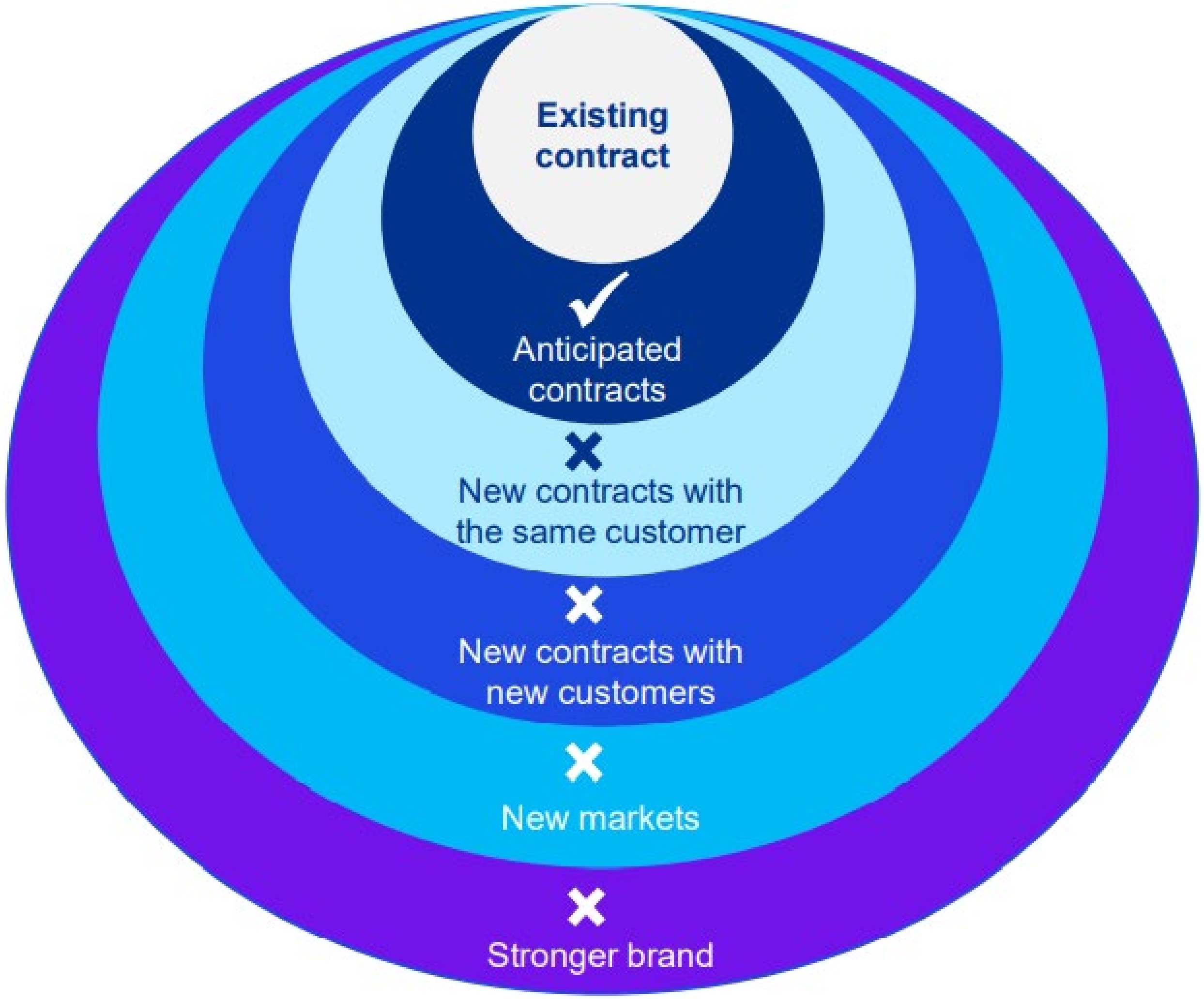
Applies to contracts existing at date when amendments are first applied (i.e. 1 January 2022)
Comparatives are not restated!

What are the expected economic benefits under the contract?

- The **expected benefits** under a contract are the net present value of the future inflows related to the contract

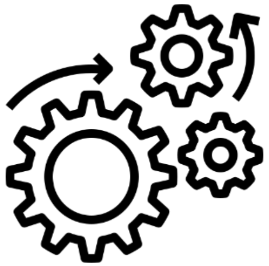
- Definition of a contract under AASB 137 is wider than the AASB 15 definition

May require judgement

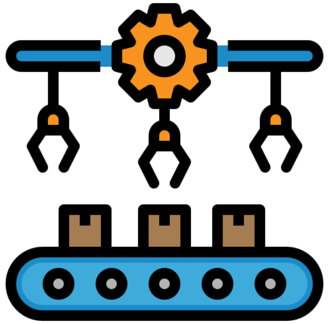


Example: Applying AASB 137 to a loss-making contract

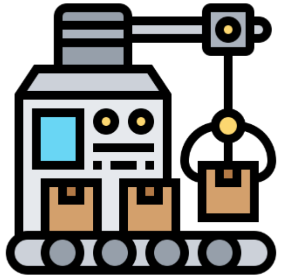
Lucky enters into a MSA for customised machine.
$850 termination penalty



No minimum quantity for number of consumables in MSA



Revenue recognised as machine manufactured



Machine

Sale price $150
Costs $350

Anticipates consumables sales to recoup loss
Sale price $600
Costs $450

What are the steps to apply to assess if a loss-making contract for sale of machine is onerous?

Example: Applying AASB 137 to a loss-making contract

Steps

1. Standard to apply
2. Termination penalty
3. Loss-making operation
4. Recoverability of assets
5. Unavoidable costs
6. Economic benefits
7. Costs vs benefits

1. Standards to apply

- Agreement is for sale of goods in scope of AASB 15, which requires Lucky to apply AASB 137 to determine if it is onerous.

2. Termination penalty

- Lucky can terminate agreement, but would need to pay a penalty of $850.

3. Loss-making operations

- Lucky's operations are not loss-making.

4. Recoverability of assets

- Lucky tests its PP&E used in fulfilling agreement with customer for impairment and determines NRV of its inventory. Lucky concludes there is no need to write them down.

