

Our IFRS-Solutions at a glance



Our new IFRS-Solutions at a glance

For more than five decades we have been serving our customers reliably and delivering innovative solutions. With about 2,500 employees in 23 countries we are present locally in all key business regions.

Profit from our expertise.

As the leading manufacturer-independent lessor in Germany we have taken up the challenge and optimized our product range with regard to the changed requirements and the new lease accounting standard IFRS 16 for our IFRS customers.

Below we present our range of solutions we have developed especially for our IFRS customers in Germany. This brochure focuses on accounting solutions under IFRS 16; however, the other business implications of leasing are equally important. In addition, we have also taken into account current trends for more flexibility and service in our leasing solutions.

This information shall give you a first overview of specific fields of activity and cannot replace a personal consultation. We will be happy to advise you on your strategic deliberations and are looking forward to a personal conversation.



Leasing of low value objects

- Right to capitalize a right of use asset in case of low value objects.
- This includes objects with a value, when new, of up to approximately 5,000 US Dollar.
- Typical examples are transportation boxes, IT-objects or furniture.
- In case of a subleased asset the head lease does not qualify as a lease of a low value asset.
- The German Tax Code also defines low value objects. The 800 Euro limit for those objects remains unchanged.
- Deutsche Leasing offers a broad range of products to make use of the rule concerning low value objects leasing.

Practical tip: low value objects of the same class can be combined in one leasing contract, without the lessee losing his accounting option. Often in one tranche of IT-objects, which are primarily of low value, some objects are more valuable. In this situation it has to be checked if the general criteria of materiality makes allowance to ignore that fact. This means that the complete tranche could be treated as a low value lease.

Short-term Leasing

- Option to recognize right of use assets in case of short-term lease contracts (≤ 12 months), at least during the minimum lease term.
- If a lessee is reasonably certain not to lease only short term he may not elect the accounting option.
- In case of the existence of a purchase option the lessee may not elect the accounting option.
- Deutsche Leasing offers operating lease contracts with fixed linear payments and open residual value. The lessee has the right to cancel this contract short-term.
- Compensation payments are due at the time of returning the object in the event that payments do not compensate for the decline in residual value.
- The amount of compensation payment at the different return times will be fixed at the time of concluding the contract and depends on the value stability of the object.

Practical tip: Returning leased machines after a short period only makes business sense if the amount of compensation payment is lower than the amount needed for the idle capacity cost in the event of extending the lease contract. A decline in new orders can hit companies in competitive sectors or companies which are affected by technological, political or economic change and therefore latently threatened by idle capacity costs. Furthermore, returning individual leased machines is more realistic if a great number of comparable machines exist which can be used to handle the remaining customer orders. Therefore it is recommended to limit the number of machines under short-term lease contract to the number that could realistically be returned in case of a decline in new orders.



Operating-Leasing

- Leasing implies the recognition of a right of use and a liability.
- The amount is determined by the rentals during the minimum lease term.
- Therefore, in comparison to taking up a loan, the conclusion of an Operating Lease with a high residual value at the end of the minimum

lease term leads to a reduced impact on the financial statements: the higher the residual value, the greater the advantage.



Practical tip: Firstly, to reduce the impact the lease term can be shortened within limits. Secondly, judgement is required by the lessee to determine the interest rate to be used for discounting. The higher the rate the lower the impact on the financial statements at the commencement of the contract.

Leases with residual value guarantee

- Leasing implies the recognition of a right of use and a liability.
- The amount is determined by the lease rentals during the minimum lease term.
- In case the lessee has guaranteed the residual value of the leased object this amount is included only in the right of use assets insofar as the lessee expects payment under this guarantee.
- Therefore taking a residual value guarantee can be off balance for the lessee.

Practical tip: Maybe a lessee is in a better position to assess the residual value of the leased object and therefore a higher residual value can be calculated by the lessor. In this case a lessee can profit both from lower lease rentals and also a guaranteed residual value that has no impact on the right of use asset and liability.



Leases with variable rates (pay per use)

- To determine the amount of the right of use and the liability only the fixed lease rentals but not the variable rates are considered.
- The DSS Deutsche Services und Solutions GmbH (DSS), a 100 % owned subsidiary of Deutsche Leasing, offers rental contracts with fixed minimum rentals and variable pay per use rentals. These rentals include corresponding services like maintenance and repair.
- The manufacturer/dealer renders those services as DSS servicepartner.



