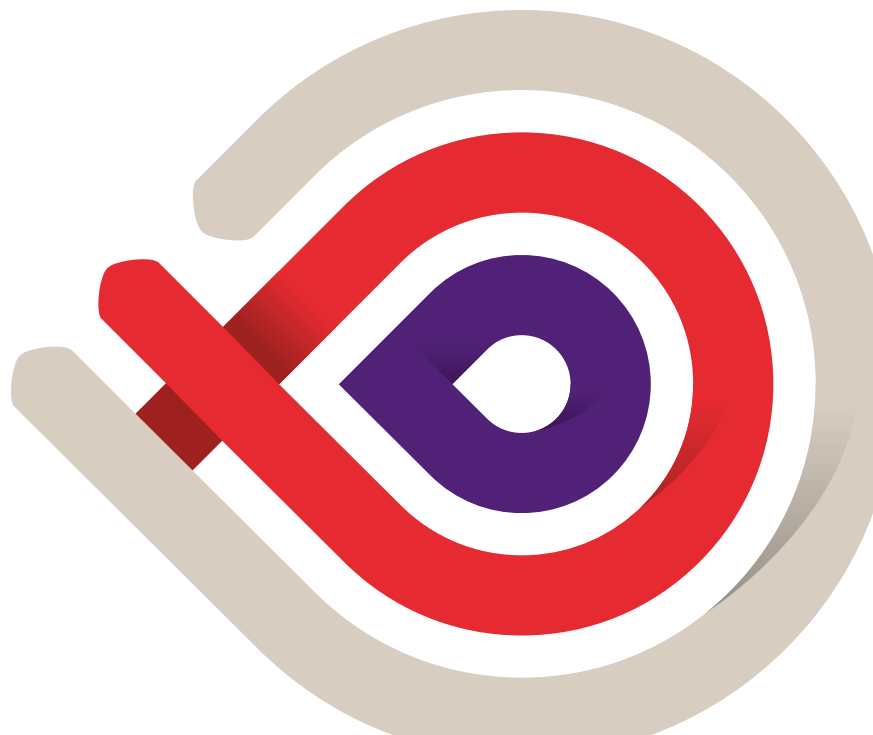


MFRS News

August 2019

MFRS News is your monthly update on all things relating to Malaysian Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.



Insights into MFRS 16

Presentation and disclosure

MFRS 16 requires lessees and lessors to provide information about leasing activities within their financial statements. The Standard explains how this information should be presented on the face of the statements and what disclosures are required. In this article we identify the requirements and provide a series of examples illustrating one possible way the note disclosures might be presented. When it comes to the notes, the Standard tends to focus on the details of the information to be provided, leaving it to preparers to decide on the most meaningful way to present it. As a result, your specific disclosures may not look exactly the same as the ones we've chosen.

Presentation

For a lessee, a lease that is accounted for under MFRS 16 results in the recognition of:

- a right-of-use asset and lease liability
- interest expense (on the lease liability)
- depreciation expense (on the right-of-use asset).

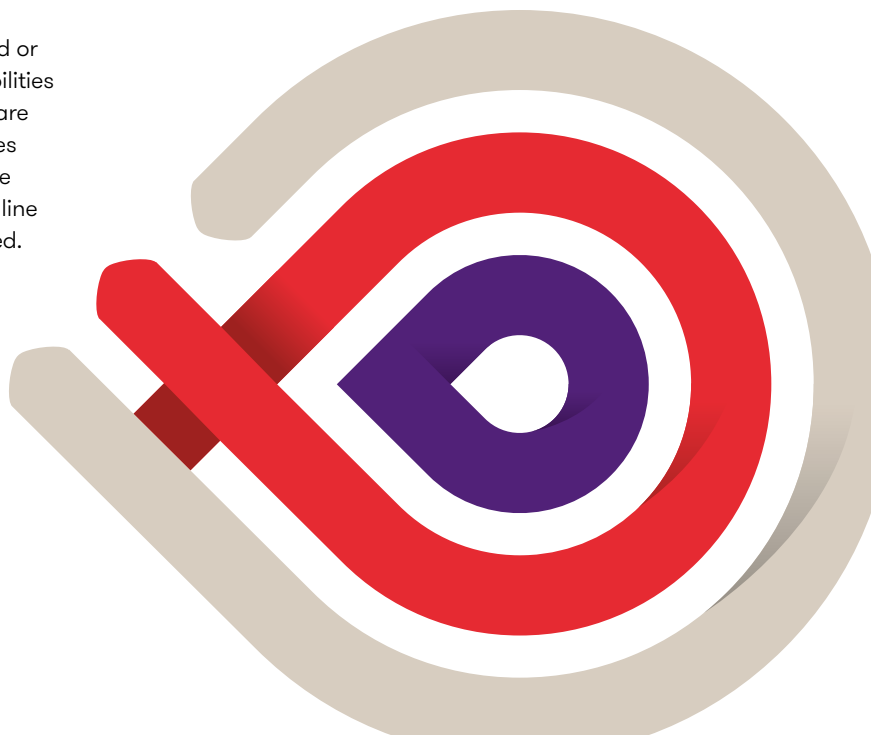
The right-of-use asset and lease liability must be presented or disclosed separately from other, non-lease assets and liabilities (except for investment property right-of-use assets which are presented as investment property). Where a lessee chooses not to present its right-of-use assets separately on the face of the balance sheet, they must be presented in the same line item that would be used if the underlying asset were owned. In many, but not all, cases this will be property, plant and equipment.