Example: Applying AASB 137 to a loss-making contract

Steps

1. Standard to apply
2. Termination penalty
3. Loss-making operation
4. Recoverability of assets
5. **Unavoidable costs**
6. Economic benefits
7. Costs vs benefits

Onerous Contracts—Cost of Fulfilling a Contract

[Amendments to AASB 137]

5. Unavoidable costs

Directly related incremental costs:

- **Direct labour and materials for a machine - $250**
- **Direct labour and materials for consumables- $300**

+

- **Depreciation of own equipment**
- **Personnel costs**
- **Other allocated costs**
- **Total other direct costs = Machine $100, Consumables $150**

All directly related costs

Total direct costs – $800

Example : Applying AASB 137 to a loss-making contract

Steps

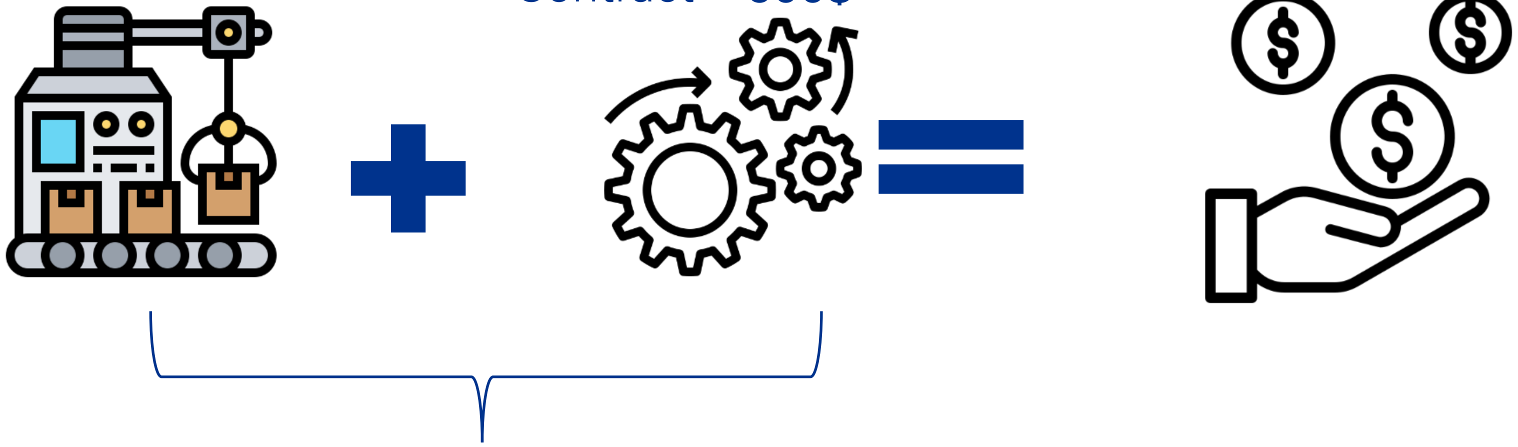
1. Standard to apply
2. Termination penalty
3. Loss-making operation
4. Recoverability of assets
5. Unavoidable costs
6. Economic benefits
7. Costs vs benefits

6. Economic benefits

AASB 15
Contract – **150$**

Separate
AASB 15
Contract – **600$**

750$



AASB 137 contract

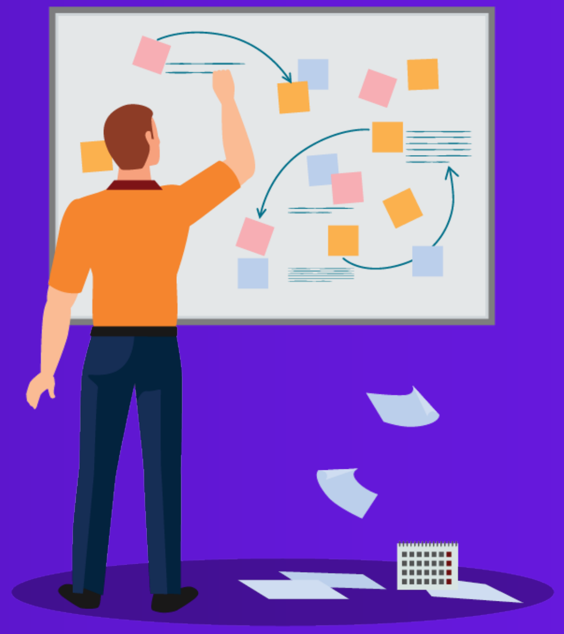
Expected economic benefits

7. Costs vs benefits

Estimated **costs** of $800 **>** Estimated **benefits** of $750

Contract with a customer **is onerous,** so a provision is required

IFRIC decisions



The IFRIC agenda

Likely frequency across entities:

High | Medium | Low

Agenda decisions finalised by IFRIC and IASB

- SPAC – Classification of public shares as debt or equity
- Negative low emission vehicle credits
- Profit recognition for annuity contracts (IFRS 17)
- SPAC – Accounting for warrants at acquisition
- Multi-currency group of insurance contracts
- Rent concessions: lessors forgiveness of lease payments

See 30 June 2022 webinar

The IFRIC agenda

Likely frequency across entities:

High | Medium | Low

Decisions not finalised by IFRIC

Cash received via electronic funds transfer as settlement for a financial asset

See 31 December 2021 webinar

IASB work plan

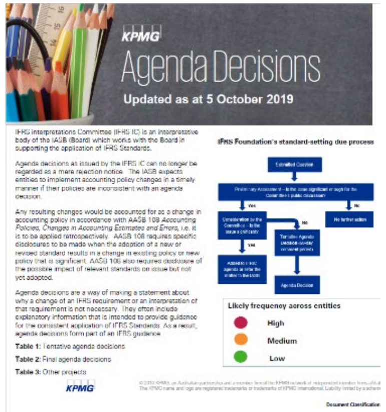
Accounting policy choice to derecognise a financial liability before cash is delivered on the settlement date

IFRIC next meeting dates

29-30 November 2022
31 January 2023
14-15 March 2023

Remember:

- Accounting policy changes required if not consistent with agenda decision
- Keep up to date with our IFRS IC Agenda Decisions summary



Accounting for carbon credits

Increasing popularity

Carbon markets come into focus as world tackles net-zero transition

Mark Eggleton
Oct 10, 2022 – 4.41pm

Save Share

As governments and businesses around the world set ambitious goals in the race to net-zero emissions by 2050 or earlier, carbon offset markets are garnering increased attention as they have a critical role to play in supporting transition.

Sponsored by NAB

Carbon credit trade on the rise

Ian Grayson
Jun 15, 2022 – 5.00am

Save Share

With carbon credits becoming an increasingly important factor in Australia's drive towards a net-zero future, attention is focusing on the most effective method of trading them.

