Leases’ accounting is therefore also omitted in “operating leases” for lease agreements under the new standard. IFRS 16 requires lessees to recognise all leases in the balance sheet. Consequently, “sale and lease-back” transactions, which served to avoid accounting under the “lease back” method, in accordance with IAS 17 “operating lease”, will also be omitted in future.

Separation of contractual relationships
Leasing and non-leasing components must be separated in leasing agreements. Accordingly, other contractual services or materials (e.g. service components) purchased in addition to the lease must be accounted for by the lessees as pending transactions. Lessors can account for these contractual services in accordance with IFRS 15, the new revenue recognition standard.

In compliance with an accounting option granted to lessees, leasing and non-leasing components, in future, may be accounted for as a uniform leasing component. This exception results in a higher level of recognition of leasing liabilities in the lessee’s balance sheet than if the accounting option were not exercised.

Income booked
The classification of leases determines when lessees are required to recognise income from leases and which assets are to be recognised. In principle, it is not to be assumed that the new standard will have any effect on the lessees’ profit or loss statement compared to the currently applicable IAS 17.

In general, it becomes clear that the focus of the Board was not on the lessor’s accounting but on the lessee’s accounting for leasing contracts. This was in particular due to the “off balance” accounting for “operating leases”, often criticised by the Board, now prevented by the new standard.

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Under the new standard, lessees will also have to recognise depreciation and interest expenses in their profit and loss statement. The expenses to be shown in future are then divided into a repayment and expense component with the effect of relieving the result before financing activity.

Effects on lessors’ accounts
The new standard is expected to have a significant impact on lessors’ accounting simply because of the upcoming balance sheet extension.

Under the new regulations, the necessary recording of leasing related assets and liabilities will make some decision-makers sit up and take notice for the following reasons in particular:

- “Financial covenants” could be affected,
- Significant financial figures could change, and
- Willingness of banks to lend could be affected as well.

First-time application
The new IFRS 16 Leases applies to annual periods beginning on or after 1 January 2019.

The first-time application of the new leasing standard will be effected prospectively. This means, that the reporting company must also apply the new standard for the previous year’s comparative year, i.e. for financial years ending before 1 January 2019.

Alternatively, however, a modified retrospective application can also be made in the course of initial accounting in accordance with the amended regulations, in which leases that were previously classified as “operating leases” do not have to adjust the comparative prior-year information. Under this approach, however, the total effect of the first-time application of the new standard would have to be disclosed in equity (in retained earnings, if applicable) in the “notes”.

The approach or method chosen by the companies for the first-time application of the new standard will not have to be changed in subsequent years for contractual relationships declared as “operating leases” – with the exception of subleases.

If sub-leases are in force, the first time the new standard is applied, it is necessary to re-examine which contract classification has to be made.