***FRR 4B Appendix***

***AASB 16 Leases -* Contract Review Checklist and Data Collection Worksheet**

**Introduction**

Treasury has developed the *AASB 16 Leases Contract Review and Data Collection Worksheet* to assist agencies in reviewing their lease contracts against the requirements of the new leasing Standard.

|  | **Guidance** |
| --- | --- |
| Is there a lease? | When reviewing contracts, agencies should endeavour to understand and apply the new lease identification requirements and guidance in AASB 16. Even though agencies are not required to reassess this particular aspect on transition, this knowledge will help agencies in the future when re-negotiating leases and entering into new contracts. |
| Value of the leased asset | If the asset, when new, would normally cost less than $10,000, the agency has a choice of applying the low-value asset exemption and account for the lease similar to current operating lease accounting. Examples of low-value assets include tablets, personal computers, small items of office furniture and phones. |
| Commencement date | This is the date the underlying asset is made available for use, and usually corresponds with the commencement date as specified in the lease agreement. This is not the date that the lease contract is signed. |
| Lease term | In addition to the lease term or lease end date stated in the agreement, agencies should also look for any clauses that allow for early termination of the lease and whether there are significant penalties attached. This will allow agencies to accurately determine the non-cancellable period. Any periods beyond the non-cancellable period would need to meet the ‘reasonably certain’ threshold to be included in the lease term.  If the lease term is determined to be 12 months or less, remember to apply the short-term lease exemption. |
| Lease incentives | Lease incentives are cash payments from the lessor and the lessee’s costs assumed or reimbursed by the lessor. Lease incentives to be received in the future are subtracted from the lease payments used to calculate the lease liability. Any rent-free periods should also be reflected directly in the lease payments used to calculate the lease liability. Lease incentives already received by commencement date are subtracted from the initial measurement of the right-of-use asset. |
| Non-lease components | Agencies will need to identify any non-lease components (e.g. cleaning, maintenance, consumables, operating expenses) and exclude payments relating to those components from the calculation of the lease liability. If there is an insufficient breakdown of the payments in the contract, the agency can either ask the lessor to provide the information (if practical), or allocate the payments based on an estimate of the stand-alone prices of the lease and non-lease components. Payments for non-lease components are typically expensed when incurred.  The exception is for leases of plant and equipment (an asset class defined in NCAP 1). Treasury’s policy for these leases is that agencies shall not separate out non-lease components. This means payments for the non-lease components are included in the measurement of the lease liability, and consequently the right-of-use asset. |
| Interest rate implicit in the lease | If the discount rate is specified in the lease agreement, agencies should record it. However, this rate will not be used to calculate the lease liability on transition, the agency’s incremental borrowing rate will be used instead. If, after the date of initial application of AASB 16, the lease term is revised or the lease is modified, the specified rate may be used as the revised discount rate if it still reflects the implicit rate for the remainder of the lease term.  The interest rate implicit in the lease (if specified) will be used as the discount rate for new leases that commence after AASB 16 becomes effective. |
| Make good clauses | Agencies should review make good clauses to assess whether any restoration provision should be recorded. The amount of any such provision is included in the cost of the right-of-use asset. |
| Past lease payments and expenses | If the agency elects to use the transition option in paragraph C8(b)(i) – see Transition section above, it will need to collect information about past lease payments, including payments made before lease commencement and variable rent increases that have occurred to date. The agency may exclude initial direct costs, as permitted by C10(d). |

The checklist should be read and applied in conjunction with AASB 16 and Queensland Treasury’s Financial Reporting Requirements FRR 4B.9.

***AASB 16 Leases***

**Contract Review Checklist and Data Collection Worksheet**

|  |  |
| --- | --- |
| Asset code / serial number |  |
| Asset name |  |
| Asset location |  |
| Lessor |  |

