

A guide to the IFRS 16 Standard by Volkswagen Financial Services | Leasing

Keeping you up to speed with the
new way of vehicle lease accounting

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Understanding IFRS 16

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Leasing has become one of the most popular ways for businesses to access and use vehicles, property and equipment without tying up large amounts of cash in outright purchase. The latest figures show strong growth in leasing on both cars and vans across the Irish market.

However, while leasing assets such as vehicles – as well as offices, IT systems and machinery – has become a huge part of a company's business model and a large financial commitment, its presence on accounting documents is far less obvious. Under current accounting standards, leased assets and liabilities are often kept off the balance sheet, giving a distorted view of a company's value and performance. However, this is all about to change with the introduction of the new IFRS 16 standard.

As a leasing business, we have an extensive amount of experience in this area and are keen to use our knowledge to support our customers in getting prepared for the new IFRS 16 standard on January 1st 2019.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. www.ifrs.org

“

When someone picks up a set of financial statements for a company, they don't flick straight to the back notes to look at the company's commitments. They look at the balance sheet of the company to make a decision on **how strong the company is financially**. Putting leased assets and liabilities on the balance sheet will mean that financial statements will be more realistic.”

”

Emmet Wrafter
Head of Fleet

What is IFRS 16?

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IFRS 16 explained

IFRS 16 is the new International Financial Reporting Standard (IFRS), replacing the previous International Accounting Standard of IAS 17. The new accounting standard was announced by the International Accounting Standards Board (IASB) in January 2016 and will become effective on January 1, 2019.



The impact

The main change that IFRS 16 will bring is the requirement for all leases to be reported on a company's balance sheet. Now, many companies keep their leased assets off the balance sheet, but IFRS 16 will give financial statements a new transparency and a truer picture of a company's assets and liabilities.



“ These new accounting requirements bring lease accounting into the 21st century, ending the guesswork involved when calculating a company's often-substantial lease obligation. The new standard will provide much-needed transparency on companies' lease assets and liabilities, meaning that **off-balance sheet lease financing** are no longer lurking in the shadows. It will also improve comparability between companies that lease and those that borrow to buy.” ”

Hans Hoogervorst
IASB Chairman

How will it affect your business?



Changes to your balance sheet

In bringing your leased assets onto the balance sheet, your company is likely to appear more asset-rich but with greater liabilities. However, there are also changes in accounting over the life of the lease, where companies will see a front-loaded pattern of expense even when they pay annual rentals.



Gathering information

In terms of information gathering, any company with leased assets will need to find out and report a number of new metrics, including the total value of the leased assets, as well as the interest and depreciation charges over the period of accounting.



Have a clearer view

As well as remaining compliant with the new standard, having a database of your leased assets, along with their value, interest and depreciation charges, will give your company a better view of cash flow and performance.



Following the new standard

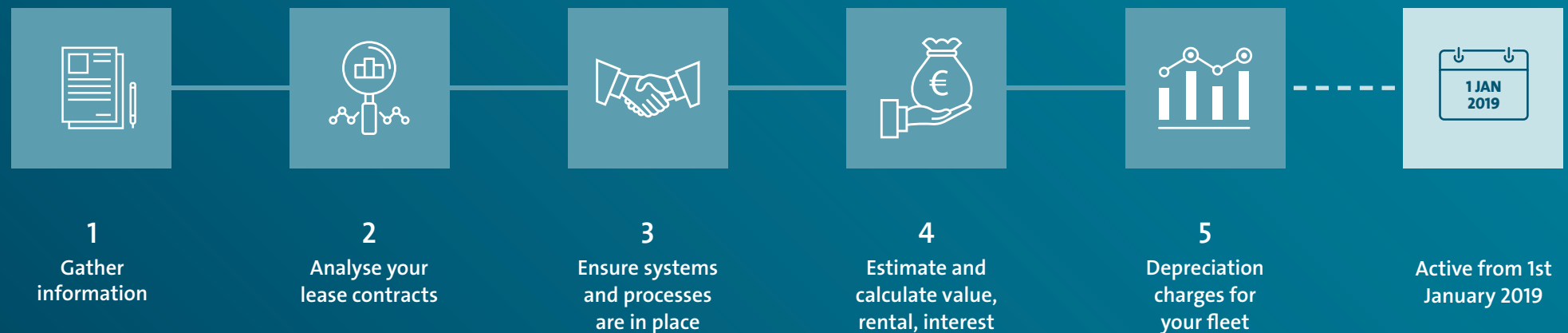
Finally, since all businesses will be required to follow the new IFRS 16 standard, it will allow analysts to get a clearer view of the financial statements of different companies and gain a better comparison.



What can you do to prepare?

The new standard takes effect from January 1, 2019, but it is vital that you start to gather the information you need right now. Getting a head start on the new accounting rules will save you time and stress as the deadline gets closer. In practice, this means analysing your lease contracts and making the required estimates and calculations for value, rental, interest and depreciation charges for your fleet.

We recommend creating a detailed database of all leases, as well as putting the required systems and processes in place for when the IFRS 16 standard begins. The earlier you begin this process, the smoother the transition between standards will be and the sooner you can address any impact on your business.



Leasing- the benefits for business

Leasing allows you to utilise vehicles for your business without having to purchase them outright. This means no hassle selling the vehicle at the end of the agreement and no vehicle resale value worries.

For a fixed monthly payment, your business can use the vehicle(s) for an agreed term and mileage. At the end if you haven't exceeded the agreed mileage and the vehicle is within the acceptable condition standards, you simply return the vehicle, with no further cost.

How does leasing work?

- You agree the leasing term between 24 and 54 months
- Decide on the annual mileage limit to suit your business requirements. (Amendable up to 6 months before the end of the contract) as we understand that your business needs may evolve over time.
- The lease rental includes your road tax and fine management.

- Optionally you can add Service and Maintenance. This can include servicing, maintenance, tyres and roadside assistance.
- At no additional cost we can manage your Circle K fuel cards and EasyTrip Toll tags.

Leasing Tax Benefits

Leasing can be quite tax efficient with some VAT potentially reclaimable on lease rentals and maintenance payments. It may also be possible to offset your rentals against profits further reducing your tax liability.

As businesses and circumstances can vary please check your tax position with your own adviser in advance.

We take care of everything so you can take care of business.



Full
Vehicle
Maintenance



Driver
& Fleet
Manager
Support



Same brand
Courtesy
Vehicle*



Road Tax
and CVRT
(Annual
Vehicle Test)



Premium
Showroom
Handover
Experience



Replacement
Premium
Quality
Tyres

As little as one advance monthly rental required. *Volkswagen Financial Services will endeavour to offer like for like vehicles or in exceptional circumstances, one size down. For further information and full terms and conditions please speak to your Volkswagen Group Retailer.

Key contacts

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