

CPA FINANCIAL REPORTING 2020 (EDITION 5) HD SUMMARY NOTES

High Distinction

MODULE 1: The role and importance of financial reporting
MODULE 2: Presentation of financial statements
MODULE 3: Revenue from contracts with customers; provisions, contingent liabilities and contingent assets
MODULE 4: Income Taxes
MODULE 5: Business combinations and group accounting
MODULE 6: Financial Instruments
MODULE 7: Impairment of Assets

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PART A: The role and importance of financial reporting	p2
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Financial reporting is a process that provides entities with an important communication tool allowing the management of an entity (preparers) to produce financial information for external stakeholders (users).

The role of financial reporting	p2
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Identification of target users of financial statements is critical

Effective financial reporting communicates the story of the entity during the period.

The IASB is focused on improving the communication effectiveness of financial statements (IASB 2016a).

Financial reports provide information about an entity's financial position, and the effects of transactions and other events that give rise to changes in financial position (Conceptual Framework, paras OB12–OB16).

The importance of financial reporting	p3
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Financial reporting is important because of the level of resources under the care of managers and the significance and financial impact of the decisions made by users that are based on this information.

Information needs of the user

The focus of financial reporting is on the information needs of **primary users**, but this does not mean that financial reports will be irrelevant to other users. Although the reports may not be specifically tailored to meet their needs, other parties, such as regulators and members of the public, may find general purpose financial reports useful (Conceptual Framework, para. OB10).

The IASB's approach to resolving conflicting user information needs is to seek to provide the information that will meet the needs of the maximum number of primary users. However, it is noted that focusing on common information needs does not prevent an entity from providing additional information that may be useful to a group of users (Conceptual Framework, para. OB8).

Understanding the international financial reporting standards	p5
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The information included in GPFs must comply with the International Financial Reporting Standards (IFRSs) and achieve fair presentation in accordance with the definition and recognition criteria in the Conceptual Framework.

If a conflict is identified between provisions of an IFRS and the Conceptual Framework, the IFRS will take precedence.

There are two series of international accounting standards.

1. The International Accounting Standards (IASs), are those standards issued from 1973 to 2001, before the new International Accounting Standards Board (IASB) was formed.
2. International Financial Reporting Standards (IFRSs), are those standards issued under the IASB since 2001 and reflect the changes in accounting and business practices since that date.

Who must prepare general purpose financial reports?	p7
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IFRS are silent on which entities should prepare GPFs. This matter is left to governments and regulatory agencies.

Australia:

s292 of the Corps Act states that financial reports must be prepared by all disclosing entities, public companies, large proprietary companies and registered schemes.

Section 296 stipulates that the report must comply with accounting standards.

In addition to formal regulations, there are examples of guidance on who should prepare reports based on professional judgment linked to the needs of external users (e.g. Statement of Accounting Concept (SAC) 1, para. 41)

The objective of general purpose financial reporting is to provide useful financial information to various users to support their decision-making needs. In addition, there is a stewardship function, which involves reporting on how efficiently and effectively management has used the resources entrusted to it.

International initiatives to decrease financial reporting complexity

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An ongoing criticism of financial reporting is the complexity of financial reports. Improving the communication effectiveness of financial reporting is a key focus for the IASB currently, and there are a growing number of initiatives to help combat the issue, including:

- reducing differences in reporting standards between countries
e.g. working to converge US GAAP with IFRS
- reducing reporting requirements of specific organisations
e.g. small and medium-sized entities per IASB OR entities with Reduced Disclosure Requirements per the AASB
- catering to the information needs of multiple stakeholders
e.g. users wish to measure performance from a range of perspectives – so there is a lot of non-mandatory information in annual reports which make the preparation of financial statements seem like compliance only.

IASB initiatives:

- Principles of disclosure – develop a disclosure standard that binds financial statements (IAS1 and IAS8)
- Standard level review of disclosure – improve disclosure related to the respective standards
- Materiality – guidance on the application of materiality (discussion on also removing overwhelming or distracting immaterial information)

Financial Reporting Council, UK: introduced a forum (Financial Reporting Lab) to provide companies and investors with an opportunity to solve contemporary reporting needs.

The Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements. It is a practical tool that assists the IASB when developing and revising IFRSs (Conceptual Framework, para. 1).

Chapter	Content
Introduction	Provides a detailed description of the purpose, status and scope of the Conceptual Framework
1. Objective	<ul style="list-style-type: none">Sets out the objective of general purpose financial reporting,Includes paragraphs identified as 'OB' before their paragraph numbers
2. Reporting entity	<ul style="list-style-type: none">Content not yet been included; to be developed as part of the current Conceptual Framework revision project
3. Qualitative characteristics	<ul style="list-style-type: none">Provides guidance on the qualitative characteristics of useful financial informationIncludes paragraphs identified as 'QC' before their paragraph numbers
4. Remaining text of the 1989 Framework	<ul style="list-style-type: none">Includes the rest of the Conceptual FrameworkSets out the going concern assumption as well as the definitions of the elements of financial statements and the recognition criteria

When standards do not provide guidance or sufficiently specific guidance, it is the role of the Conceptual Framework to provide guidance to facilitate consistency in the reporting of transactions and events.

The Conceptual Framework provides a formal frame of reference for:

- the types of transactions and events that should be accounted for;
- when transactions and events should be recognised;
- how transactions and events should be measured; and
- how transactions and events should be summarised and presented in financial statements.

Who is applying the Conceptual Framework	How the Conceptual Framework is applied
Standard setters	To develop accounting standards
Preparers	Guidance when issues that are not directly covered by a standard or interpretation arise (Specifically, IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> requires the Conceptual Framework to be considered when there is an absence of a specific accounting standard or interpretation (IAS 8, paras 10–11)).
Auditors	To help form an opinion on compliance with an IFRS
Users	To better understand and interpret the financial reports they are reviewing

Decision-usefulness objective

Standard setters should seek to determine what types of information are most useful for decisions made by users of financial statements.

Limitations of the decision-usefulness objective

- Lack of familiarity with new types of information – any evaluation of the usefulness of items of information to users is biased by their familiarity with the information
- Decision-usefulness may vary among users – users make different types of decisions, such as whether to sell their shares or whether to extend credit. Even the same type of user can make decisions based on different models or frameworks
- Capable of multiple interpretations – criterion appears to be capable of supporting too many different measurement bases

Types of financial reporting

General purpose financial reporting (broad focus) – users do not have the right to request reports to meet their needs and rely on the financial statements for decision making

Under OB5 of the Conceptual Framework, **primary users** of GPFRs are existing and potential investors, lenders and other creditors. Others, such as management, regulators or the general public, may find the info useful but the reports are not specifically directed at them

Special purpose financial reporting (narrow focus) – users can request specialised reports (e.g. banks, regulators) and use special purpose financial statements for decision making

Limitations of general purpose financial reporting

There are limitations to the extent that financial reporting can provide useful information to all users:

- Lack of familiarity with new types of information
- Decision usefulness may vary among users (see above for more detail)
- Capable of multiple interpretations
- Time and costs constraints in preparing GPFS

The IASB recommends the use of other sources (Conceptual Framework, para. OB6) to help gain a clearer understanding and also explains that the reports are ‘not designed to show the value’ of the organisation but to help decision-makers make their own estimates as to its value (Conceptual Framework, para. OB7).

In addition, financial reporting has a historical focus that may be an indicator of future performance.

Principles established in the Conceptual Framework (p14)

Accrual basis of accounting: recognises the effects of transactions and other events when they occur (which may not relate to the time that cash is exchanged)

Going concern: presumes that the entity will continue to operate for the foreseeable future.

Chapter 3 of the Conceptual Framework focuses on qualitative characteristics.

To be useful, financial information must be **relevant and faithfully represent** what it purports to represent.

The usefulness of financial information is enhanced if it is **comparable, verifiable, timely and understandable** (Conceptual Framework, para. QC4).

Fundamental qualitative characteristics

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Relevance

Information is relevant when it is capable of influencing the decisions of users (Conceptual Framework, para. QC6). This influence can occur through the predictive value or the confirmatory value of information, or both.

