Lease Accounting

Accounting & Finance

Why almost every lease now appears on the balance sheet.

Before IFRS 16

- Operating leases off balance sheet
- Rent expense in the income statement
- Gearing understated
- Comparisons distorted by lease choice

Under IFRS 16

- Right-of-use asset recognised
- Lease liability recognised
- Depreciation plus interest replaces rent
- Gearing and EBITDA both rise

THE DIFFERENCE THAT MATTERS

Nothing about the economics changed. Only the visibility did — which was the point of the standard.

Airlines and retailers were most affected: both leased heavily and reported far more debt after adoption.