

# IFRS 16 Lease modifications

August 2020

Lease modifications may result from any change in the lease *term*, lease *amount* or a change in the underlying asset (scope); for example, additional space rented, extending the lease term, etc.

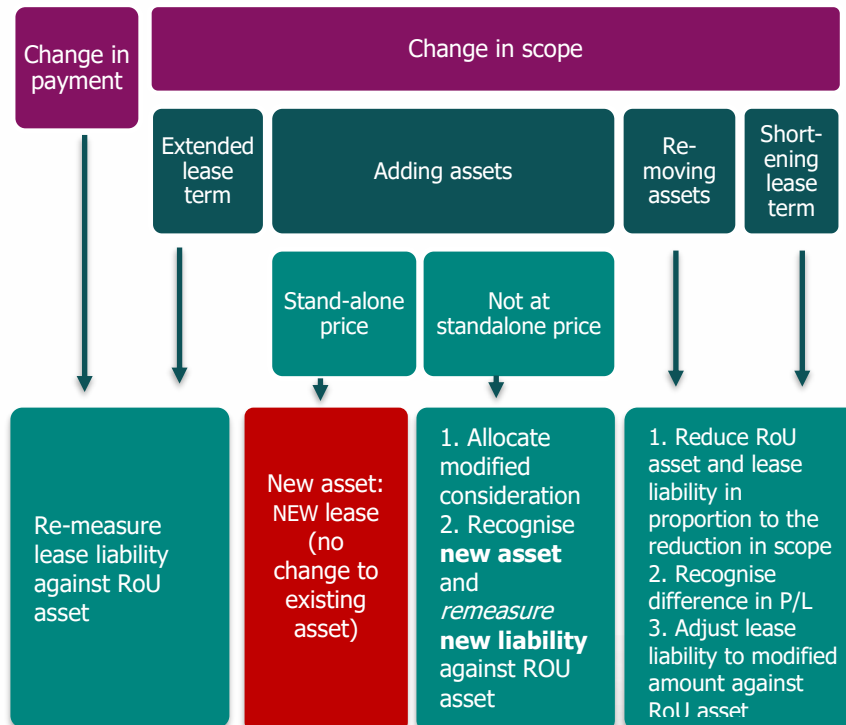
Whether you will recognise a **new lease\*** is really only determined by two things:

1. The **type of lease** you entered into from a lessor or lessee's perspective, and
2. Whether the **scope of the lease** was **increased** together with a corresponding increase in the lease payments.

Changes to the corresponding lease assets and liabilities (net difference) is **recognised in profit and loss**.

**\*IFRS allows an exception to recognising a new lease for certain lease modifications due to COVID 19 (see May 2020 Tip)**

## Lessees: ROU Lease modification

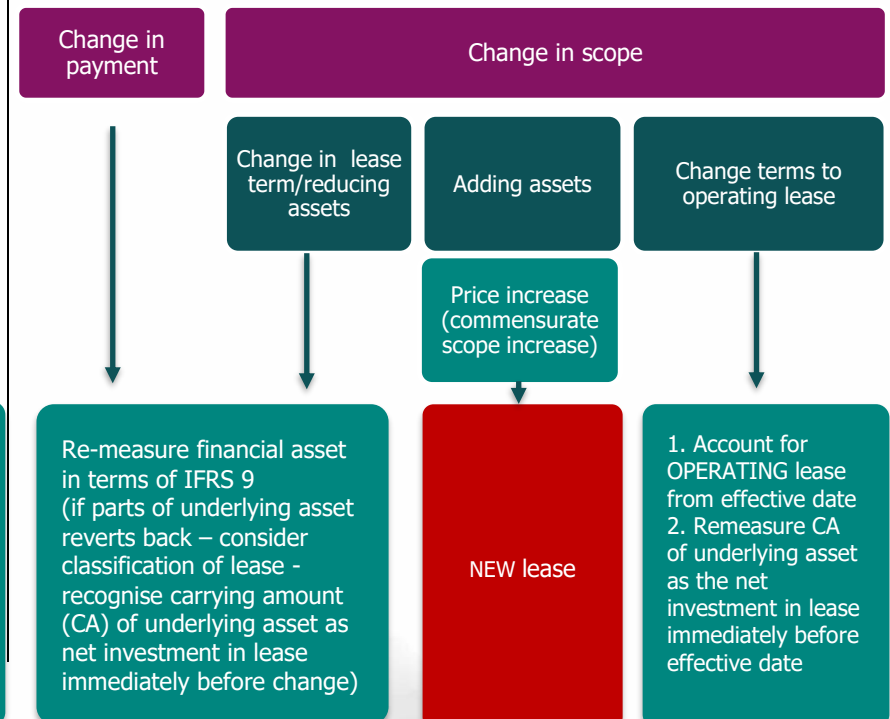


Lessors may recognise operating leases and lessees may recognise certain leases as short term and low value leases using the *straight-line basis*. Lease modifications to these leases will ALWAYS result in a **new lease** being recognised.



For all other leases, the scope must be considered in determining how to account for the change:

## Lessors: Finance Lease modification



The last few months forced many entities to renegotiate lease terms and review their current lease agreements – the question arises how and when to account for a new lease when the lease terms and/or lease payments have changed, or where it was determined that it is not a new lease but a lease modification.