The new leases standard – Intercompany leases

IFRS 16

Under IFRS 16, intercompany leases will not eliminate automatically on consolidation…

Accounting for intercompany leases

Generally straightforward under IAS 17:

– Symmetrical accounting for operating leases

– Lease term not a concern

– 'Automatic' elimination on consolidation

Could be a real problem under IFRS 16:

– Asymmetrical accounting

– Lease term a key estimate for lessees

– Will not eliminate on consolidation

One 'operating lease' – two accounting treatments

	Asset owner / lessor	Asset user / lessee
IAS 17	**Underlying asset:** Asset Depreciation **Lease:** Rent income	**Lease:** Rent expense *Eliminates 'automatically'*
IFRS 16	**Underlying asset:** Asset Depreciation **Lease:** Rent income	**Lease:** ROU asset Lease liability Depreciation Interest expense *Complex elimination journal*

Key actions

Review intercompany leasing arrangements:

– Have all intercompany leases been identified?

– Is the documentation adequate?

– What's the lease term?

Plan the group reporting approach:

– Retain IAS 17 in the group reporting pack to simplify the consolidation?

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