

HND Accounting (G9M6 16) – Session 2019/20

Guidance - IFRS 16 Leases

There have been some changes to the professional standards relating to the accounting treatment of leases.

IFRS 16 Leases, which came into force in January 2019, notes a change to the way that non-current assets obtained using leasing finance are presented in the financial statements, in order to present a more accurate picture of the assets used in an organisation. **IFRS 16 Leases** specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

This change to the standard will have an impact on those supporting and assessing learners who are following an Accounting qualification, or studying accounting topics.

Further detail on the treatment of leases can be found at:

<https://www2.deloitte.com/uk/en/pages/audit/articles/ifrs-16-leases.html>

<https://www.icaew.com/technical/financial-reporting/ifrs/ifrs-standards/ifrs-16-leases>

SQA has carried out a review of the impact these changes will have on the content of some units within the HND Accounting framework. The units affected are primarily Accounting for Specialised Transactions (HC44 35), Financial Reporting and Analysis (HC43 35) and Accounting: Graded Unit 3 (F8KG 35). However, there is also an impact on Business Taxation (J0LY 35) and the optional unit Auditing (FN11 35). The table below outlines the effects on each of the units.

Unit Code	Unit Title
HC44 35	Accounting for Specialised Transactions
	Outcome 2 Record financial transactions and prepare extracts from the financial statements for leasing and hire purchase transactions
	This is the Outcome which is most affected by the introduction of IFRS16. The way that lease calculations are carried out must be amended in line with the new standard. This will have a significant impact on the narrative part of the task in the assessment for this Outcome, as well as requiring learners to study the single accounting model. The change in standard notes that a single accounting model should be applied for all leases except very short term (ie less than 12 months) or of very low value.

HC43 35	Financial Reporting and Analysis
	Outcome 1. Explain the underlying accounting concepts and the legal framework governing the preparation of financial statements of limited liability companies
	The treatment of leases is generally covered in this Outcome and is noted as an area where substance over form prevails and is in contradiction to current legislation. This will have to be amended in time for the 2020/21 session.
	Outcome 2. Prepare financial statements for a limited company for publication
	It should also be noted that the treatment of any leased non-current assets included in this Outcome should be properly reported.
JOLY 35	Business Taxation
	Outcome 1 Apply Income Tax legislation to calculate basic trading profit, and the tax payable thereon, for a sole trader. Centres should be aware of the impact of the change of the treatment of leases on computing the capital allowances for a given entity. Care must be taken in updating taxation scenarios for use in assessment.
F8KG 35	Accounting: Graded Unit 3
	Accounting: Graded Unit 3 incorporates knowledge and understanding from the three units, listed above, into the computational section and the narrative tasks of the assessment. As a result, Accounting: Graded Unit 3 will have to be amended to ensure that if leases are one of the adjusting items for the computational task that they are treated appropriately for the date that the lease commenced and the financial period selected. For the narrative tasks, there will have to be some changes to ensure that any narrative task relating to leases is correctly presented and solutions to this task are in line with the new standard.
FN11 35	Auditing
	Outcome 5 Devise an audit programme for the verification of the Statement of Financial Position This Outcome covers some substantive testing and looks at the ownership of non-current assets and the verification of any relevant documentation, as well as the accounting treatment of such. The date of commencement of any new lease used in the assessment of this Outcome should fall before 1 January 2019.

Session 2019/20

For session 2019/20, the current unit specifications affected by this new professional standard will be accepted, as will the continuing use of the current Assessment Support Packs (ASPs). Centres must ensure that the financial statements and the lease commencement must be prior to 1 January 2019. This is easily addressed by making the financial period end 31 December 2018 and any leases commencing prior to 1 January 2019.

If centres have already taken steps to incorporate the updated standard into teaching materials, and will assess under the new standards, then they must ensure that the assessments meet the requirements of the current unit specifications. They are advised to submit any updated assessment instruments for prior verification to ensure that they still meet the current unit specifications.

Session 2020/21

For session 2020/21, the updated professional standard for **IFRS16 Leases** must be incorporated into the teaching materials, and all assessments updated to reflect the new standard.

SQA will review unit specifications and assessment support packs (ASPs) for these units and amend as appropriate for August 2020.