

Company Procedure GFC 0078 Leases

1. Purpose

To provide guidelines to ensure that all operating and finance leases are accounted for correctly. Finance/operating lease distinction for lessor has been retained but this is no longer relevant for lessees. AASB 16 – Leases introduced a single lease accounting model for lessee accounting where most leases will be on the balance sheet. Dual lease accounting model for lessors based on AASB 117.

Endeavour Energy implemented the new standard from 1st July 2019. Grandfathering approach was applied to existing contracts on implementation.

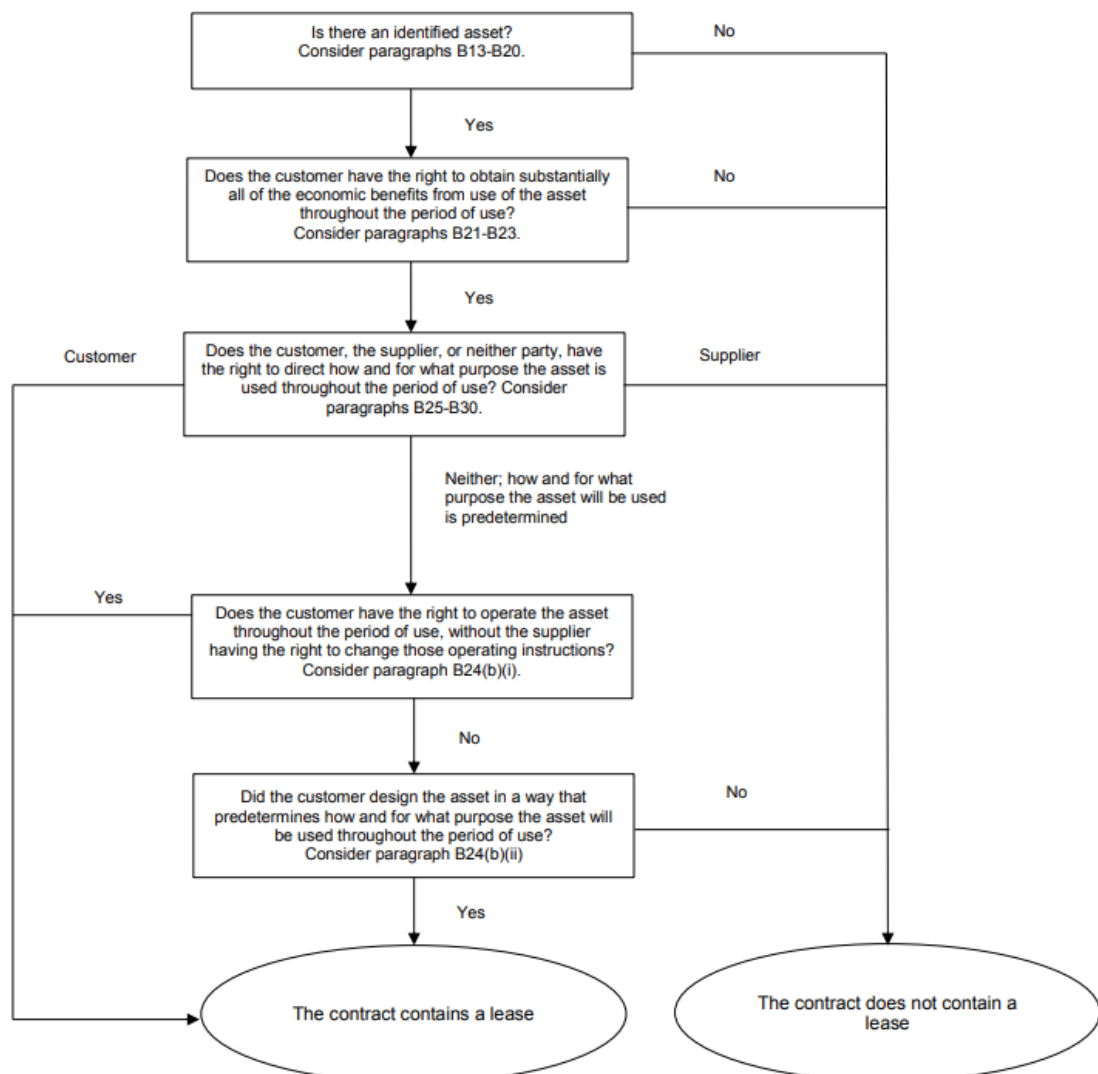
2. Scope

This procedure will be applied by Finance and Business Owners on all contracts.

3. Actions

Recognition, measurement, presentation and disclosure of leases must be made in accordance with the requirements of AASB 16 Leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

The flowchart from AASB 16 will assist in making the assessment of whether a contract is, or contains, a lease.



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3.1 Accounting treatment

3.1.1 Recognition

At the commencement date (the date on which a lessor makes an underlying asset available for use by a lessee, a lessee shall recognise a right-of-use asset and a lease liability commencement date of the lease

3.1.2 Measurement

Initial measurement

Balance sheet	Profit or Loss
Asset = "Right of use (ROU)" of underlying asset Liability = Obligation to make lease payments	Lease expense: Depreciation + Interest = Front loaded total lease expense

Asset:

ROU (DR) = Lease liability + Initial direct costs + Prepaid lease payments + Estimated costs to dismantle, remove or restore per AASB 137 Provisions – Lease incentives

Liability

Lease Liability (CR) = Present value of lease rentals + Present value of future lease payments

Subsequent measurement

Asset

The ROU asset is measured subsequently at cost unless the lessee applies the fair value model in AASB 140 or revaluation model in AASB 116. Depreciation is in accordance with AASB 116 and ROU assets are subject to impairment under AASB 136. Most often, ROU assets are a part of a CGU and therefore are not tested for impairment individually

Liability

Lease Liability (CR) = Present value of lease rentals + Present value of future lease payments

After the initial recognition, the measurement of a lease liability is affected by:

- accruing interest on the lease liability;
- lease payments made; and
- remeasurements reflecting any reassessment or lease modifications.

3.1.3 Presentation and Disclosure

Refer to AASB 16.47- 60 for presentation and disclosure requirements

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4. Terms and definitions

For specific terms and definitions related to Leases accounting standards refer to AASB 16 - Appendix A Defined terms.

Terms defined in the Global Definitions Dictionary

Term	Definition
Document control	Employees who work with printed copies of documents must check the BMS regularly to monitor version control. Documents are considered "UNCONTROLLED IF PRINTED", as indicated in the footer.

5. Document information

Content Coordinator	Financial Control Manager
Division	Finance
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Relevant Legislation	AASB 16 Leases
Relevant Standards/Codes	Nil
Related Policies	Nil
Related Procedures / Workplace Instructions	Nil