

Financial Reporting Standard (FRS) 116 Leases



FRS 116 – An introduction

The Financial Accounting Standards Board (FASB), International Accounting Standards Board (IASB) and the Accounting Standards Council (ASC) of Singapore have embarked on ushering in a new era of lease accounting. A new leasing standard is expected to bring about a paradigm shift in the accounting and recognition of leases by lessees.

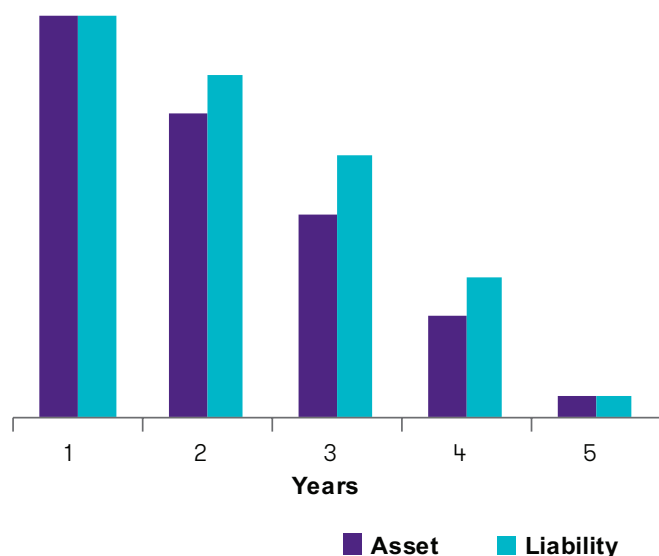
In June 2019, ASC issued FRS 116, Leases with effect from 01 January 2019.

For investors and analysts, FRS 116 on Leases will enhance the comparability of balance sheets of companies that borrow to buy assets with those that lease assets. For lessees' balance sheet, while eliminating the classification of a lease as operating or finance lease, FRS 116 will result in an increase in assets (via a right-of-use assets concept) and corresponding increase in financial liabilities. On the P&L side, the straight-lined lease expense will be replaced by a depreciation charge and interest expense, resulting in a year-on-year fluctuation in profitability. It is expected that FRS 116 will facilitate better capital allocation by enabling better credit and investment decision-making by both investors and companies.

Overview of key impact

Topic	FRS 116	
New definition of lease	Step 1: Identified asset <ul style="list-style-type: none"> Explicitly specified in the contract Can also be identified by being implicitly implied 	Step 2: Right to control <ul style="list-style-type: none"> Customer substantially has all the economic benefits and The right to direct use of identified asset
Lessee accounting model	<ul style="list-style-type: none"> Single lease accounting model All leases on-balance sheet <p>Lessee recognises a right of use asset and lease liability, right of use asset is treated as the purchase of an asset on financed basis</p>	
Lessor accounting model	There are no substantial changes to lessor accounting as compared to FRS 17	
Statement of financial position (lessee)	<ul style="list-style-type: none"> Recognition of the right of use asset and a corresponding lease liability resulting an increase in the amount recognised for financial liabilities and assets Impact on debt-equity ratios 	
Statement of comprehensive income (lessee)	<ul style="list-style-type: none"> De-recognition of operating lease charges and recognition of depreciation and finance costs would positively impact EBIT and EBITDA Recognition of depreciation on right of use assets and unwinding of finance costs on lease liabilities result in higher costs being recognised during the beginning of the lease term 	
Statement of cash flows (lessee)	Lease payments presented as 'cash flow from financing activities', resulting in higher 'cash flow from operations'	

Impact on lessee's balance sheet



Impact on lessee's profit and loss



Transitional requirements

- Entities are not required to re-assess existing lease contracts on date of initial application
- Full retrospective** approach is optional. Lessee can elect to apply simplified approach and not restate comparative information
 - Simplified approach (A):** Liability is set up on the date of transition, while value of asset is computed retrospectively
 - Simplified approach (B):** Asset is setup as equal to liability on date of transition

Typical impact of transition options

Simplified approach (A)

Reduction in net-worth on date of transition

In aggregate lower expense in P&L post transition

Simplified approach (B)





No effect on net-worth on date of transition

Initially, higher expense in P&L post transition and subsequently lower

Grant Thornton differentiators: FRS 116 implementation

We handhold in transition process for first time reporting, along with assistance in preparation and designing of disclosure and computational templates, to achieve smooth transition to the new lease accounting model under FRS 116.

Grant Thornton understands the priorities and thus offers a four-stage solution:

 Diagnostic review	 Process and template design	 Quantify and report	 Ongoing support
<ul style="list-style-type: none">• Key differences between existing practices and FRS 116• Assessment of reporting processes• Advising on choices upon transition	<ul style="list-style-type: none">• Design input templates• Application of Grant Thornton's leasing tool for automated computations• Process flow documents	<ul style="list-style-type: none">• Technical memos for existing lease database• Transitional and first reporting impact• Updated financial statements and disclosures	<ul style="list-style-type: none">• Review of accounting entries• Future process development using checklists and templates• Classroom trainings



Technology solutions for automation: Reporting tools

A customised **accounting tool** developed by Grant Thornton, shall be utilised. The tool can be customised for the client’s needs.