Australia passes a law for net zero emissions by 2050

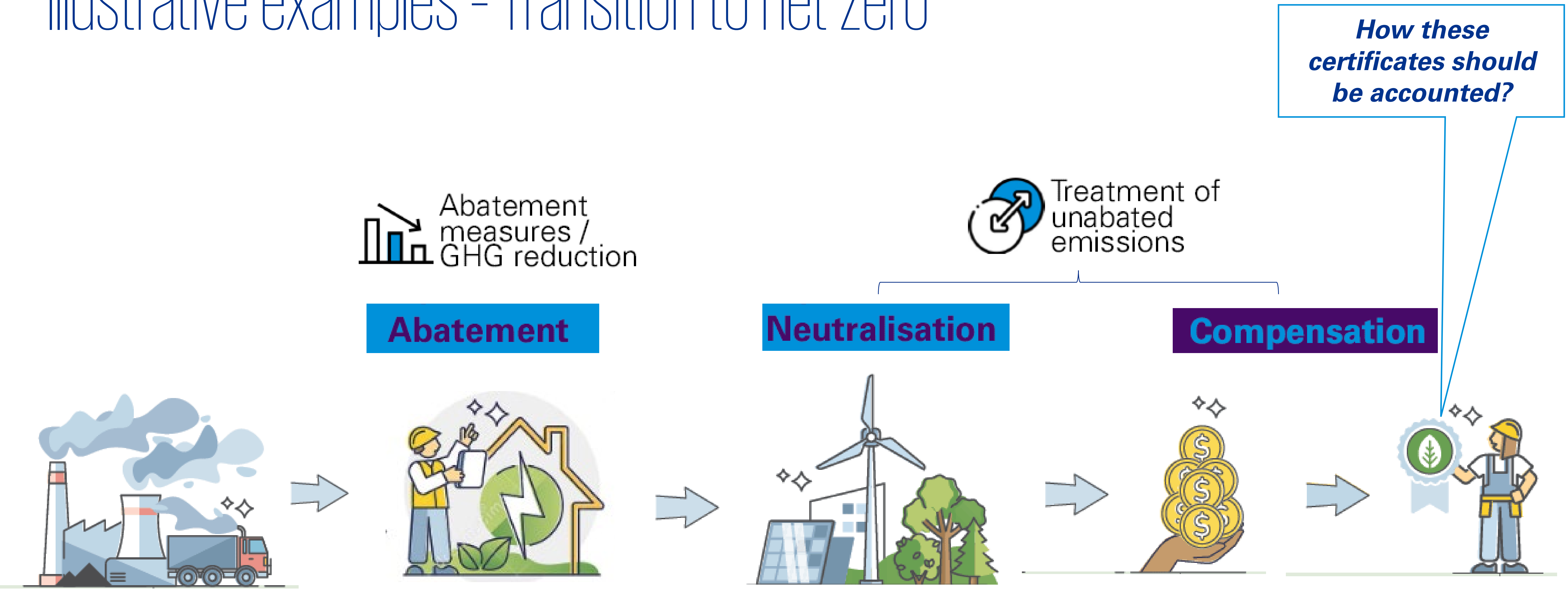
Reuters

Safeguard Mechanism reform: consultation paper released for feedback

Net zero and Carbon Offsets

What are carbon offsets?

Illustrative examples - Transition to net zero



Applicable accounting standards

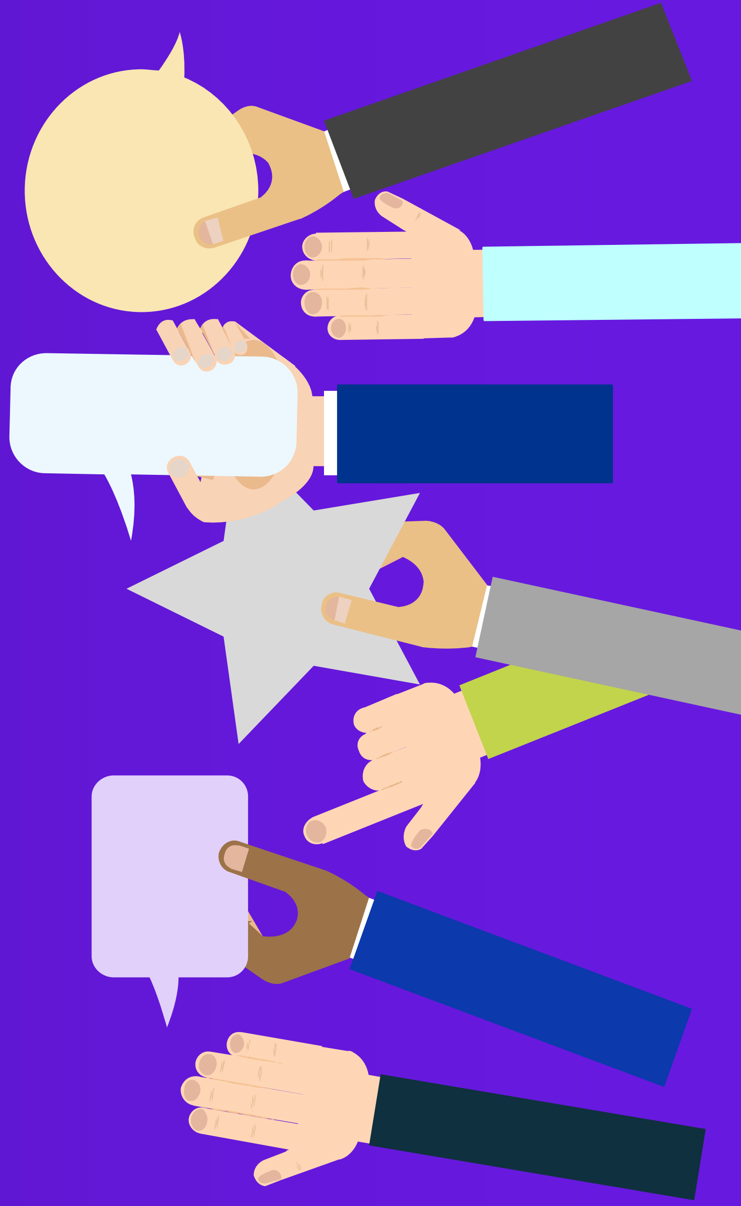
Carbon credit certificates are not financial assets.

Accounting	Initial measurement	Subsequent measurement	Movements in carrying amount	
			Above cost	Below cost
Intangible assets	Cost	Cost value less any accumulated amortisation and impairment	N/A	P&L
Inventory	Cost	Lower of cost and net realisable value	N/A	P&L
Inventory	Cost	Fair value less costs to sell	P&L	P&L

