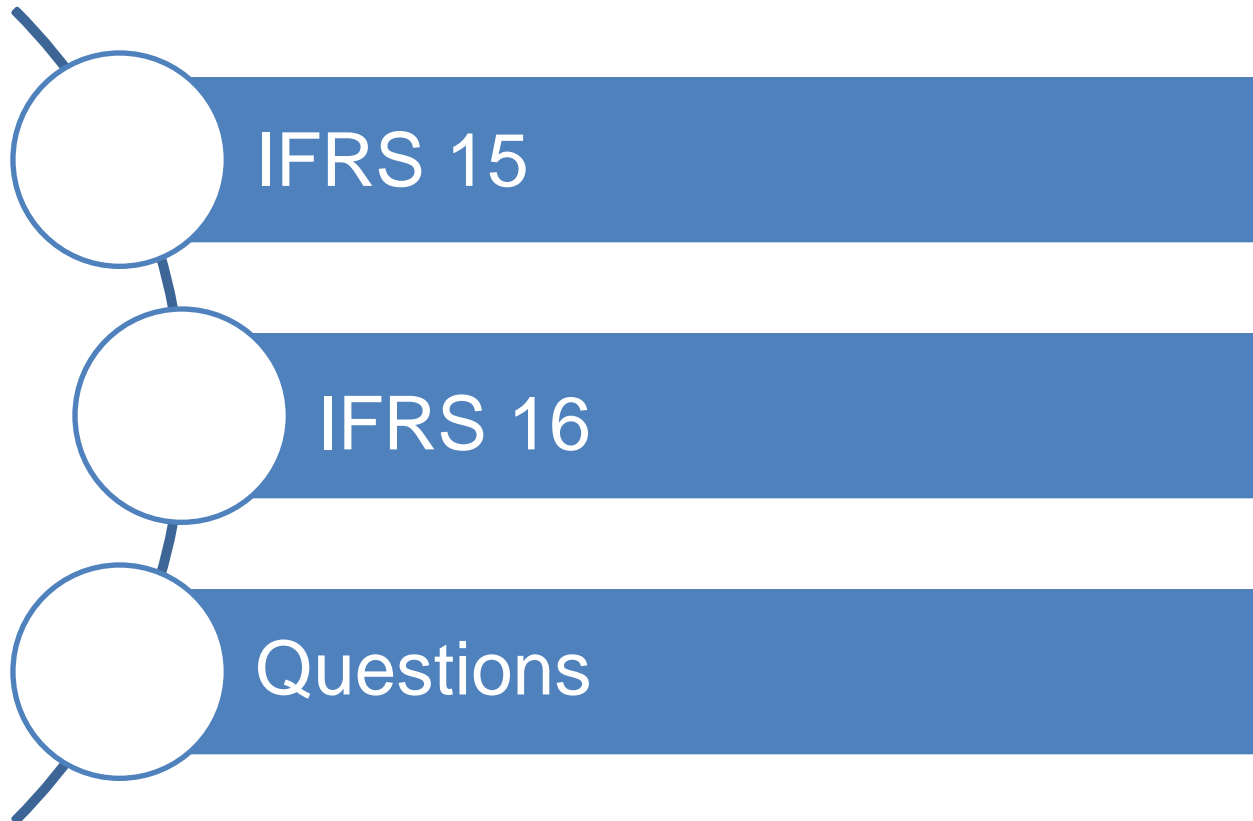


# IFRS 15 and 16 Update

Airports Council International – North America

Rob Malli – CFO & Vice President, Corporate Services

# Agenda



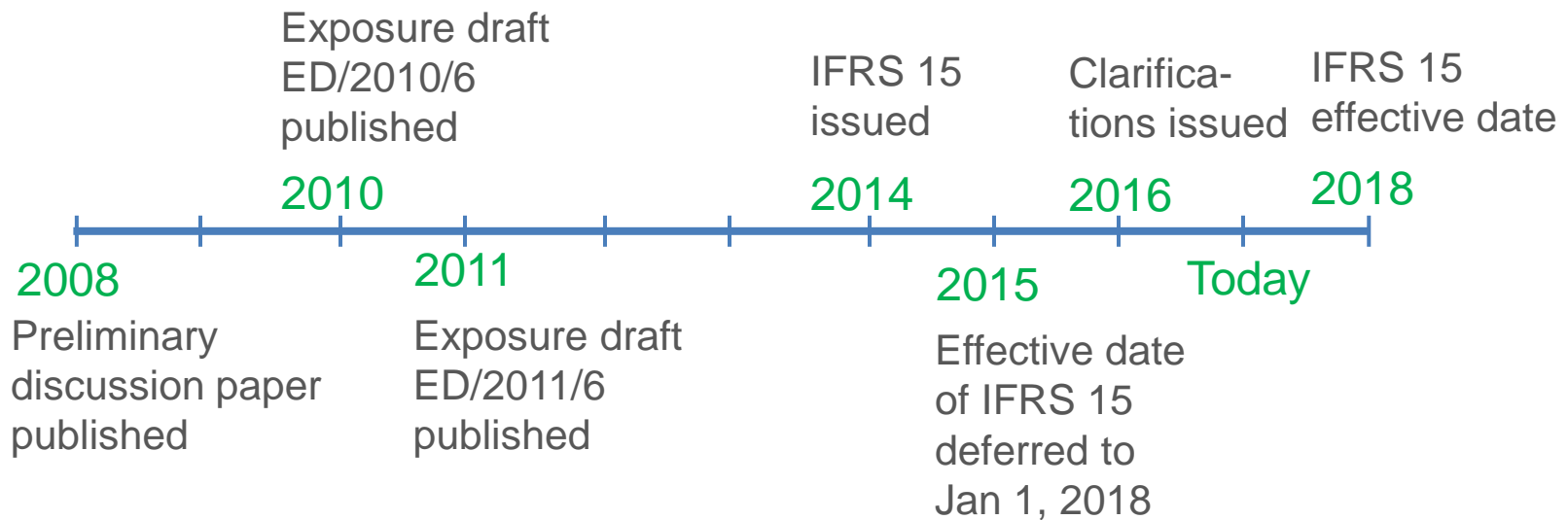
# Accounting frameworks for airports

<p><b>IFRS</b> (Part I – CPA Canada Handbook – Accounting) Publicly Accountable enterprises Edmonton. Toronto. Ottawa. Montreal.</p>	<p><b>ASPE</b> (Part II – CPA Canada Handbook – Accounting) Private enterprises Calgary. Halifax. Regina.</p>
<p><b>ASNPO</b> (Part III – CPA Canada Handbook – Accounting) Not for profit organizations Vancouver</p>	<p><b>PSAS</b> (Public Sector Accounting Standards) Public Sector entities</p>



# **IFRS 15 - Revenue from Contracts with Customers**

# IFRS 15 – timeline





## IFRS 15 – background

- A single, principles based five-step model to be applied to all contracts with customers\*.
- Replaces the previous revenue standards

\*except for lease contracts within the scope of IFRS 16 *Leases*; insurance contracts within the scope of IFRS 4 *Insurance Contracts*; financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