The Conceptual Framework requires relevant information that helps users ...	How this relates to financial reporting	An example
... in forming expectations about the outcomes of past, present and future events	This relates to the predictive value of accounting information	Financial statements can be used to predict the future cash flows of an entity and the timing and uncertainty of those cash flows.
... in confirming or correcting their past evaluations	This is referred to as feedback, or the confirmatory value of accounting information	Expectations of future cash flows can be compared with actual cash flows when financial statements relating to those future periods are issued and the reasons for any differences between expected cash flows and actual cash flows are investigated.

Relevance also encompasses **materiality**, which is affected by the nature or size of an item of information, or both. It is a matter of judgement.

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity (Conceptual Framework, para. QC11).

IASB released a draft Practice Statement that highlights ways management can identify whether information is useful to primary users:

Consideration	Example
User expectations	How users think the entity should be managed (i.e. stewardship) gathered through discussions with users or from information that is publicly available
Management perspective	Changing management perspective to think about decisions from the perspective of the user (i.e. as if they were external users themselves and did not have the internal knowledge held by management, for example, about key risks or key value drivers)
Observing user or market responses to information	For example, on particular transactions or disclosures issued by the entity or on responses by external parties such as analysts
Observing industry peers	For example, observing what information peers within the industry are presenting in their financial reports (Although there are similarities between entities in the same industry, it does not mean that the same kind of information will necessarily be material.)

Faithful representation (p17)

Faithful representation requires that financial statements faithfully represent the transactions and events that they purport to represent (Conceptual Framework, para. QC12).

Faithful representation means that financial information is **complete, neutral and free from error**.

Faithful representation implies that there should be a fair representation of economic outcomes or reality.

Application of fundamental qualitative characteristics

For information to be useful, it must be both relevant and faithfully represented. This may involve professional judgment in making a trade-off between relevance and faithful representation.

Comparability

Financial information is more useful if it can be compared with similar information about **other entities** and with similar information about the same entity over **different timeframes**.

The Conceptual Framework refers to the concept of **consistency**, which is defined as ‘the use of the same methods for the same items’ (para. QC22). Consistency of accounting methods is seen as contributing to the goal of comparability.

Note that comparability is not satisfied by mere uniformity of accounting policies and methods (Conceptual Framework, para QC23)

Verifiability

Verifiability exists if knowledgeable and independent observers can reach a consensus that the information is faithfully represented.

Verification can be direct (e.g. confirming a market price in an active market) or indirect (checking the inputs and processes used to determine the reported information).

Timeliness

Undue delays in reporting information may reduce the relevance of that information to users’ decision making. In some cases, it may be more appropriate to report estimates than wait until more directly observable information becomes available.

Understandability

Understandability requires the information in financial statements to be **clearly and concisely classified, characterised and presented** (Conceptual Framework, para. QC30).

Understandability cannot be interpreted independently of the capability of users of the financial statements. Users are **presumed to have reasonable knowledge** of business and economic activities (Conceptual Framework, para. QC32). This implies that the informed user should readily understand the measurement attribute adopted for a particular financial statement item.

Information is not excluded from a financial report **merely because it is difficult for users to understand** (Conceptual Framework, para. QC31). This would be inconsistent with the characteristic of completeness incorporated in faithful representation.

Application of enhancing qualitative characteristics

Enhancing characteristics improve the relevance or faithful representation of information – but they do not make irrelevant or unfaithfully represented information useful.

Preparers need to exercise professional judgement in balancing the qualitative characteristics and in assessing the relative importance of enhancing characteristics in different contexts.

Cost constraint on useful financial reporting

The Conceptual Framework (para. QC35) notes that a pervasive constraint on financial statements is the balance between the costs of providing information versus the benefits derived from their preparation and presentation.

Providing useful financial information also facilitates the efficient functioning of capital markets and lowers the cost of capital (Conceptual Framework, para. QC37).

Application of qualitative characteristics in the IFRSs

The qualitative characteristics are reflected in the underlying principles of the IFRSs. IAS 1 Presentation of Financial Statements, paras 15–24, refers to the Conceptual Framework definitions and recognition criteria, objectives and qualitative characteristics.