|  | **Check point** | **Ref** | **Documentation** |
| --- | --- | --- | --- |
| **1** | **Scope – Is there a lease?**  *Note:**This section should not be used for leases commencing prior to 1 July 2019, as Treasury intends to mandate the practical expedient in paragraph C3.* |  |  |
| 1.1 | Determine whether there is an identified asset   * Consider whether the supplier/lessor have substantive substitution rights * Consider if the lease for a portion of the capacity of the asset. If so, assess whether   + it is a physically distinct portion, or   + the agency leases substantially all of the capacity of the asset | B13-B20 |  |
| 1.2 | Assess whether the agency has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use. | B21-B23 |  |
| 1.3 | Assess whether the agency have the right to direct the use of the asset throughout the period of use. This can be evidenced by:   * the agency having the right to direct how and for what purpose the asset is used, OR * the relevant decisions about how and for what purpose the asset is used being predetermined, and cannot be changed by the supplier | B24-B30 |  |
| 1.4 | Conclude whether the contract is, or contains, a lease   * If there is no lease, consider what other standard/s would apply to this arrangement * If there is a lease, proceed with this checklist | 9  B9-B12 |  |
| **2** | **General lease details** |  |  |
| 2.1 | Record asset class of the underlying asset | NCAP1 |  |
| 2.2 | Is the lessor external to Queensland Government? |  |  |
| 2.3 | Include links to the original lease agreement and any subsequent amendments |  |  |
| **3** | **Portfolio application and combination of contracts** |  |  |
| 3.1 | If the agency has a portfolio of leases with similar characteristics, consider whether to apply AASB 16 to the portfolio as a whole | B1 |  |
| 3.2 | Consider whether the contract is required to be combined with other contracts and accounted for as a single contract per paragraph B2 | B2 |  |
| **4** | **Separating components of a contract** |  |  |
| 4.1 | Identify any non-lease components (such as cleaning, repairs, supply of consumables), if any  Separate out the lease components and the non-lease components so they can be accounted for separately. However, as per Treasury policy, do not separate out non-lease components for leases of plant and equipment. | 12-16  B32-B33 |  |
| 4.2 | Identify any additional lease components included in the lease agreement, e.g. car parks | 13 |  |
| **5** | **Exemption for leases of low value assets** |  |  |
| 5.1 | Assess whether the leased asset, when new, would cost less than AUD $10,000  If so, decide whether the agency will apply the low value assets exemption to this lease. This decision can be made on a lease-by-lease basis. | 5(b)  B3-B8 |  |
| **6** | **Lease term** |  |  |
| 6.1 | Record the lease commencement date, being the date the underlying asset is made available for use.   * This includes any rent-free periods. | Appendix A  B36 |  |
| 6.2 | Record the lease end date or expiry date |  |  |
| 6.3 | Determine the non-cancellable period   * Consider whether the agency can terminate the lease at any time without penalty, or can terminate the lease without penalty by giving a certain period of notice * If not, consider whether the agency is locked into the lease agreement for the entire lease term as stated in the lease agreement | 18  B34-B35 |  |
| 6.4 | Identify and assess options to extend the lease   * Identify extension options beyond the lease term specified in the lease agreement * If there are any, assess whether the agency is reasonably certain (as at the commencement date) to exercise any extension options. For transition purposes, agencies can use hindsight in making this assessment. | 18(a)  19  B37-B40  C10(e) |  |
| 6.5 | Identify and record terms for early termination by the lessee and the lessor | B34-B35 |  |
| 6.6 | Assess the likelihood of early termination by the agency   * Consider whether the agency is reasonably certain to lease the asset until the end of the lease term stated in the agreement * If not, estimate the minimum period for which the agency is reasonably certain to lease the asset, taking into account early termination conditions and any penalties attached | 18(b)  19  B37-B40 |  |
| 6.7 | After taking into account extension and termination options, decide on the lease term to be used for accounting under AASB 16 | 18 |  |
| 6.8 | Assess whether the lease term is 12 months or less   * If the lease term is 12 months or less, it will be a short-term lease unless there is a purchase option. * Agencies must apply the exemption in para 5(a) for all short-term leases.   Note for transition only: If, as at 1 July 2019, the remaining lease term is 12 months or less, it can also be treated as a short-term lease. | 5(a)  C10(c) |  |
| **7** | **Lease liability measurement** |  |  |
| 7.1 | Determine the appropriate discount rate   * Is the interest rate implicit in the lease specified in the lease agreement, or otherwise provided by the lessor? * If not, the agency can use their incremental borrowing rate, e.g. QTC fixed rate loan rates appropriate for the lease term and month of commencement.   Note for transition only: Agencies must use their incremental borrowing rate at 1 July 2019, and can consider whether to apply a single discount rate for a portfolio of leases with reasonably similar characteristics (e.g. lease term, asset class). | 26  C8(a)  C10(a) |  |
| 7.2 | Record details about lease payments and future rent increases provided for in the lease agreement  Rent increases may be:   * fixed, e.g. 3.5% per year * variable and linked to an index or rate, e.g. CPI, market rent review * a combination of fixed and variable, e.g. CPI plus 2%, higher of CPI and 3.5%, 3% for 5 years followed by a market rent review * specified upfront in a schedule in the lease agreement   Also consider any rent-free periods | 27(a)-(b)  28  B42 |  |
| 7.3 | Identify any variable lease payments that do not depend on an index or rate, for example payments that will be based on actual usage, output, patronage, etc.   * These payments are not included in the measurement of the lease liability, instead they will be accounted for in accordance with para 38(b). | 28  38(b) |  |
| 7.4 | Estimate the future amount payable under residual value guarantees (if any)   * This is ordinarily the shortfall between the expected residual value of the asset at the end of the lease and the residual value guarantee. | 27(c) |  |
| 7.5 | Assess the likelihood of exercising a purchase option (if any)   * Is the agency reasonably certain to exercise the purchase option? * If so, include the purchase payment when calculating the liability, and depreciate the right-of-use asset over the useful life of the underlying asset | 27(d)  32 |  |
| 7.6 | If, in determining the lease term, the agency assessed that it is reasonably certain to terminate the lease early and incur a penalty, include the penalty payment when calculating the liability. | 27(e) |  |
| **8** | **Right-of-use asset measurement** |  |  |
| 8.1 | Record lease payments made before the commencement date | 24(b) |  |
| 8.2 | Record lease incentives received, e.g.   * Cash payment received from the lessor * Reimbursement or assumption by the lessor of costs of the lessee, e.g. removal costs, switching costs, costs of customised enhancements to the leased asset   Note: Rent-free periods are taken into account when measuring the lease liability. | 24(b)  Appendix A |  |
| 8.3 | Identify initial direct costs incurred by the agency  Note for transition only: It is not necessary to identify initial direct costs for leases entered into prior to 1 July 2019. | 24(c)  C10(d) |  |
| 8.4 | Estimate the costs of make-good activities required by the lease agreement, e.g. dismantling, removal or restoration to be performed at the end of the lease  Consider when does the agency incur the obligation for these costs - e.g. at lease commencement or throughout the lease term. | 24(d)  25 |  |
| 8.5 | For not-for-profit agencies, identify whether the lease is a “peppercorn / concessionary lease”, for which additional disclosures are required in para Aus59.1-2.  Per Treasury policy, peppercorn leases will be measured initially at cost (para 23-25), similar to other leases. | Aus25.1  Aus59.1  Aus59.2 |  |
| 8.6 | For depreciation purposes, identify if ownership of the underlying asset transfers to the agency at the end of the lease term. Also consider step 7.5 above regarding purchase options.  If the right-of-use asset is to be depreciated over the useful life of the underlying asset, estimate the useful life of the underlying asset | 32 |  |

