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New lease accounting standard for lessee: are academia ready?

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The purpose of this article is to summarise the accounting for lease in lessee's books under new standard for lease. A lease refers to an agreement whereby the legal owner of an asset (lessor) conveys to the user of the asset (lessee) the right to use an asset for a period of time in exchange for consideration. MFRS16 *Leases* was issued by Malaysian Accounting Standards Board (MASB) in April 2016 to prescribe the principles for the recognition, measurement, presentation and disclosure of leases.

The previous standard of MFRS117 *Leases* required lessees to apply a "right and rewards" model whereas MFRS16 required lessees to use a "right of use asset" account to account for lease. According to MFRS117, lessee has to determine whether a lease is a finance lease or an operating lease and this will depend on the substance of the transaction rather than a legal form.

According to MFRS16, there is no classification of leases by lessee because the new standard removes the distinction between a finance lease and an operating lease in the financial statements of lessees. At the commencement date, a lessee has to recognize a right-of-use asset and a lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value.

A lessee may choose not to apply the recognition and measurement of right-use-asset and liability to short term leases where the lease term is 12 months or less and to the low value leases where the leased asset has a low value when new. The amount of lease payments paid for these two types of leases are to be recognised as an expense in the statement of profit and loss.

Lessee has to measure a right-of-use asset at cost. The cost comprises the amount of the lease liability plus any lease payments made before the commencement date less any lease incentive received and then plus any initial direct cost incurred by the lessee and any costs which lessee will incur for removing the underlying asset or restoring the site at the end of the lease term. The lease liability shall be measured by lessee at the present value of the lease payments over the lease term, discounted at the rate implicit in the lease or at their incremental borrowing rate.

After lease commencement:

a. The right-of-use asset should be depreciated over the shorter of asset useful life and the lease term. If at the end of lease term, the lease transfers ownership of the underlying asset to the lessee, the right-of-use asset is depreciated over the useful life of the asset.

b. The carrying amount of the lease liability is increased by interest expenses on the outstanding liability and reduced by the lease payments made.

c. A lessee shall measure the right-of-use asset using a cost model that is at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability specify in paragraph 36(c) of MFRS16 unless : (a) a lessee choose to apply fair value model to its right-of-use assets that meet the definition on investment property and (b) a lessee choose to apply revaluation model to its right-of-use assets that is classified as MFRS116 *Property, Plant and Equipment.*

In the statement of financial position of lessee, right-of-use asset to be presented under non-current assets and lease liabilities should be divided between non-current and current liabilities.

References

Malaysia Accounting Standards Board (2016). Malaysia Financial Reporting Standard 16 Leases,www.masb.org.my.

Malaysia Accounting Standards Board (2011). Malaysia Financial Reporting Standard 117 Leases,www.masb.org.my.