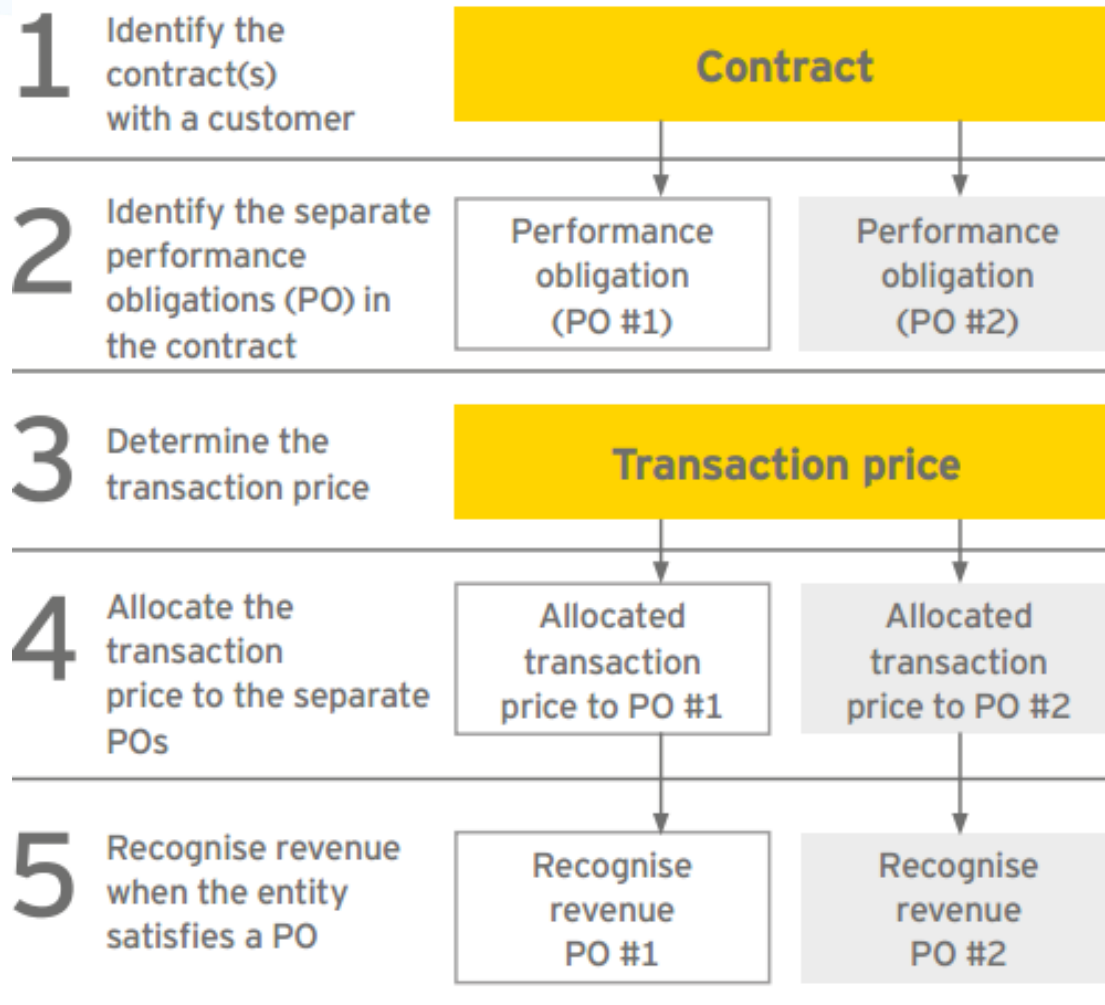


## IFRS 15 – why is IFRS 15 needed?

- Previous IFRS standard is quite broad and allowed for more interpretation
- Convergence with US GAAP (US GAAP guidance on revenue is very detailed)
- Promotes greater consistency and comparability across industries



# IFRS 15 – Five-step model





# IFRS 15 – example

Company ABC gives customer:

- 1) Free cell phone
- 2) 1 year phone plan for  $\$100 \times 12 \text{ months} = \$1200$



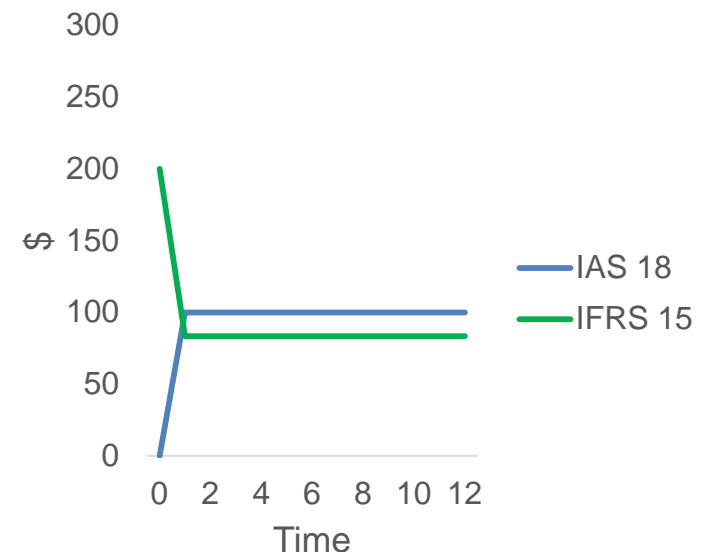
## Under IAS 18:

- Free cell phone may be treated as cost of acquiring the customer
- Revenue recognized evenly over 12 months

## Under IFRS 15:

- Free cell phone must be identified as a performance obligation
- Allocate \$200 of total transaction price to cell phone and recognize revenue when cell phone is given to the customer
- Remaining \$1000 recognize evenly over 12 months

## Revenue recognized over contract





## IFRS 15 – assessment and conclusion

- ✓ Incentives provided to air carriers:
  - Set up incentive as an asset at contract inception and take it as a reduction in revenue over contract term
  
- ✓ Non-cash consideration:
  - Depending on the transaction, timing of revenue recognition may be affected OR a corresponding increase to revenue and expense
  - **End result:** Nil impact to bottom line
  
