

Preparing for HKFRS 16 / IFRS 16 Lease

Welcome to the publication of Valtech regarding updates on financial reporting standards and how professional valuer and surveyors can help with assistance of our valuation technology.



Background of Lease

It specifies how a company will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

IFRS 16 / HKFRS 16 applies to annual reporting periods beginning on or after 1 January 2019.

The accounting treatment for lessors remains substantially unchanged to classify leases as operating or financing leases.

Remark 1: Interest Rate Implicit in the Lease



If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

Remark 2 Impact of Financial Analysis

100%

EBITDA

You will expect a higher EBITDA but a lower interest coverage ratio

Interest Coverage

For Lessee



CONCEPT UPDATES

major updates.

- No more financing lease and operating lease
- Lessees should initially recognise a right-of-use asset and lease liability based on the discounted payments required under the lease.
- Determining lease term may require judgement for complicated lease contract

Key Notes in Application



NEXT YEAR'S VISION

1

Non lease components should be separated from a lease contract.

2

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined.

3

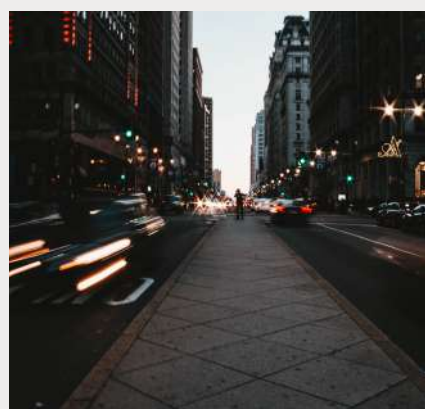
Contingent rentals or variable lease payments will need to be included in the measurement of lease assets and liabilities

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019.

[More About IFRS 16](#)

**Prepare early prepare better.
In a professional way.**

Valuer or Surveyor's role:



- Quantifying the interest rate implicit in the lease for lease contracts with variable options
- Estimating of incremental borrowing rate for companies without existing external debt
- Real estate market research to support management's estimation

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Accounting does not make corporate earnings or balance sheets more volatile. Accounting just increases the transparency of volatility in earnings.

- Diane Garnick