Key decision areas in accounting for transactions and other events:

1. **Definition:** does it meet the definition of an element of a financial statement?
2. **Recognition:** does it need to be incorporated in the financial statement?
3. **Measurement:** how should you measure the item?
4. **Disclosure / presentation:** how should it be disclosed or presented?

Defining elements of financial statements

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Assets

An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (Conceptual Framework, para. 4.4(a)).

The three key components of the asset definition are:

1. the requirement for the entity to have **control** of the asset;
2. that a **past event** has occurred; and
3. the need for **future economic benefits** to arise.

Can be a physical asset or an intangible.

Note that control does not mean ownership (consider a lease which gives control but not ownership).

Liabilities

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (Conceptual Framework, para. 4.4(b)).

The key components of the liability definition are:

1. the requirement for the entity to have a **present obligation** (may be legally enforceable or equitable);
2. that a **past event** has occurred; and
3. the need for an **outflow of future economic benefits**.

Equity

Equity is defined as 'the residual interest in the assets of the entity after deducting all its liabilities' (Conceptual Framework, para. 4.4(c)).

Income

Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants (Conceptual Framework, para. 4.25(a)).

The two essential characteristic of income are:

1. an increase in assets or a reduction in liabilities; and
2. an increase in equity, other than as a result of a contribution from owners.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants (Conceptual Framework, para. 4.25(b)).

The two essential characteristics of an expense are:

1. a decrease in economic benefits that may arise through outflows or depletions of assets or an increase in a liability; and
2. a decrease in equity, other than those arising from distributions to equity participants.

Criteria for recognising elements of financial statements

An item that meets the definition of an element of financial statements should be recognised if:

- (a) it is **probable** that any future economic benefit associated with the item will flow to or from the entity; and
- (b) the item has a cost or value that can be **measured with reliability** (Conceptual Framework, para. 4.38).

Probability: not defined in the CF, however, refers to the degree of uncertainty associated with the flow of future economic benefits to or from the entity (para 4.40)

Measured with reliability: does not require the cost or value to be known or directly observable. Can use estimates - 'use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability (para 4.41)

Criteria for recognising elements of financial statements

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The monetary amount at which an asset, liability or equity is recognised in the statement of financial position is referred to as its carrying amount (Conceptual Framework, para. 5.1). However, not all items that meet the definition of elements of financial statements are recognised.

Other relevant paragraphs:

- Para 5.7: assets and liabilities
- Para 5.4: income and expenses

Derecognition of assets and liabilities

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Applies only to recognised assets and liabilities – occurs when the item no longer meets the definition of an asset or liability per para 5.26.

Constraints on the framework

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Although a framework may establish principles, it does not necessarily remove the need for professional judgement by accountants.

Possible constraints:

- economic constraints or consequences (impact of accounting policy on share price, volatility or management remuneration)
- Social or political constraint (professional accountants may feel constrained – social, or regulators – political)
- Human resource / cost constraint

In relation to assets and liabilities, there are two stages of the measurement decision:

- how to measure the asset or liability at initial recognition; and
- how to measure the asset or liability subsequent to initial recognition.

Cost base and value based measures used in the IFRS

Measurement base	Advantages	Disadvantages
Cost / historical cost page 28 <p>The amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition (para 4.55(a))</p> <p>Applies to assets (e.g. PPE IAS 16) and liabilities (para 4.55(a))</p> <p>Most commonly adopted basis (CF para 4.56)</p>	<p>Easily understood—by users and preparers of financial statements.</p> <p>Relevant to decision-making—as it is the value of the consideration given or received in exchange for an asset or a liability.</p> <p>Reliable—historical cost provides evidence for income based on actual transactions with external parties.</p> <p>Inexpensive to implement—the measurement of historical cost is linked to the occurrence of transactions and is therefore readily available at little or no additional cost.</p>	<p>Limited relevance to decision-making – not forward looking and therefore has limited predictive value</p> <p>Undermines the comparability of financial reports – doesn't capture time value of money when aggregating items incurred at different points of time</p> <p>Problems with reliability – difficulties when calculating the fair value of consideration and other incidental costs. Historical cost may reflect management expectations rather than market value</p>
Amortised cost page 30 <p>The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and, for financial assets, adjusted for any loss allowance (IFRS 9, Appendix A).</p>		
Fair value page 32 <p>The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction</p>	<p>Considered by many to be more relevant than cost based measures</p> <p>IFRS 13 establishes a hierarchy for the measurement of fair value:</p>	<p>Lack of relevance to decision-making—in relation to assets that the entity does not intend to sell, such as financial instruments that the entity intends to hold to maturity; and</p> <p>Reliability problems—in relation to measuring the fair value of assets that are not traded in an active market.</p>