Only for broker-trader

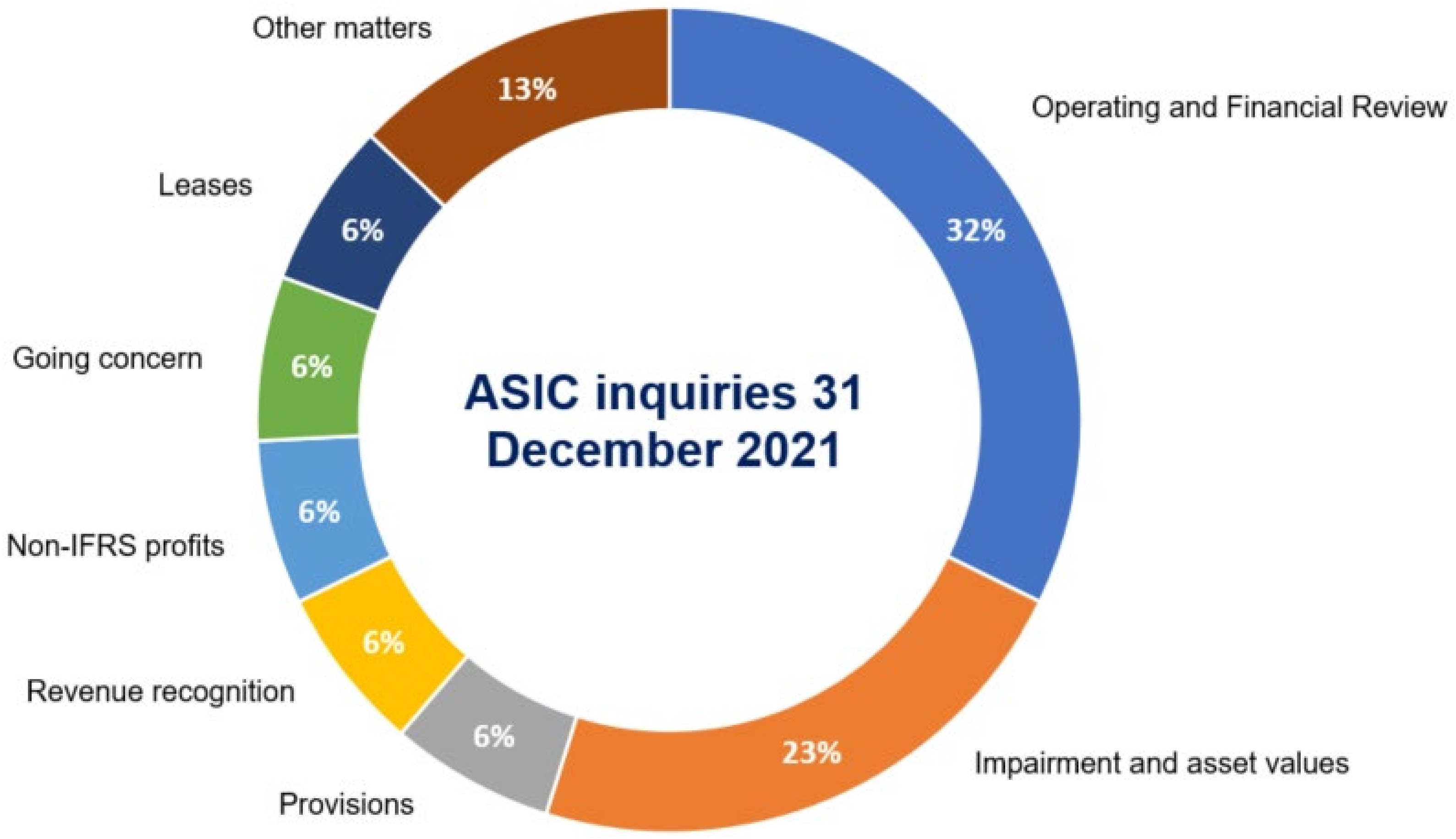
The revaluation model under AASB 138 cannot be applied as there is no active market for carbon credit certificates at present.

Questions



Regulatory update

ASIC financial statement surveillance



70 listed and public interest entities reviewed

Inquiries of: 18 entities on 31 matters

7 media releases made by ASIC in 12 months ending October 2022

8 entities have changed financial reports following ASIC inquiry

Operating and Financial Review - helpful hints

An OFR should….

Regulatory Guide 247

- Contain key information about operations and financial position
- Analyse the entity results and financial position
- Discuss impacts of relevant events throughout the period
- Overview of business strategies
- Provide shareholders information of entity's prospects for future financial years, including business risk

Operating and Financial Review - helpful hints

An OFR should….

Regulatory Guide 247

- Contain key information about operations and financial position
- Analyse the entity results and financial position
- Discuss impacts of relevant events throughout the period
- Overview of business strategies
- Provide shareholders information of entity's prospects for future financial years, including business risk

Common pitfalls

- Insufficient detail of material business risks
- Disclosures are too generic
- Poorly structured OFR with too much description
- Balanced view of business risks and future outcomes

Material business risks

"The material business risks faced by the company….. include:

Foreign exchange —given the reliance on sales in China, where customers are billed in US dollars, this has resulted in foreign exchange losses for the company because of the high Australian dollar this year. This has been mitigated to an extent by partial hedging, and is therefore unlikely to have a significant impact on our financial results. We expect the risk of experiencing similar foreign exchange losses to continue, although we do not expect any significant change in this risk over the next couple of years"

Extract from ASIC RG 247 (emphasis added)

Material business risks

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Extract from ASIC RG 247 (emphasis added)

Why is this good?

- **Detail of the risk specific to the Company**
- **Reasons for the risk**
- **Mitigating steps in place**
- **Future outlook and anticipated impact**

ASIC financial statement surveillance

Impairment and other asset values

- Reasonableness of cash flows and assumptions
- Use of fair value

What to watch for at 31 December 2022?

ASIC focus areas for 30 June 2022

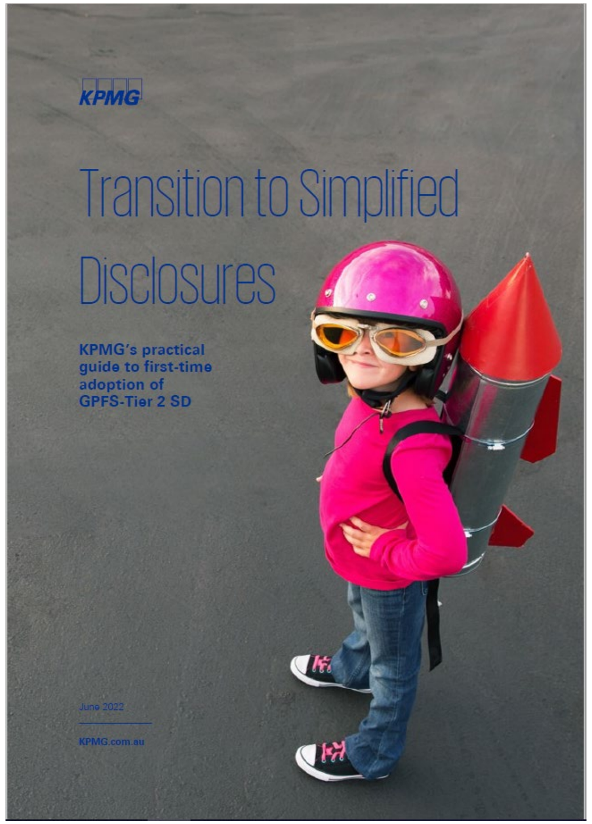
- Asset values
- Provisions
- Solvency and going concern assessments
- Subsequent events
- Disclosures in the financial statements and OFR

Watch out for further developments

Australian issues

"New" Australian Private Sector Financial Reporting Framework is here!

- Special purpose financial statements gone for certain for-profit entities for **31 December 2022 YE**
- GPFS-Tier 2 Simplified Disclosure standard to be applied
- NFPs will continue to follow 'old' framework until a project is finalized by AASB



kpmg.com/au/gpfs

Changes for those still preparing SPFS

Who can still prepare SPFS?

