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| FRD 104 |  |  | Leases (April 2024) |
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| Purpose |  |  | To prescribe the accounting requirements on the application of AASB 16 *Leases*. |
| **Application** |  |  | **Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act* *1994,* except those entities which are not controlled by the State and whose financial position and result are thus not consolidated in the Annual Financial Report for the State of Victoria. Application by State owned corporations is encouraged.** |
| Operative date |  |  | **Annual Reporting periods commencing on or after 1 July 2023.** |
|  |  | 3.2 | **FRD 104 *Leases* iseffective from 1 July 2023 and is replacing FRD 123 *Transitional requirements on the application of AASB 16 Leases.*** |
| **Requirements** |  |  | **Initial recognition of a lease**  **At the lease commencement date, a lessee shall recognise a right-of-use asset and a lease liability for all leases, except for:**   1. **Short-term leases – leases with a lease term of 12 months or less; and** 2. **Low value leases – leases where the underlying asset’s fair value (when new, regardless of the age of the asset being leased) is no more than $10,000.**   **The election for short-term leases shall be made by class of the underlying asset. The election for low value leases should be made on a lease-by-lease basis.**  **An entity shall recognise the lease payments associated with short term leases and low value leases as an expense on a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee’s benefit.** |
|  |  | 4.2 | **Separating components of a contract**  **An entity** **is required to separate out and account for separately non-lease components within a lease contract and exclude these amounts when determining the lease liability and right-of-use asset amount.** |
|  |  | 4.3 | **Peppercorn/below market value leases:**  In December 2018, the Australian Accounting Standards Board (AASB) issued AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*, providing optional relief to not-for-profit entities to not apply the requirement to measure significantly below market leases at fair value.  **The State mandates that entities covered by this FRD apply the optional relief in AASB 16.Aus25.1 to not apply the fair value measurement requirements for right-of-use assets arising from leases with significantly below-market terms and conditions principally to enable the entity to further its objectives.** |
|  |  | 4.4 | **Subsequent measurement of a lease**  **All right-of-use assets, other than those arising from significantly below market leases, shall be accounted for using the revaluation model in accordance with FRD 103.** |
| **Definition** |  | 5.1 | **Leases:** A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. |
|  |  |  | **Lessee:** An entity that obtains the right to use an underlying asset for a period of time in exchange for consideration. |
|  |  |  | **Right-of-use asset:** An asset that represents a lessee’s right to use an underlying asset for the lease term.  **Refer to Appendix A Defined terms of AASB 16 *Leases* for a full list of definitions.** |
| Guidance |  | 5.2 | Supporting information and checklists have been published on the DTF website:  https://www.dtf.vic.gov.au/financial-reporting-policy/accounting-standards-checklists |
|  |  |  | An example of the disclosures required is contained in the Model Report for Victorian Government Departments. This model report is available on the DTF website:  <https://www.dtf.vic.gov.au/financial-reporting-policy/model-report> |
|  |  |  | An entity should refer to AASB 16 *Leases* for further information around the recognition and measurement requirements for right-of-use assets and lease liabilities. |
| Relevant pronouncements |  |  | AASB 16 *Leases*  FRD 103 *Non-financial physical assets* (April 2022) |
| Background |  | * + 1. 7.1 | The Australian Accounting Standards Board (AASB) published AASB 16 *Leases* which came into effect for reporting periods beginning on or after 1 January 2019. The purpose of this standard was to adopt a new approach to lease accounting that requires a lessee to recognise assets and liabilities for the rights and obligations created by leases. This meant that nearly all operating leases held by lessees were required to be recognised on the balance sheet.  To help facilitate the adoption of this new accounting standard, FRD 123 *Transitional requirements on the application of AASB 16 Leases (March 2020)* was released. The purpose of this FRD was to provide guidance on the transitional requirements for the first-time application of this new standard.  In April 2024, FRD 123 was withdrawn as the transitional requirements were no longer needed. Any ongoing requirements contained in FRD 123 were relocated to this new FRD at the time. |