- ✓ Extensive new disclosures



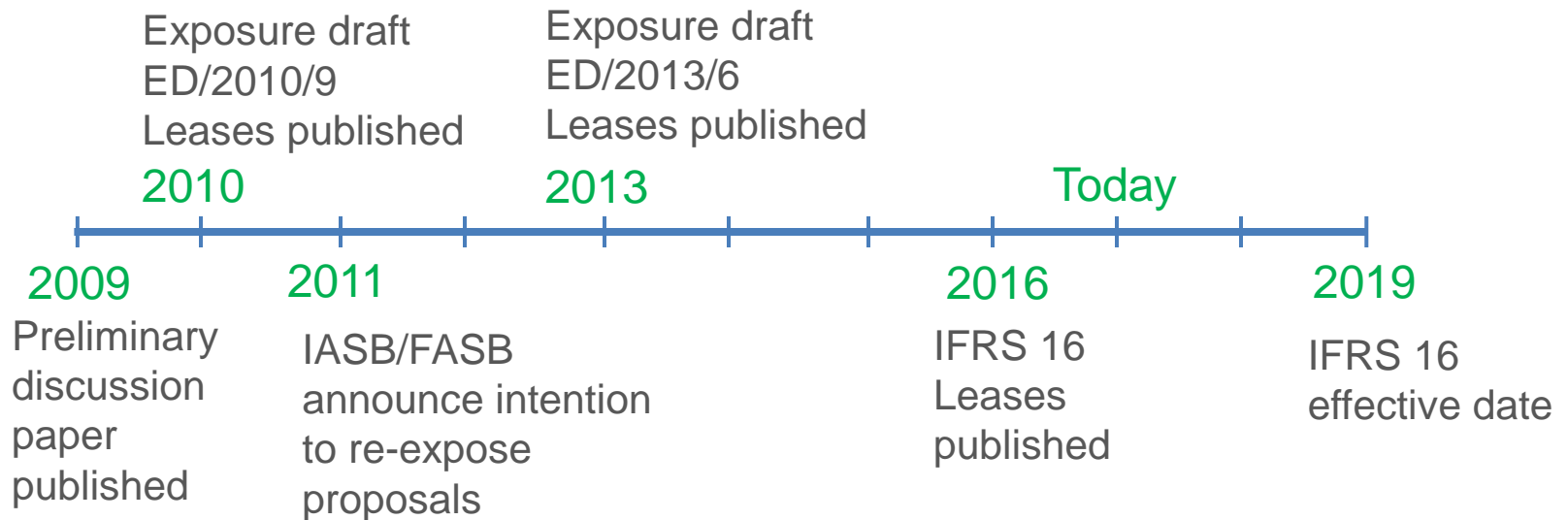
## IFRS 15 – other issues

- Contract costs
- Changes in the transaction price after contract inception
- Principal vs. agent
- Customer options for additional goods or services
- Renewal options
- Customers' unexercised rights
- Non-refundable upfront fees



# IFRS 16 - Leases

# IFRS 16 – timeline





# IFRS 16 – Leases

- A single accounting model for all leases\*
- Replaces IAS 17 Leases
- Applicable to annual reporting period beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 is applied or is applied at the same date as IFRS 16

\*except for leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; leases of biological assets within the scope of IAS 41, Agriculture, held by lessees; service concession arrangements within the scope of IFRIC 12, Service Concession Arrangements; licenses of intellectual property granted by a lessor within the scope of IFRS 15, Revenue from Contracts with Customers; and rights held by lessee under licensing agreements within the scope of IAS 38, Intangible Assets, for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

# IFRS 16 – Leases

## Lessor accounting



- Remains substantially the same.
- Lessor still classifies leases as either finance or operating.

## Lessee accounting



- Operating leases\* classified under IAS 17 **(off balance sheet)** will now be recognized as a right of use asset **(on the balance sheet)**

\*short-term and low value leases are exempted

# IFRS 16 – lessee accounting



Under previous standard, leases were classified as Finance leases or Operating leases.



Under new standard, recognize a right-of-use asset and a corresponding lease liability for all leases.