For profit entities who:

- Required **only** by constituting document or another document to prepare FS that comply with Australian Accounting Standards **AND**
- Document was created **before** 1 July 2021 and **has not been amended** on or after that date

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Effective from 30 June 2022

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What has changed?

- Those preparing special purpose accounts must now disclose:
  - Basis of decision to prepare SPFS
  - When a parent entity, whether or not subsidiaries have been consolidated and investments in associates or joint ventures equity accounted
  - Material accounting policies, changes to policies and statement of compliance with the recognition and measurement (R&M) requirements of the Australian Accounting Standards

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Resources

- AASB 2022 – 4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-profit Private Sector Entities*
- KPMG Reporting Update 22RU-14: Be clear on the basis of preparation

Developments in the Australian financial reporting landscape

Grandfathered proprietary companies no longer exempt!

- All proprietary companies now treated the same and must lodge accounts
- Exemption instrument (AI 2015/840) repealed 10 August 2022

Updates to AFSL holders

- Must prepared General Purpose Financial Statements
- Whether Tier 1 or 2 depends if publicly accountable or on ASIC list of large or sophisticated entities
- Refer to KPMG 22RU-13 AFSL financial reporting changes for more detail

STI with a deferred component

Which accounting standards to apply?

STI

Cash

Equity instruments or cash based on value of equity instruments

AASB 119
Employee Benefit

AASB 2
Share-based Payment

Expensed over the service period

Expensed over the vesting period

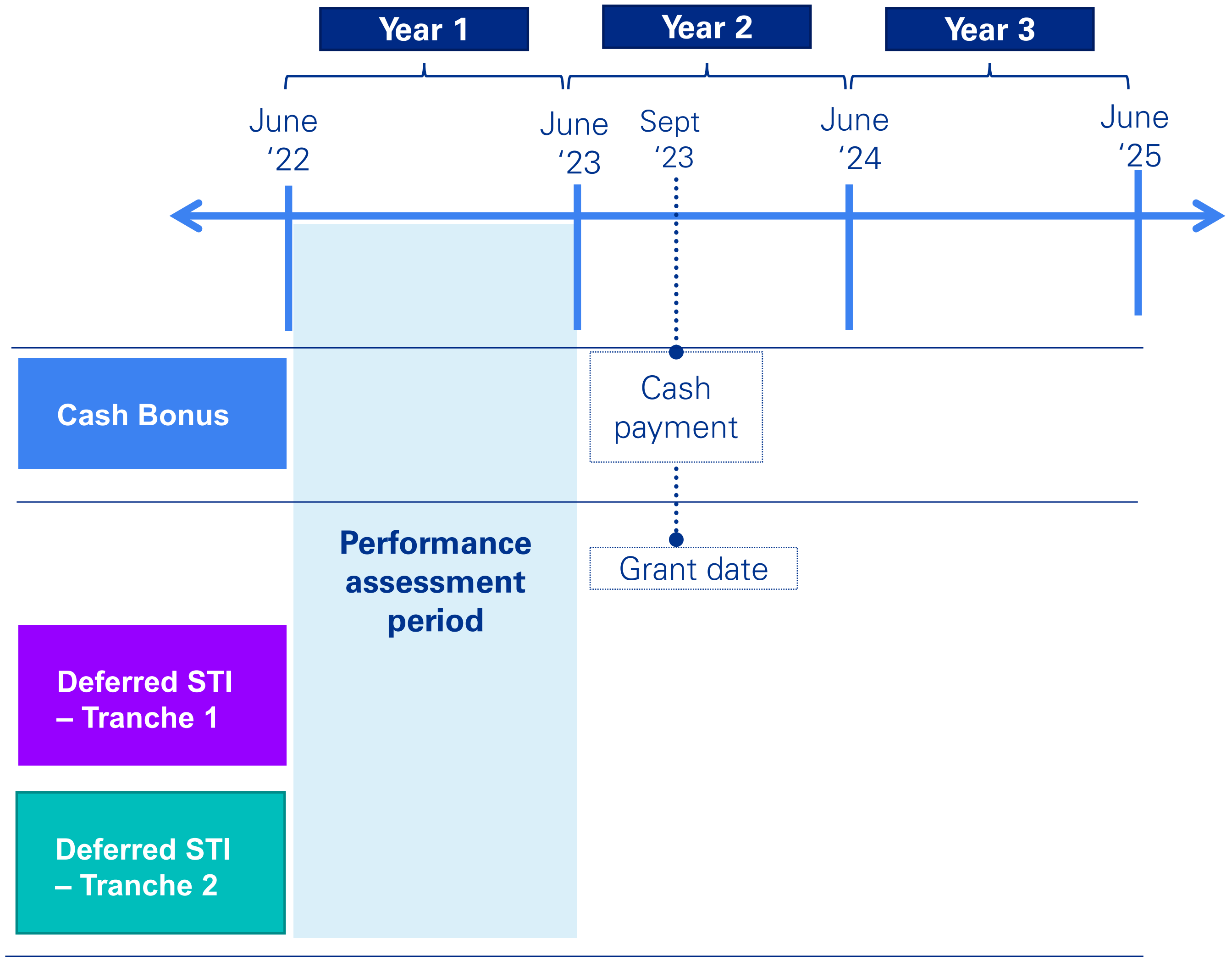
In practice, the grant date may occur after the employees have begun rendering service

STI : Deferred shares

Scenario

On 1 July 2022, SodaCorp provided its employees with a deferred STI of $100,000 for the year ended 30 June 2023

- STI is assessed annually based on business and individual scorecard measures.
- Performance assessed as met and the employees were awarded the STI on 30 September 2023.
- 50% of STI is settled in cash ($50,000)
- 50% of STI ($50,000) is settled restricted shares which has 2 tranches:
  - **Tranche 1** 50% of restricted shares ($25,000) – deferred 1 year
  - **Tranche 2** 50% of restricted shares ($25,000) – deferred 2 years



