37. CHANGES IN ACCOUNTING POLICIES

37.1 ADOPTION OF NEW STANDARDS EFFECTIVE

IFRS 16 Leases

The Group adopted IFRS 16 on 1 October 2019 and elected to apply the modified retrospective approach with the net impact of the first time adoption of IFRS 16 recognised in retained earnings. The Group applied the exception for short-term leases (lease term of less than 12 months) and leases of low value (R85 000) assets.

The adoption of the new standard had the most impact on the Groups' property operating leases that were capitalised on 1 October 2019 for the first time. The adoption of IFRS 16 resulted in a right-of-use asset of R1.7 billion and a corresponding liability of R2.3 billion with the difference of R281 million adjusted against retained earnings opening balance (see statement of changes in equity), R213 million against lease smoothing liability and R78 million against deferred tax.

There were a limited number of immaterial onerous lease contracts that requiring adjustment to the right-of-use asset at the date of initial application.

The lessor accounting has remained primarily the same and therefore there was no financial impact on the Group.

The following practical expedients were applied by the Group on adoption of IFRS 16 as follows:

1. No application of IFRS 16 to leases that were previously assessed not to contain a lease.
2. The accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short-term was not amended.
3. The use of hindsight in determining the lease term where the contract contains options to extend or terminate was not applied.
4. Lease components were separated from non-lease components and account for each separately.

Judgements and estimates applied in implementing IFRS 16

Lease term

The lease term is the non-cancellable period of the lease plus any optional renewal period less any optional early terminations where it is reasonably certain that the options will be exercised. The lease term was determined considering these options, where applicable, and involves judgement to determine whether the options will be exercised on a lease-by-lease basis. The following factors were considered in determining whether it is reasonably certain the options will be exercised, thus whether there is an economic incentive to exercise:

1. The strategic objectives of the business and annual business plans that observes a five-year cycle.
2. Whether the terms and conditions of the current lease are more favourable than the current market conditions.
3. The proximity of the leased premises to core customers and other business hubs.
4. Specifics for the premises/assets leased and any leasehold improvements, such as workshops or office building, undertaken by the Group optimised to business needs.
5. Costs relating to the termination of the lease.
6. The availability of similar/alternative assets in the market suitable to the business needs.
7. All relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

37.1 ADOPTION OF NEW STANDARDS EFFECTIVE continued

Incremental borrowing rate (IBR)

The Group engaged an external service provider to determine the IBRs which were distributed to and used by all divisions except for Barloworld Transport for leases of trucks and trailers as the IBRs could be determined from the contracts. The following judgements and estimates were applied in determining IBRs for Barloworld Transport:

1. The purchase price of the assets is known from the invoice/contract.
2. The lessors specify the residual value of the assets at the end of the lease period.
3. The leases are secured by the asset and there are separate contracts for each truck and trailer.
4. The present value, number of payments and actual payments are specified in the contracts.
5. The contracts have no option for extensions and no escalations.

The recognised right-of-use assets relate to the following categories of property plant and equipment:

	30-Sep-20	1-Oct-19
Land and buildings	**1 324**	1 295
Equipment, IT and plant	**7**	11
Vehicles	**280**	424
Total right-of-use assets	**1 611**	**1 730**

The impact of first time adoption of IFRS 16 for the 12 month ended 30 September is as follows:

	Right-of-use asset	Right-of-use liabilities	Deferred tax	Retained earnings	Lease smoothing liability
Capitalisation of operating leases on 1 October 2019	1 730	2 302	78	281	213
Additions	286				
Impairment losses	(37)				
Lease liabilities raised		295			
Lease liabilities repaid		(342)			
Depreciation	(402)				
Lease modifications		(10)			
Reclassifications and lease retirements	8	67			
Foreign currency exchange movements	26	16			
Balance as at 30 September 2020	1 611	2 328			
Current		351			
Non-current		1 978			

37. CHANGES IN ACCOUNTING POLICIES continued

37.1 ADOPTION OF NEW STANDARDS EFFECTIVE continued

Reconciliation of operating lease commitments disclosed as at 30 September 2019 to the right-of-use liabilities recognised as at 1 October 2019:

	Total	Held for sale	1-Oct-19
Operating lease commitments on 30 September 2019	3 273	43	3 230
Impact of discounting lease payments*	(1 082)	(21)	(1 061)
Renewals/new leases not included in lease commitments	882	12	870
Short-term leases included in lease commitments	(779)	(1)	(778)
Forex impact	8		8
Right-of-use liability at 1 October 2019	**2 302**	**33**	**2 269**
Current	285	5	280
Non-current	2 017	28	1 989

* The weighted average incremental borrowing rate used to measure the right-of-use liabilities on 1 October 2019 was 14.89%.

New standards and amendments to existing standards issued but not yet effective as 30 September 2020 are not expected to have a material impact on the Group's financial statements when they become effective.

The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance contracts. The impact of this new standard is yet to be fully understood.

37. CHANGES IN ACCOUNTING POLICIES continued

37.1 ADOPTION OF NEW STANDARDS EFFECTIVE continued

The following new and amended standards are expected to have no or minimal impact on presentation, recognition and measurement in future years:

	Effective date*
Definition of a Business – Amendments to IFRS 3	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
The Conceptual Framework for Financial Reporting	1 January 2020
COVID-19-Related Rent Concessions – Amendment to IFRS 16	1 June 2020
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	1 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 January 2022
AIP IFRS 9 Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities	1 January 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	Effective date postponed

* Effective for annual periods beginning on or after this date