

Operational Leasing under the new IFRS 16 Accounting Standard



The new Lease Accounting Standard

International Financial Reporting Standards (IFRS) are the accounting rules that govern publically listed companies with the purpose of making the financial statements as comparable as possible.



What's new

IFRS 16 in specific defines the accounting of leasing contracts and replaces current IAS 17. It contains a number of changes compared to the current rules, which may apply to your organisation. This new standard will have to be implemented **at the latest for financial years containing January 1, 2019.**



Who is affected

The new IFRS 16 standard will only affect **companies which are publishing under IFRS.** Companies may begin to report using this method 1 year in advance. This applies to all leases with initial investment value above 5,000 USD and with a term longer than 12 months.



Accounting implications

In future the lessees have to account for a **right-of-use asset and a lease liability** on their balance sheet. This means that they have to take **the financial components** of the lease contract on their books (as asset and liability).

Considerations /actions required

Consequently, lessees will have to:

- depreciate the (right of use) asset
- reduce the lease liability and
- account for the interest on the lease liability

The service components are not to be accounted for as an asset and only impact the profit and loss statement. This is unchanged from the current situation.

Why Operational Leasing is still beneficial for you



Operational Leasing with Alphabet will continue to have considerable advantages

- > Substantially lower effect on balance sheet compared to outright purchase
- > Risk positioning and incorporated asset responsibilities are still lower than with ownership of vehicles
- > Potential investment into additional internal resources (e.g. purchase function or risk function) is not required
- > Best in class service quality compared to alternative solutions
- > Price competitiveness with Operational Leasing thanks to leverage of economies of scale and outstanding expertise (e.g. in purchasing, services and remarketing)
- > Avoidance of the asset and residual value risk coming along with the vehicle



Avoiding IFRS 16 is not a real alternative

- > Alternative products might lead to higher lease rates than before (e.g. with short term rental due to high initial loss in market value)
- > IFRS 16 accounting will only be fully avoided if none of the company's assets (including vehicles) qualifies for IFRS 16 accounting

How to prepare for IFRS 16?

- ☑ For implementation of IFRS 16, companies must be able to have an overview of all active leasing contracts
- ☑ The underlying interest rate and the split between finance and service lease instalments must be determined per contract
We recommend you use your incremental borrowing rate, subject to alignment with your auditor
- ☑ We recommend you align with your auditor and/or financial system provider earlier in the process to allow plenty of time for any changes, if required
- ☑ Alphabet supports with industry experience on the implications of the lease accounting change

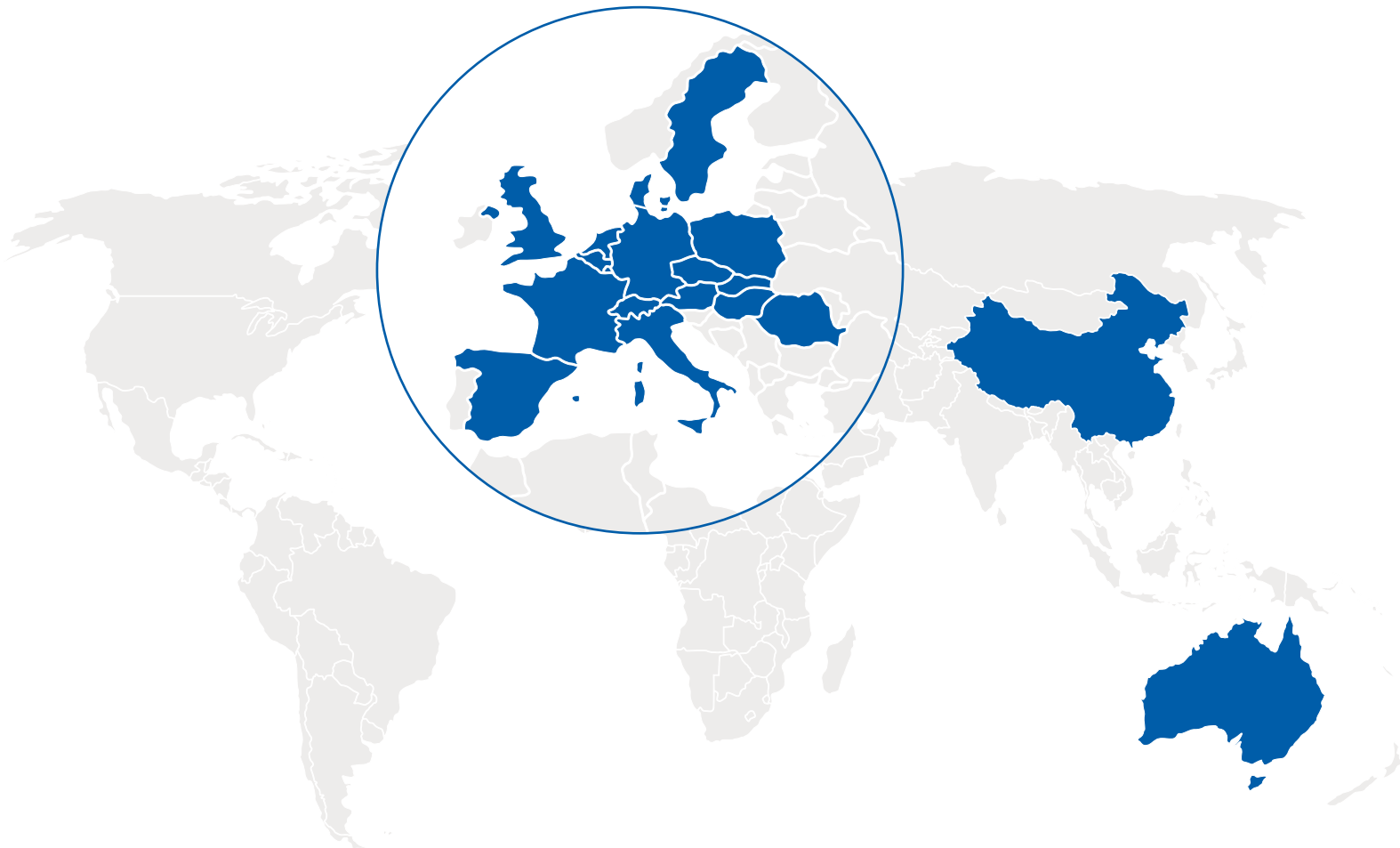


Want to find out more?
Come and talk to us.

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International expertise in 19 countries



Get in touch with your key account at Alphabet.
We are available to discuss IFRS 16 and
your advantages when leasing with Alphabet.

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