<p>between market participants at the measurement date (IFRS 13, para. 9).</p> <p>IFRS 13, Appendix A defines an orderly transaction (which is important for fair value)</p>	<p>Level 1: quoted market prices for identical assets / liabilities</p> <p>Level 2: estimated using a model with no significant unobservable inputs</p> <p>Level 3: use best available information on assumptions market participants would use to value an A / L</p>	
<p>Current cost <i>page 33</i></p> <p>The current cost of an asset is the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset were acquired currently (para. 4.55(b)).</p> <p>The current cost of a liability refers to the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently (para. 4.55(b)).</p> <p>In relation to assets, the definition implies that there are two concepts of current cost:</p> <ol style="list-style-type: none"> 1. reproduction cost—current cost of replacing an existing asset with an identical one; or 2. replacement cost—current cost of replacing an existing asset with an asset of equivalent productive capacity or service potential. 	<p>The reproduction cost is commonly interpreted as the most economic cost to replace the asset (IASB 2005, p97)</p>	<p>Lack of relevance to decision-making – Current cost is not a measure of the value received but of the amount of the sacrifice that would be required to replace an asset, and therefore, it has limited predictive value.</p> <p>Reliability problems—challenge to identify assets of equivalent productive capacity (e.g. technology continues to improve) and by measuring their most economic current cost (e.g. brands).</p> <p>Assessment also reliant on management's strategy / use of assets</p> <p>Comparability problems—Management strategies and expectations may change in response to changes in the business environment or over time. There may be significant differences between entities in the determination of current cost.</p>
<p>Fair value less cost of disposal <i>page 34</i></p> <p>Costs of disposal are the incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expenses (IAS 36, para. 6).</p>		
<p>Net realisable value <i>page 34</i></p>		<p>May reflect entity specific expectations – may not be in accordance with market expectations on which fair value would generally be based</p>

<p>Net realisable value is:</p> <p>The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale (IAS 2, para. 6).</p> <p>The use of net realisable value in financial reporting is largely restricted to its role in measuring inventories at the lower of cost and net realisable value, in accordance with IAS 2 <i>Inventories</i>.</p>		<p>Netting costs to complete an asset can result in recognising liabilities for future costs, for which there is no present obligation. This does not apply in the case of inventory, as the lower of cost or NRV results in decreasing the value of inventory (rather than increasing).</p>
<p>Fulfilment value <i>page 35</i></p> <p>The present value of the cash / resources obliged to be transferred to settle a liability. (para 6.17)</p> <p>Assets are carried at the amount of cash or cash</p>	<p>Note that a liability is measured as the amount that is paid to settle the liability with the counterparty (e.g. the lender) rather than the market value to transfer the liability to a third party.</p>	
<p>Value in use <i>page 35</i></p> <p>The present value of future cash flows expected to be derived from an asset or cash-generating unit'.</p> <p>Value in use is also frequently referred to as the 'entity-specific value'.</p> <p>The value in use should reflect the estimated future cash flows that 'the entity expects to derive from the asset' (IAS 36, para. 30(a)).</p>	<p>Management is in the best position to judge the expected amount, timing and risk of future cash flows.</p> <p>Management would be held more accountable against measurements that reflect entity-specific management objectives.</p>	<p>Reliability problems – It is specific to each entity and to each specific use. It therefore relates to only one specific future course of action.</p> <p>Value in use is subjective and is not capable of being independently verified by others.</p> <p>The application of value in use to assets that do not generate contractual cash flows is problematic.</p> <p>An individual asset may work with other assets, creating the need to allocate expected cash flows across assets. These allocations may be arbitrary.</p> <p>Understandability – The lack of clarity regarding whether value in use should reflect management or market expectations.</p>

Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business (para. 4.55(d)).

