



## IFRS 16:

# An Improvement in Lease Accounting Standards

IFRS 16 tightens existing regulations around lease accounting, creating significant new requirements for data collection and reporting. It represents a major challenge for firms relying on outdated legacy systems.

## What do firms need to know about IFRS16?


**In force from January 2019, IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases for both parties to a contract. It replaces IAS 17 and completes the International Accounting Standards Board's (IASB) project to improve lease financial reporting.**

IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

Under the standard, a lessee is required to recognise:

- Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- Depreciation of lease assets separately from interest on lease liabilities in the income statement.

For lessors, IFRS 16 carries forward significant elements of IAS 17, meaning they must continue to classify operating leases and finance leases - and to account for those two types of leases differently.



## What are the challenges of implementation

**The requirements for IFRS 16 create multiple challenges for firms. These include:**

**Data Collection:** Firms need the ability to hold hundreds of thousands of leases within a flexible model, efficiently storing all levels of granular data.

**Complexity:** Lease structures can be complex, and systems need to support both the full retrospective and cumulative catch-up approaches.

**Audit & Disclosure:** Auditing and traceability are critical as IFRS 16 requires judgements and decisions to be made at various points across the accounting process.

**Integration:** IFRS 16 needs to co-exist with IFRS 15 revenue recognition for asset fair value calculation, plus any asset impairment charges under IFRS 9.

**Legacy Technology:** Most lease administration systems are old, poorly integrated and hard to change, leading to limited and inflexible accounting functionality.

## How Millennium Consulting can help with **IFRS 16**

**For many firms, the move to IFRS 16 lease accounting will have resulted in a significant increase in journal entries driven by multiple events over the lifetime of a lease.**

This can be handled through the use of a Lease Sub Ledger, which allows detailed finance and lease information to be held in a centralised accounting hub. This then drives detailed reporting across the organisation, while holding IFRS 16 and IAS 17 balances simultaneously for comparative purposes.

Another key element for firms is to create an appropriate Finance Data Model. The best practice IFRS 16 data model caters for the most complex of lease structures and organisation or party relationships - storing a rich source of information to meet financial and lease-based reporting requirements.

Millennium Consulting works in partnership with a wide variety of technology vendors to supply solutions that overcome the challenges associated with IFRS 16 and simplify lease accounting.



Contact us to find out more about how we can help you deliver IFRS 16 compliance: [assist@millenniumconsulting.com](mailto:assist@millenniumconsulting.com)