Practical tip: The supply of rental services by DSS is at the moment limited to certain manufacturers, but is increasing. Fixed seasonal rates at different levels are not variable rates under IFRS 16 and therefore lead to a recognition of a right of use asset and liability.

Softwareproject-Leasing

- Software leasing was not part of the IFRS 16-projekt to develop a new lease accounting standard.
- Under certain conditions software leasing is off balance.
- Typical areas for such leases are bigger IT activities such as implementing a new module of an enterprise resource planning / accounting / controlling software.



Practical tip: software leasing also includes, to a certain degree, an additional quality assurance and assistance during the development / implementation phase through the expertise of the lessor.

Factoring

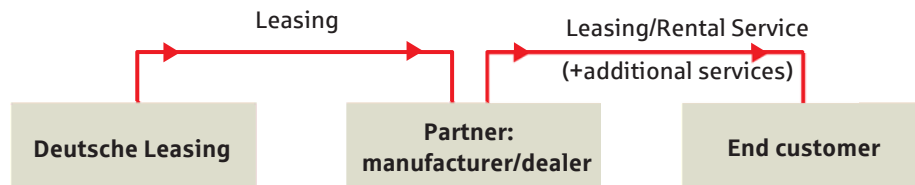
- Part of Deutsche Leasing group is the Deutsche Factoring Bank.
- It offers services connected with the administration and purchase of diverse types of receivables related to the sale of goods or services.

Practical tip: Only the so-called “non-recourse” purchase of receivables leads to a corresponding reduction of the balance sheet totals. To reach a continuing reduction a continuous purchase of receivables has to be concluded.



Pass through model

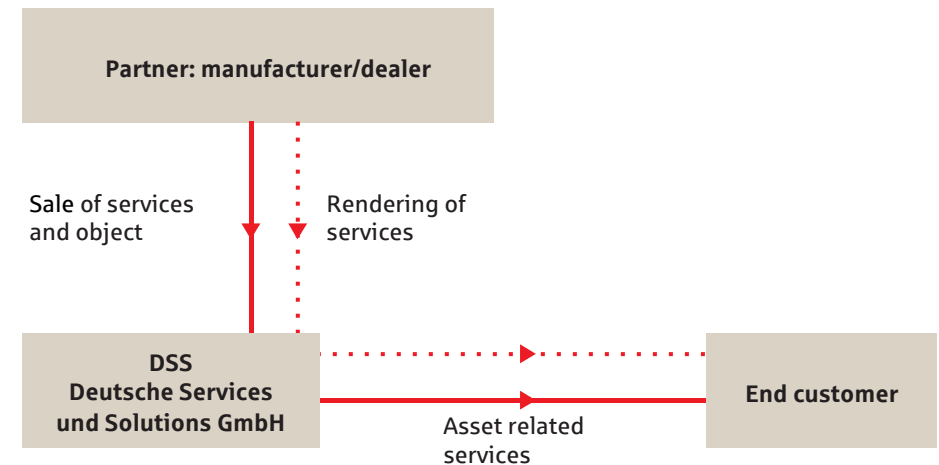
- In case of subleases or sub rental contracts related to an object the partner is in a dual position: being both lessor and lessee with corresponding accounting needs.
- Under certain circumstances the partner may account for this situation as an off balance transaction.
- The partner still keeps its exclusive contact to the end customer and may sell additional services to him..



Practical tip: If a partner does not sublease the object unchanged but uses a leased machine to produce parts or render services for the end customer it has to be checked in detail if such an outsourcing/delivery contract fulfills the criteria of an embedded lease contract. Otherwise it has to be accounted for as a service or sale.

Operator model

- The DSS Deutsche Services und Solutions GmbH, a 100 % owned subsidiary of Deutsche Leasing, offers asset related services.
- Such services can be off balance on the financial statements of the recipient of those services.
- The manufacturer or dealer of those objects offers regular services.
- Insofar the DSS can offer to the recipient a service quality promise comparable to that of a manufacturer or dealer.



Practical tip: The contents of such services agreements are as individual as the aims and expectations of our customers. Therefore the determination of these services agreements e.g. response time to deal with incidents or determination of type, quantity and quality of an output of products needs time and should be started early and include all the stakeholders in the operator model.

We are at your service

Please consult your regional contact partner or our IFRS-specialist directly:



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