Issues that arise in the application of the valuation techniques include:

- the uncertainty of future cash flows; and
- the selection of an appropriate discount rate.

Uncertainty of future cash flows

The reliable measurement of the PV of individual assets and liabilities is problematic because future cash flows often occur under conditions of uncertainty. Even for contractual amounts, future cash flows may differ from those originally expected.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires that the amount recognised as a provision must be 'the best estimate of the expenditure required to settle the present obligation at the end of the reporting period' (para. 36). This is often expressed as the amount required to settle the obligation immediately or to transfer it to a third party.

A further difficulty can arise in determining the appropriate level of aggregation of cash flows. The need to allocate cash flows to particular items when those cash flows are produced by the interaction of more than one factor of production may introduce additional subjectivity into PV calculations.

Selection of appropriate discount rates

Investors require a rate of return that is commensurate with the systematic risk of an investment, irrespective of whether the investment is in a financial asset or a project involving non-monetary assets.

Systematic risk is sometimes referred to as market risk or non-diversifiable risk.

Unsystematic risk is specific to a particular asset due to that asset's unique features. Investors can drive asset-specific (unsystematic) risk towards zero by holding a diversified portfolio of assets.

Historical rates

In the context of a historical cost system, the historical interest rate implicit in the original contract is usually considered to be the rate at which the cash flows specified in the contract are to be discounted.

Current rates

Current rates are based on a discount rate that is current at the end of the reporting period. Most consistent with the fair value method.

Mixed measurement models are adopted in various forms with a focus on different measures and applications to provide accounting policy choice and, in some instances, to determine the required measurement basis.

Leases

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There are two recognition exemptions available to lessees: 'short-term leases' and low value leases (IFRS 16, para. 5).

Short term lease

No more than 12 months (IFRS 16, Appendix A)
The short-term lease exemption can only be applied to a class of underlying assets, not on the basis of the terms of each lease contract (IFRS 16, para. 8).

Low value lease

Assess when the asset is new. Cannot be applied to subleases.
The underlying asset is only of low value if:
a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
b) the underlying asset is not highly dependent on, or highly interrelated with, other assets (IFRS 16, Appendix B, para. B5).

Examples: tablets and personal computers, telephones, and small items of office furniture are examples of underlying assets of low value (IFRS 16, Appendix B, para. B8) – value of approx. USD5000 or less.

How to determine if there is a lease?

Where a contract 'conveys the right to control the use of an identified asset for a period of time in exchange for consideration' (IFRS 16, para. 9). The period of time is commonly greater than 12 months but it may also be expressed as an 'amount of use'.

The existence of a lease must be reassessed each time there is a change to the terms and conditions of the contract (IFRS 16, paras 9–11).

Recognition criteria for the lessee

At the commencement date of a lease the lessee recognises a right-of-use asset at cost and a lease liability (IFRS 16, paras 22–3).

A **right-of-use asset** is the asset specified in the lease contract that the lessee has the right to use during the lease term. The recognition and measurement criteria for a lessee are summarised in the table below.

Right-of-use asset	Lease liability
<p><i>Initial measurement</i></p> <p>The cost of the right-of-use asset shall comprise:</p> <ul style="list-style-type: none">the amount of the initial measurement of the lease liability ...;any lease payments made on or before the commencement date, less any lease <i>incentives</i> received;any <i>initial direct</i> costs incurred by the lessee; andan estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to	<p><i>Initial measurement</i></p> <p>The lease liability is measured at the present value of future lease payments, 'discounted using the <i>interest rate implicit in the lease</i>', or using 'the <i>lessee's incremental borrowing rate</i>' if the implicit interest rate cannot be easily determined (IFRS 16, para. 26).</p> <p>Future lease payments include:</p> <ul style="list-style-type: none"><i>fixed payments</i> ... less any lease incentives receivable;variable lease payments ...;amounts expected to be payable by the lessee under <i>residual value guarantees</i>;