



FAQ on IFRS 16

Scenario:

Many Governments have recently offered certain reliefs to businesses. The tenants are negotiating with landlords for rent holidays and rent reductions.

In May 2020, the IASB issued amendment to IFRS Standard on leases to help lessees accounting for Covid-19-related rent concessions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

PB Interpretation

The amendment will help entities dealing with similar reliefs and concessions in their financial reporting activities. There are certain questions which needs to be considered:

- Did the rent concession occur as a direct consequence of the COVID-19 pandemic?
- Does the change in lease payments result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change?
- Does the reduction in lease payments affect only payments originally due on or before 30 June 2021?
- Is there no substantive change to other terms and conditions of the lease?
- Does the lessee elect to apply the practical expedient to all rent concession relating to leases with similar characteristics and in similar circumstances?

If answer to above said questions is yes than the Lessee does not account for the change in lease payments as a lease modification. Rather, lessee accounts for the change in lease payments as if it were not a lease modification, and accounts (mostly) for as a variable lease payment. If accounted for as a variable lease payment, the concession is accounted for in statement of profit or loss in the period in which the event or condition that triggers those payments occurs.

Prepared by: Rishi Aggarwal, Partner

If you want to discuss more IFRS 16, please drop us an email at info@premier-brains.com or call us at + 971 4 3542959.

ABOUT PB

Premier Brains is a firm of qualified and experienced audit, tax and finance advisors.

Delivering exceptional business value to our clients is our primary goal.

- Audit and Assurance (External & Internal)
- Tax Agency with FTA
- Tax Advisory
- Business valuations
- Feasibility Studies
- Business Accounts Outsourcing Services

- Fund raising and restructuring
- JAFZA Offshore agents
- Company incorporations (under group entities)

"ALWAYS DOING THE RIGHT THING"