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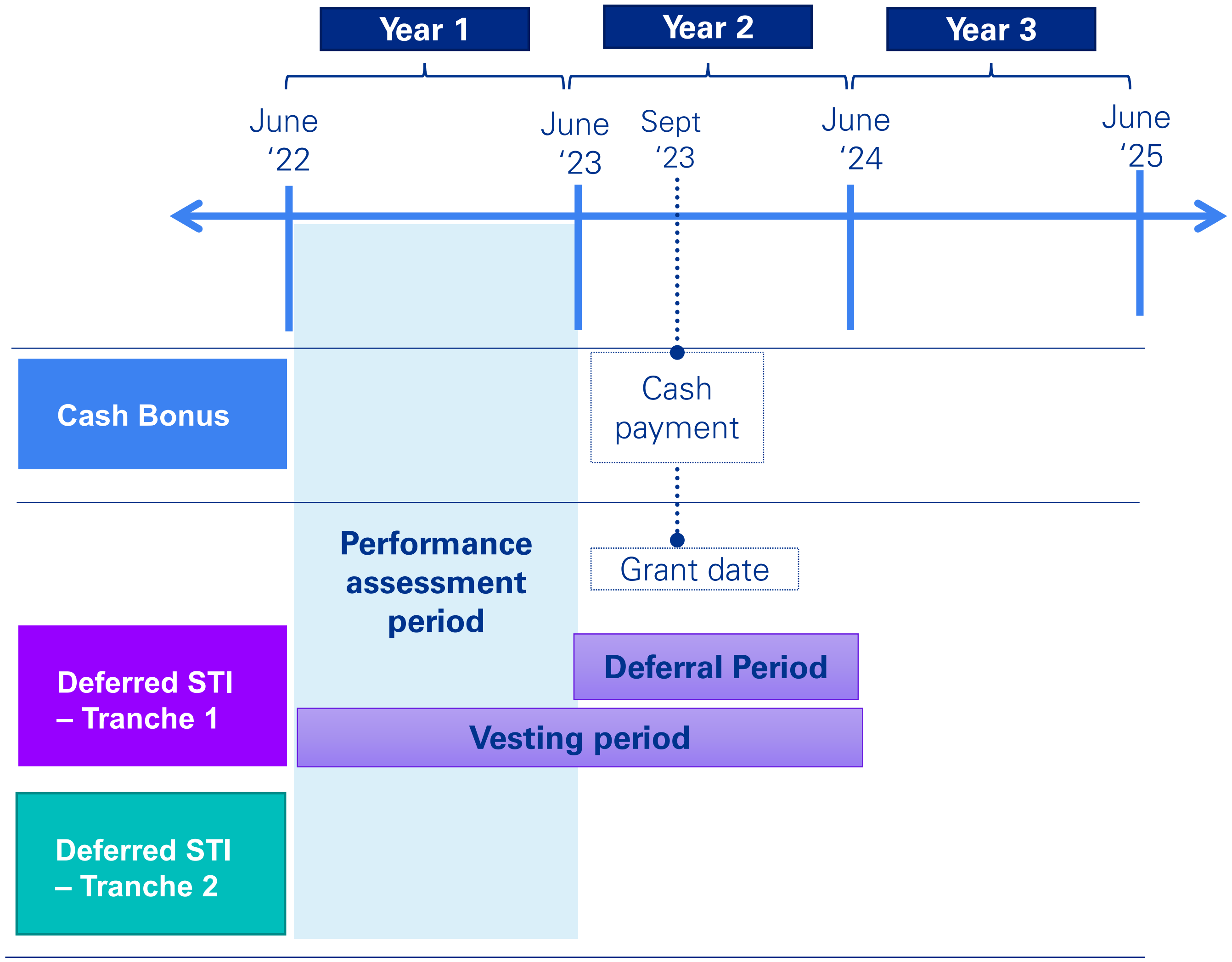

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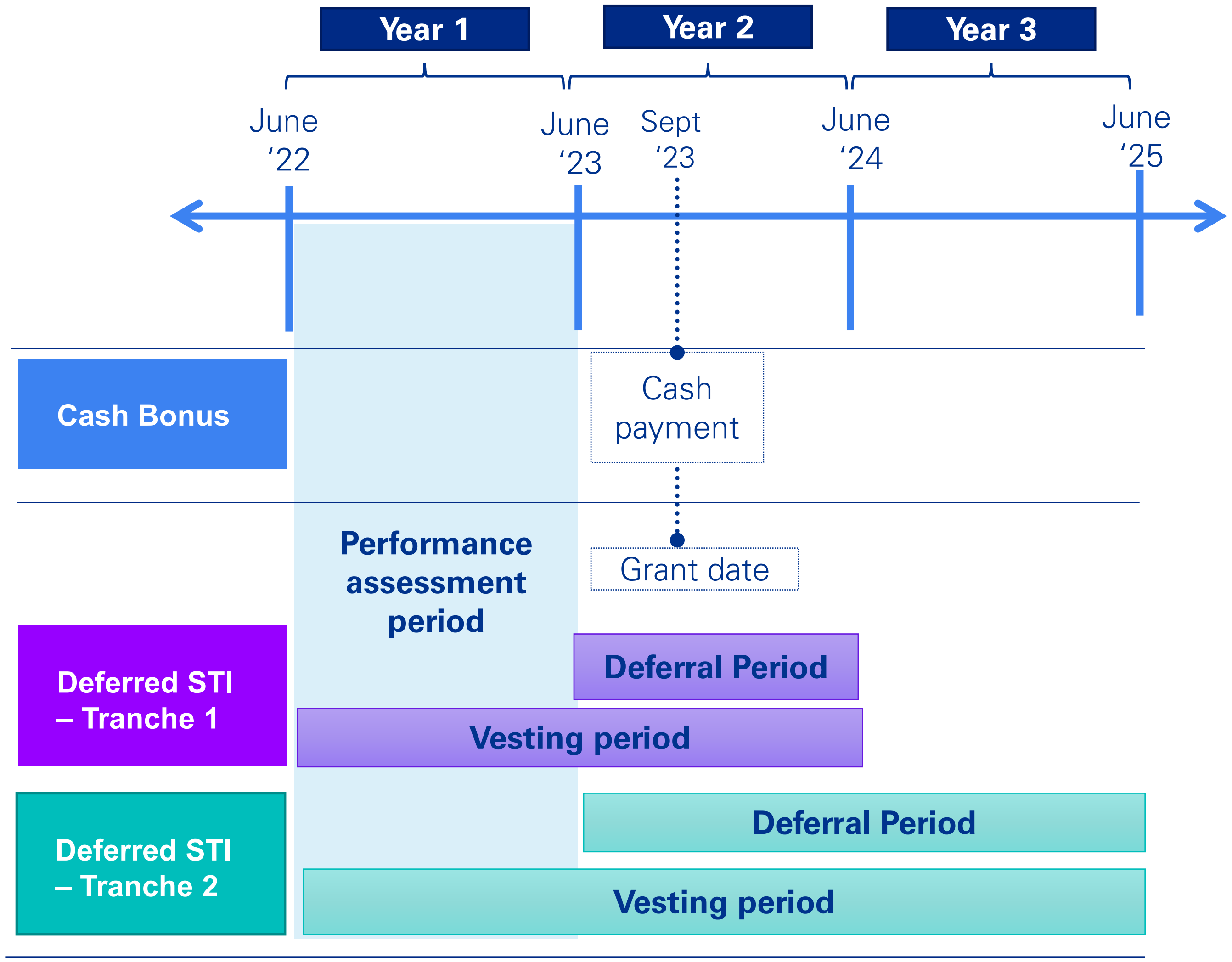
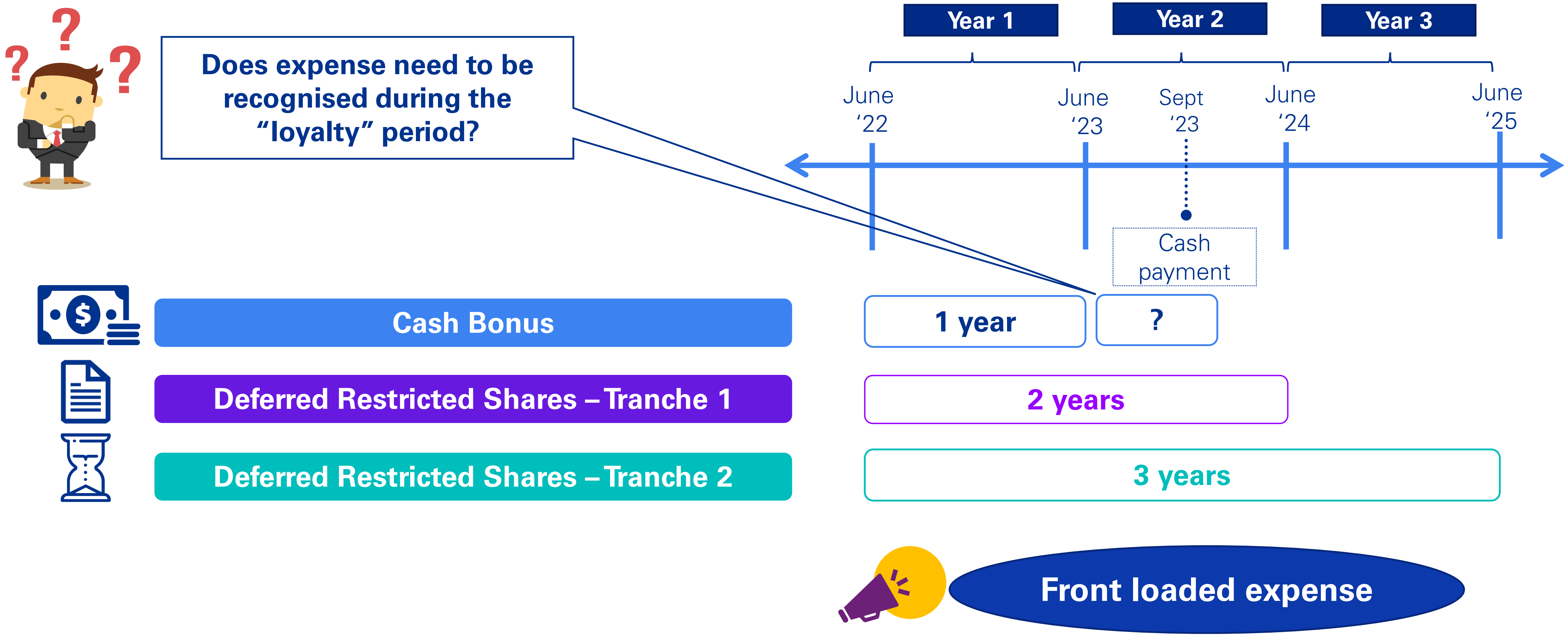


