

# Understanding low value assets

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The IASB has developed IFRS 16 as a new leases Standard which supersedes IAS 17. A company is required to apply the new leases from 01 January 2019.

An exemption to the requirements of IFRS 16 relates to leases of 'low-value' assets held by the entity.

IFRS 16 does not require a company to capitalise leases of low-value assets—for example, leases of assets that, at the time of issuing IFRS 16, would have a capital value (i.e new sales price) of approximately US\$5,000 (*converted to approx. R70,000*) or less.

**Note:** A company using this exemption is required to recognise the payments for those leases as an expense typically on a straight-line basis over the lease term. This results in no change to the accounting for those leases treated as off balance sheet leases applying IAS 17.

The correct determination of what constitutes a low-value asset within an entity is an activity which requires significant time and attention and which can have a significant impact on the transition from IAS 17 to IFRS 16.

## 1. Identification of low-value assets

It is important to note that the standard itself does not provide detailed guidance to assist in assessing what 'low-value' means. 'Low-value' is also not a defined term within the Standard itself.

The Basis for Conclusions of IFRS 16 provides the following insight and guidance regarding the type of leases to which the exemption is intended to apply:

*"The IASB intended the exemption to apply to leases for which the underlying asset, when new, is of low-value (such as leases of table and personal computers, small items of office furniture and telephones). At the time of reaching decisions about the exemption in 2015, the IASB had in mind leases of underlying assets with a value, when new, in the order of magnitude of US\$5,000 or less".*

## 2. Assessment of 'low-value' assets

When making the assessment of what is low-value, the standard requires the lessee to assess the value starting from the value of the underlying asset when it was **new**, regardless of the age of the asset at inception of the lease.

It is important to note that the outcome of the assessment of whether an underlying asset is of low-value should not be affected by the size, nature, or circumstances of the lessee – ie the exemption is based on the value, when new, of the asset being leased; it is not based on the size or nature of the entity that leases the asset.

## 3. Which assets may not be low-value assets?

Meeting the nominal threshold requirement alone is not in itself sufficient to warrant the classification of any particular asset as a 'low-value' asset.

IFRS 16 does not permit a lessee to break an asset down into many underlying assets of low-value unless:

- 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
- The underlying asset is not highly dependent on, or highly interrelated with, other assets.

Where a lessee sub-leases an asset, or expects to sub-lease an asset, the head lease cannot qualify as a lease of a low-value asset.

*Note that the recognition of a right-of-use asset and corresponding lease liability on the balance sheet is likely to lead to improved EBITDA. This may result in some entities electing not to apply the exemption.*