Functional illustrations

Data input for numerous lease contracts

Input AutoID

Lease start date

First payment date / rent start date

Frequency (months)

Day of the Month

Rent (monthly)

Rental 1

Rental 2

Rental 3

Rental 4

Rental 5

Rental 6

Rental 7

Rental 8

Rental 9

Rental 10

Rental 11

Rental 12

Rental 13

Rental 14

Rental 15

Rental 16

Rental 17

1-Apr-18

31-Mar-18

15

1

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31-Mar-18

AutoID

Current Lease AutoID

Description

Address or other identification

Identifies this Lease AutoID

Identified by this Lease AutoID

Date modified

Asset retirement obligation, initial

ARO - Revision 1 (New ARO Gross)

ARO - Revision 2 (New ARO Gross)

ARO - Revision 3 (New ARO Gross)

ARO - Revision 4 (New ARO Gross)

ARO - Revision 5 (New ARO Gross)

ARO - Revision 6 (New ARO Gross)

ARO - Revision 7 (New ARO Gross)

ARO - Revision 8 (New ARO Gross)

ARO interest table

Security deposit amount (Gross)

Transition date

Transition option

Ind. prepaid on transition (net)

Initial direct expenditure

Security deposit - Amortised cost

15

1

1

1

1

1

1

1

1

1

1

1

1

1

1

1

1

1

1

1

1

1

Save & New

Save

Undo comment

Reset filter

Maintenance of lease database

AutoID	Lease start date	First payment date	Frequency (months)	Day of the Month	Tenure (months)	Rental 1	Rental 2
27	1/2/2013	7/2/2013	1	7	108	2582200	
28	1/8/2018	1/8/2018	1	1	62	2540769	
29	1/7/2014	28/7/2014	1	7	96	686172	720480.6
30	1/4/2018	15/4/2018	1	Last	240	10000	10000
31	1/4/2006	1/4/2006	3	1	192	100000000	
32	1/9/2015	1/10/2015	3	1	79	166666667	125000000
33	1/8/2017	1/10/2017	3	1	152	250000000	150000000
34	12/6/2018	25/6/2018	3	25	120	136292	
35	1/2/2017	28/2/2017	1	Last	60	20000	
36	1/9/2015	30/9/2015	1	Last	108	106673.68	
37	1/9/2016	30/9/2016	1	Last	96	107281.72	
38	1/9/2017	30/9/2017	1	Last	84	108839.1557	
39	1/9/2018	30/9/2018	1	Last	72	110887.2904	
40	1/1/2016	1/1/2016	3	1	60	8415.24	
41	30/10/2013	1/11/2013	1	1	84	7073	
42	1/2/2013	7/2/2013	1	7	108	2582200	
43	1/8/2018	1/8/2018	1	1	62	2540769	
44	1/7/2014	28/7/2014	1	7	96	686172	720480.6
45	1/4/2018	15/4/2018	1	Last	240	10000	10000

Smart analytics and provision for customised reports

AutoID	Security Deposit	15	2,350,593	31/3/2018			
Date	Rent	PV factor	Interest	Liability	PV of rent	ROU	Depreciation
1-Apr-18	10,000	1.00	-	2,350,503	-	2,449,324	-
15-Apr-18	10,000	1.00	9,935	2,360,437	9,935	2,444,629	4,695
30-Apr-18	10,000	0.99	10,646	2,361,083	9,933	2,439,599	5,000
31-May-18	20,000	0.98	22,060	2,363,144	19,643	2,429,204	10,396
30-Jun-18	20,000	0.97	21,364	2,364,508	19,467	2,419,143	10,060
31-Jul-18	20,000	0.96	22,092	2,366,600	19,287	2,408,748	10,396
31-Aug-18	20,000	0.96	22,112	2,368,712	19,106	2,398,352	10,396
30-Sep-18	20,000	0.95	21,414	2,370,126	18,937	2,388,292	10,060
31-Oct-18	20,000	0.94	22,145	2,372,271	18,762	2,377,897	10,396
30-Nov-18	20,000	0.93	21,447	2,373,727	18,594	2,367,636	10,060
31-Dec-18	20,000	0.92	22,178	2,375,896	18,422	2,357,441	10,396
31-Jan-19	20,000	0.91	22,199	2,378,094	18,251	2,347,045	10,396
28-Feb-19	20,000	0.90	20,060	2,378,154	18,099	2,337,656	9,390
31-Mar-19	20,000	0.90	22,220	2,380,374	17,931	2,480,074	10,396
30-Apr-19	20,000	0.89	21,520	2,381,894	17,770	2,469,652	10,722
31-May-19	20,000	0.88	22,255	2,384,149	17,606	2,458,573	11,079
30-Jun-19	20,000	0.87	21,554	2,385,703	17,448	2,447,850	10,722
31-Jul-19	20,000	0.86	22,280	2,387,593	17,287	2,436,771	11,079
31-Aug-19	20,000	0.86	22,312	2,390,305	17,127	2,425,692	11,079
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Computing lease accounting adjustments as per Ind AS 116

From Date	1-Apr-19	From AutoID	1	Compute				
To Date	31-Mar-20	To AutoID	15					
AutoID	Lease Liability	Lease Liability	Interest Cost	ROU Asset	Depreciation	Full/ partial termination P&L	ARO Interest	ARO Provision
	Non-current	Current						Non-current
3	3,279,303,541	578,190,530	385,549,852	3,076,968,856	308,370,920	-	-	-
4	3,603,832	541,030	55,691	4,206,259	514,192	-	-	-
5	196,387	238,379	7,034	427,515	233,190	-	-	-
9	4,333,080	1,211,661	80,137	5,562,094	1,261,229	-	-	-
10	0	25,166	472	24,611	32,734	-	-	-
11	0	174,444	2,660	245,073	68,628	-	-	-
12	22,478,467	25,555,890	6,376,211	37,710,030	20,569,107	-	-	-
13	61,810,141	29,126,317	9,550,413	83,776,590	23,991,498	-	-	-
14	12,229,697	10,394,987	2,634,225	14,863,659	6,634,211	-	-	-
15	2,177,851	226,261	263,738	2,349,565	130,809	-	-	-

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