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| **Lease - Data Collection** |  |
| Data items required to calculate amounts required for AASB 16. |  |
|  |  |
| Asset Name |  |
| Asset Location |  |
| Asset Code |  |
| Asset Class |  |
| Lessor |  |
| Links to agreements (including any amendments) |  |
|  |  |
| Commencement Date |  |
| Expiry Date |  |
| Initial Term |  |
| Lessee Extension Options (details of options, dates and amounts) |  |
| Lessee Termination Options (details of options, dates and amounts) |  |
| Lessor Termination Options (details of options, dates and amounts) |  |
|  |  |
| Discount rate |  |
| Initial Rent |  |
| Lease incentives (eg Rent free or reduced rent period) |  |
| Fixed rent increase description (timeframes, amounts/fixed %) |  |
| Variable lease payments (indexes) (timeframes and method such as CPI) |  |
| Variable lease payments (other) (such as percentage of production) |  |
| Non-lease components (for assets other than Plant and Equipment) |  |
| Existing changes to lease payments (changes that have already occurred) |  |
| Termination payments (purchase options, make-good and residual value guarantee) |  |
| Payments already made (to value right of use asset) |  |
| Initial direct costs (to value right of use asset) |  |
|  |  |
| Other related leases (consideration as to whether to combine) |  |