## Right-of-use asset

= lease liability  
+  
Any initial direct cost  
incurred

## Lease liability

= Present value of lease  
payments during lease  
term





## IFRS 16 – effect on financials

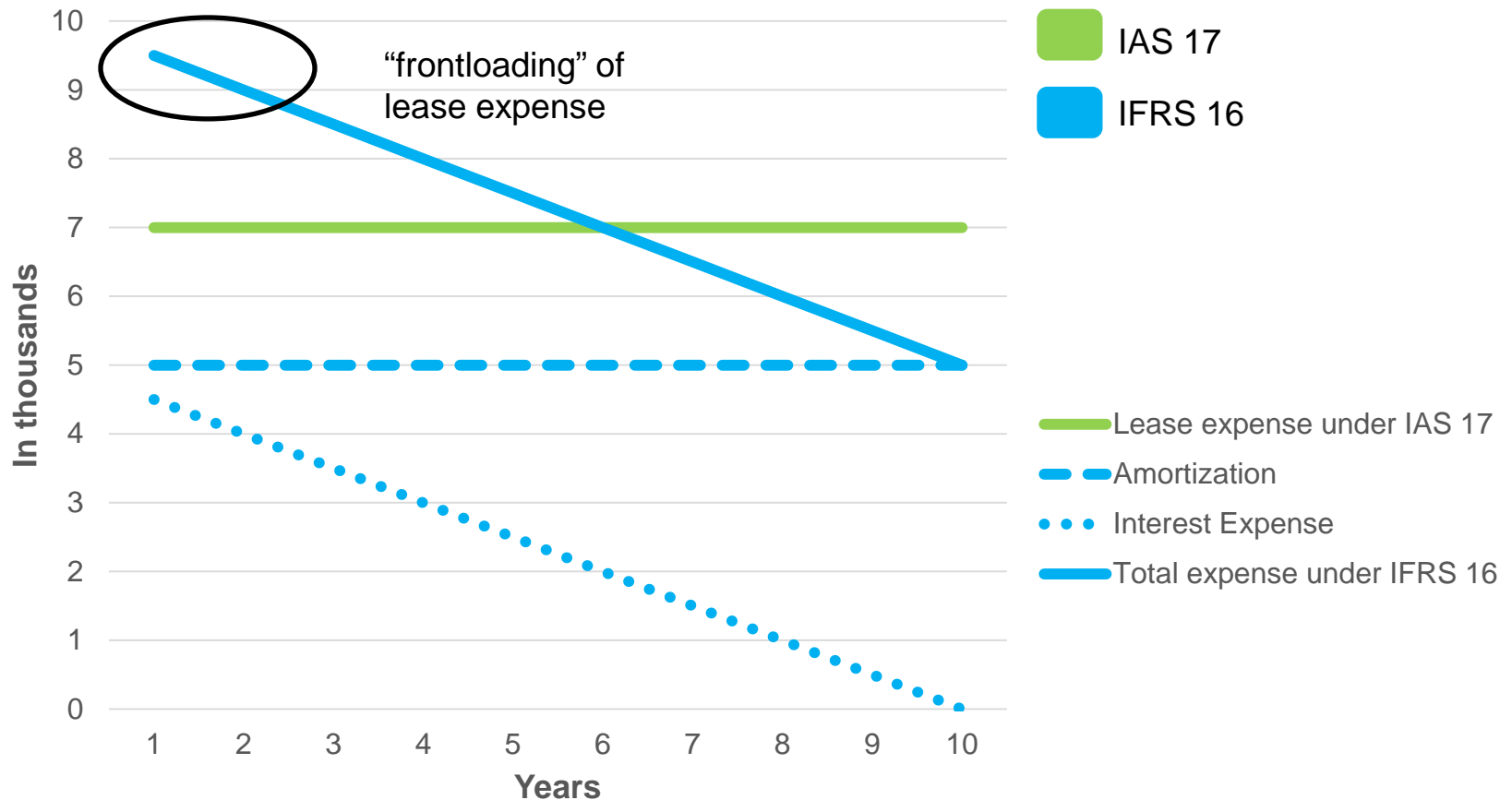
- **Right-of-use asset** would be depreciated on a straight line basis or another systematic basis.
- **Lease liability** is measured in subsequent periods using the effective interest method.

Lease expense = amortization + interest expense



# IFRS 16 – effect on financials

## Annual lease expense over lease term





# IFRS 16 – effect on financials

Balance sheet	Income statement	Cash flow
↑ Asset	↑ EBITDA	↑ Operating
↑ Liability	↑ Depreciation	- Investing
	↑ Interest expense	↓ <u>Financing</u>
		- Net cash flow

**Effect on financial ratios:** current ratio, asset turnover, interest cover, EBITDA, operating profit, net income, etc.



## IFRS 16 lessor accounting

- Unchanged. Classify lease as operating vs financing lease.
- *A lease is classified as a **finance lease** if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.*
- *A lease is classified as an **operating lease** if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset*



## IFRS 16 – assessment and conclusion

<u>Lessor Standpoint</u>	<u>Lessee Standpoint</u>
<ul style="list-style-type: none"><li>• No impact</li><li>• However, need to be aware of any non-lease components identified in the lease (i.e. utilities provided to tenants) and account for these components under IFRS 15.</li></ul>	<ul style="list-style-type: none"><li>• No impact - the lease payments made under the Canada lease is variable in nature and this precludes it from requiring to recognizing a right-of-use asset on the balance sheet.</li></ul>



## IFRS 16 – other issues

- Sale and leaseback
- Lease modification
- Initial direct costs

# Questions?