In the statement of cash flows, lease payments are classified:

- as a financing activity for amounts relating to the repayment of the principal portion of the lease liability
- in the same classification as interest paid on other forms of financing (ie, as either a financing or operating activity) for amounts relating to interest charged on the lease liability
- as operating activities for amounts relating to short-term and low-value asset leases that are accounted for off-balance sheet and for variable payments not included in the lease liability.

For a lessor, the requirements are largely the same as MFRS 117's:

- for finance leases the net investment is presented on the balance sheet as a receivable, and
- assets subject to operating leases continue to be presented according to the nature of the underlying asset.



Disclosures

MFRS 16 requires different and more extensive disclosures about leasing activities than MFRS 117. The objective of the disclosures is to provide users of financial statements with a basis to assess the effect of leasing activities on the entity's financial position, performance and cash flows. To achieve that objective, lessees and lessors disclose both qualitative and quantitative information. For lessees, this information is required to be presented in a single note or as a separate section of the financial statements. Information already included in other notes need not be repeated as long as it is appropriately cross-referenced.

Lessee disclosures

Disclosure area	Summary of requirements
Quantitative information about leases (generally provided in a tabular format)	<ul style="list-style-type: none">• depreciation charge for right-of-use assets by class of underlying asset• interest expense on lease liabilities• expense relating to low-value and short-term leases (other than leases of 1 month or less) if exemption(s) elected• commitments for short-term leases if the expense disclosed for such leases in the current period arose from a portfolio that differs significantly from the portfolio in place at period-end (this disclosure applies only when the short-term lease exemption has been elected)• expense relating to variable lease payments not included in lease liabilities• income from subleasing• total cash outflow for leases• additions to right-of-use assets• gains or losses from sale and leaseback transactions• the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset• maturity analysis of lease liabilities• additional information about right-of-use assets that meet the definition of investment property or are measured at revalued amounts under MFRS 116
Additional qualitative and quantitative information as necessary to meet the disclosure objective	<ul style="list-style-type: none">• nature of leasing activities• exposure to future cash outflows not reflected in the lease liabilities, including:<ul style="list-style-type: none">– variable lease payments– extension and termination options– residual value guarantees– leases that have not yet commenced• restrictions or covenants imposed by leases• sale and leaseback transactions

Lessor disclosures

Disclosure area	Summary of requirements
Finance leases	<ul style="list-style-type: none">• selling profit or loss• finance income on the net investment in the lease• income relating to variable lease payments not included in the measurement of the net investment in the lease• qualitative and quantitative explanation of significant changes in the net investment in the lease• maturity analysis of lease payments receivable• reconciliation of undiscounted lease payments to the net investment in the lease
Operating leases	<ul style="list-style-type: none">• lease income, separately disclosing income for variable lease payments that do not depend on an index or rate• as applicable for underlying asset, relevant disclosures in<ul style="list-style-type: none">– MFRS 116 for leases of property, plant and equipment, disaggregated by class– MFRS 136 'Impairment', MFRS 138, MFRS 140 and MFRS 141• maturity analysis of lease payments
Other	<ul style="list-style-type: none">• additional qualitative and quantitative information about leasing activities as necessary to meet disclosure objectives, including but not limited to:<ul style="list-style-type: none">– nature of leasing activities– how the risk associated with any rights retained in the underlying asset is managed

Contact us

We hope you find the information in this article helpful in giving you some detail into aspects of MFRS 16. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.com.my to find your local member firm.



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