



# The impact of IFRS 16 on your processes

## Your challenges

As of 1 January 2019, 'IFRS 16 Leases' became effective and all IFRS preparers are mandatorily required to comply with IFRS 16. As a result leases that were previously classified as operating leases under IAS 17 have to be capitalised to the balance sheet. This may lead to changes in your balance sheet and statement of profit or loss. It could also impact compliance with banking covenants and influence key performance measures.

### Your challenges in the transition to IFRS 16?

To determine the value of the lease liability and the corresponding right-of-use asset, IFRS 16 requires all future lease payments to be discounted to their present value using either the discount rate implicit in the lease or the entities incremental borrowing rate (IBR). That sounds quite simple but is it really the case?

The transition to IFRS 16 requires the following key inputs which require significant judgments to be made:

- Selecting an appropriate transition method. Deciding between the full retrospective or modified retrospective approach.
- Identifying the leases that have to be transitioned to IFRS 16. Which practical expedients could be applied?
- Determining the period of the lease. In many cases this does not equate the contractual lease period.
- Determining the discount rate implicit in the lease or the incremental borrowing rate. IBR calculations are considered complex and is mandatory if the transition method chosen is that of the modified retrospective approach.

- Selecting an appropriate software solution for capturing and processing IFRS 16 data. Combining our expertise in financial reporting, financial analysis and IT allows Mazars to provide our clients with practical solutions to the complex requirements of IFRS 16.

## How can we be of service?

- Making the right decisions with regards to transition options and the use of practical expedients.
- Assistance with lease identification, determining the lease period and capturing of lease data.
- Calculating the IBR or interest rate implicit in the lease.
- Calculating accounting adjustments and preparing draft disclosure for inclusion in the financial statements.
- Training on the Excel based software solution developed by Mazars.
- Assessing the impact of IFRS 16 on your financial statements by simulating various scenarios with our Excel based tool.

In our publication [IFRS 16 Overview: What does the future hold for your lease contracts?](#) we elaborate on the essentials of IFRS 16.



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Mazars is een internationale geïntegreerde accountants- en adviesorganisatie. Wij nemen verantwoordelijkheid voor het vormgeven van een duurzame sector en willen bijdragen aan het creëren van een economische basis voor een eerlijke en welvarende wereld. Mazars opereert als een wereldwijd partnership met een geïntegreerd team van professionals op het gebied van audit, accountancy, tax en consultancy.

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