STI : Deferred shares

Q1: What is the timing of expense recognition for both cash bonus and deferred restricted shares?



STI : Deferred shares

Q2: How much expense is recognised year-on-year?

Component	Total Value	Expense Period Year 1	Year 2	Year 3
Cash Bonus	$50,000	$50,000	-	-
Deferred Restricted Shares– Tranche 1	$25,000	$12,500	$12,500	-
Deferred Restricted Shares– Tranche 2	$25,000	$8,333	$8,333	$8,333

Cash Bonus: $50,000 only on year 1

Tranche 1: Expense/ year = $25,000 x 1/2

Tranche 2: Expense/ year = $25,000 x 1/3

The expenses related to deferred STI will be recognised in multiple financial years into the future dependent on the vesting period.

STI : Deferred shares

Q3: How is the expense disclosed in the Remuneration Report?

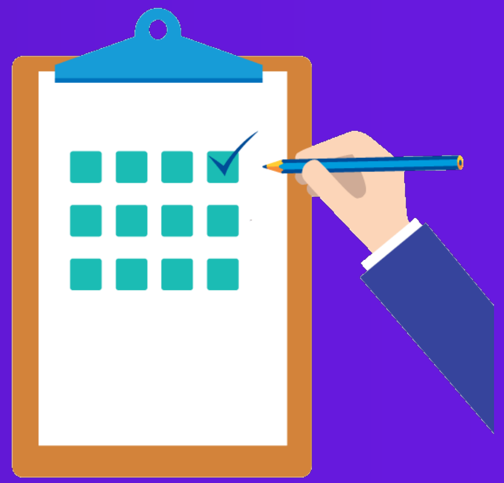
Cash Bonus	Short-term incentive cash bonus
Deferred Restricted Shares – Tranche 1 Deferred Restricted Shares – Tranche 2	Equity-settled share based payment

What if another instrument is issued (e.g: share rights)?

What if the number of shares is determined other than at grant date?

Useful KPMG resources

Wrap up



Take-aways

1. **Review the newly effective standards and amendments and assess their impact on your organisation.**

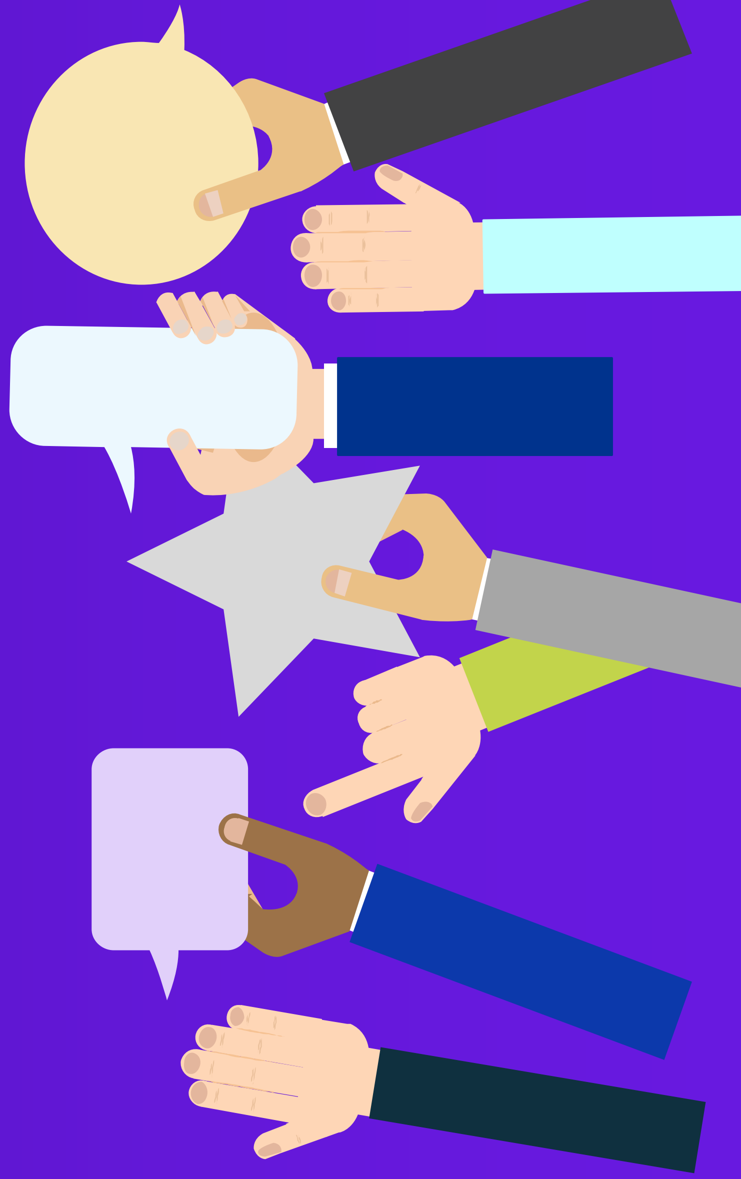
2. **Review your organisation's accounting for any purchased carbon credits to ensure they comply with relevant accounting standards**

