

# Background

IFRS 16 *Leases* was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

The changes are more than an accounting technicality. They have the potential to impact on procurement processes as more information becomes available on the real cost of leases. However, some work may be necessary to secure this new information. Local authorities therefore need the earliest possible understanding of the effects of IFRS 16, including the adaptations that will be made to maximise its effectiveness for local government.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued the text that had been approved at that date. This guidance is based on that text. The guidance is not therefore guaranteed to reflect the contents of the 2020/21 Code. It is not anticipated that this will be the case, but if the 2020/21 Code is substantially different from the July 2019 text, CIPFA will issue further guidance on the effect of the changes.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- the identification of leases
- the recognition of right-of-use assets and liabilities and their subsequent measurement
- treatment of gains and losses
- derecognition and presentation and disclosure in the financial statements,
- the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

Each of these areas is supported fully by practical tips, worked examples and illustrations.

This book will be of use to financial accountants, capital accountants, procurement teams, finance directors and anyone involved in the day to day administration and production of the financial statements.

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