3. **Be aware of ASIC's focus areas, in particular the OFR, and consider whether they impact the preparation of financial reports.**

4. **Take note of the new Australian reporting framework requirements and check if this impacts your reporting this period.**

5. **Review the accounting for your organisation's deferred STI to ensure compliance with AASB 119 and 2.**

Questions




Thank you

Appendix 1

Standards effective for 31 December 2022
Standards available for early adoption

Standards first effective - 31 December 2022 Y/Es

Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)	Extends an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19 by 12 months - i.e. permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.
AASB 2020-2 *Removal of Special Purpose*	Removes the ability of certain for-profit private sector entities to prepare special purpose financial statements. These entities will be required to prepare a form of general purpose financial statements (GPFS).
AASB 1060 *General Purpose Financial Statements – Simplified disclosures for For-Profit and Non-for-Profit Tier 2 Entities*	AASB 1060 is a single standard containing all the disclosure requirements for an entity preparing General Purpose Financial Statements under Tier 2 (GPFS-Tier 2). The new standard applies to all entities preparing GPFS-Tier 2 and replaces the current suite of Reduced Disclosure Regime (RDR) disclosures.
AASB 2021 – 1 *Amendments to Tier 2 Simplified Disclosures for Not-for Profit Entities*	AASB 2021-1 provides relief to NFPs from having to present comparative information in the notes to the financial statements when first applying GPFS-Tier 2 where they did no present comparable information in most recent GPFS under Reduced Disclosure Regime. The relief only applies where AASB 1060 is adopted early.

Annual reporting periods beginning on or after 1 April 2021 (blue)

Annual reporting periods beginning on or after 1 July 2021 (purple)

Standards first effective - 31 December 2022 Y/Es and H/Ys

Onerous Contracts—Cost of Fulfilling a Contract [Amendments to AASB 137]	Clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
Property, Plant and Equipment: Proceeds before Intended Use [Amendments to AASB 116]	Prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
AASB 2020-3 Annual Improvements 2018-2020 and Other Amendments	Amendments to existing accounting standards, particularly in relation to: • AASB 1 – simplifies the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences. • AASB 3 – to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. • AASB 9 – to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. • AASB 116 – as described above • AASB 137 – as described above • AASB 141 – to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Annual reporting periods beginning on or after 1 January 2022

Standards available for early adoption

AASB 17 **Insurance contracts and amendments to AASB 17 Insurance Contracts**[1]	Expected to result in lower deferral of acquisition expenses, the introduction of risk adjustments for reporting purposes, and a likely change in 'boundary' for certain contracts such as yearly renewable term insurance policies.
AASB 2021-2 Disclosure of Accounting Policies and Definition of Accounting Estimates **[Amendments to AASB 101 and AASB 108]**	Introduces a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. Clarifies several aspects of materiality application to disclosure of accounting policies and requires companies to disclose their *material* accounting policies rather than their *significant* accounting policies.
AASB 2021-5 –Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations.

Annual reporting periods beginning on or after 1 January 2023

1 *Note early adoption of AASB 17 requires concurrent application of AASB 9 Financial Instruments.*

Standards available for early adoption

Classification of Liabilities as Current or Non-current [Amendements to IAS 1/ AASB 101]	Amends AASB 101 to require a liability be classified as current when companies do not have a substantive right to defer settlement at the end of the reporting period.
Lease liability in a sale-and-leaseback [Amendements to IFRS 16]	The amendments impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction, including introducing a new accounting model for variable payments on initial recognition and subsequent measurement of the lease liability.
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Amendments to AAB 3 and AASB 128	Requires the full gain or loss to be recognised when the assets transferred meet the definition of a 'business' under AASB 3 Business Combinations (whether housed in a subsidiary or not).

Annual reporting periods beginning on or after 1 January 2024

Annual reporting periods beginning on or after 1 January 2025

Appendix 2

Sale and leaseback with variable payments
Illustrative example

Sale and leaseback with variable payments

Lease liability in a sale-and-leaseback
[IFRS 16/ AASB 16]

At date of transaction:

1. Derecognise underlying asset and apply lessee accounting model to leaseback

2. Measure right-of-use (ROU) asset at retained portion of previous carrying amount (i.e. at cost)

3. Recognise only amount of any gain or loss related to rights transferred to lessor

Scenario:

- Moon Corporation enters into a sale & leaseback by transferring PPE to Entity Y, & leases it back for 5 yrs.
- Transfer of building is a sale under AASB 15.
- PPE carrying amount is $80. FV/Sales price is $100.
- Lease payments (which are at market rates) are variable based on % of X's revenue. PV of expected lease payments is $50.

Calculation:

- ROU retained = 50% ($50 / $100)
- ROU asset = $40 (50% x $80)
- Gain related to rights transferred = $10 (50% x ($100 – $80))
- Lease liability (*although lease payments are variable) = $50 ($40 + $10)

Sale and leaseback with variable payments

Lease liability in a sale-and-leaseback
[IFRS 16/ AASB 16]

Subsequent accounting for lease liability:

4. Reduce lease liability for an "expected lease payment" as if lease payments estimated at date of the transaction had been paid

5. Recognise any difference between those lease payments and amount actually paid in profit or loss

Scenario:

- Moon Corporation enters into a sale & leaseback by transferring PPE to Entity Y, & leases it back for 5 yrs.
- Transfer of building is a sale under AASB 15.
- PPE carrying amount is $80. FV/Sales price is $100.
- Lease payments (which are at market rates) are variable based on % of X's revenue. PV of expected lease payments is $50.
- **Actual lease payment for Y1 of lease is $15**
- **There has been no change in a lease term or a lease modification**

Calculation (ignoring unwind of discount):

- Expected lease payment for Y1 = $10 (assuming expected lease payment of $10 each year x 5 years)
- Lease liability at the end of Y1 = $40 ($50 - $10)
- Loss on difference between actual and expected lease payment = $5 ($15 – $10)

Effective 1 January 2024 and applied retrospectively!

Watch out for KPMG's publication