



IFRS 16

The need for a solution

Leasing is an important activity for many entities. In terms of gaining access to assets, of obtaining finance and of reducing risks of asset ownership. As stated in IFRS Foundation reviews, it is important that users of financial statements have a complete and understandable picture of an entity's leasing activities.

Current accounting model for leases required lessees and lessors to classify their leases as either finance leases or operating leases and account for those two types of leases differently. This model was criticized for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognize assets and liabilities arising from operating leases.

Therefore, IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the asset is of low value. This new approach will result in a more faithful representation of a lessee's assets and liabilities will provide greater transparency of a lessee's capital employed.

Business impact

According to IFRS 16 requirement, a lessee is required to recognize a RoU (Right of Use) asset representing its right to use and lease liability representing its obligation to make lease payments. The lease liability is measured at the present value of the lease payments to be made over the lease term.

Columbus is preseting solution – IFRS16 module, which can be incorporated into ERP of leesee companies in order to meet above mentioned requirements.

The main idea of Columbus IFRS16 solution is to calculate present value of future lease payments and also calculate lease schedules, where contractual monthly payments are split into two parts – present value and interests amount. It also includes significant amount of features and enhancements, that are required by lessees in order to support lease agreement accounting according to IFRS, starting with it's signing, schedule calualation and up to it's natural ending or termination.

Columbus IFRS16 solution is based on Microsoft Dynamics NAV and tightly integrated with general ledger, fixed assets and other Microsoft Dinamics NAV modules.



Target audience

IFRS16 is applicable from the 1st of January 2019 and is primarily oriented to:

- companies that already apply IFRS in their practice;
- companies that are lessees of any property

Business challenges

- Increased regulatory burden forces to be certain, that ERP systems are compliant with adjusted IFRS16 requirements.
- Companies have limited timeline to adopt their ERP for meeting IFRS16.
- Operational efficiency – the critical question - how to implement new requirements with the same amount of staff and within current ERP (not using excel for schedule calculations, etc.)..

Business benefits

- Ensures, that ERP system is ready to meet regulatory requirements of IFRS16.
- Presents more transparent balance sheet for stakeholders and investors.

When to engage

- Engage: when you already apply IFRS 16.
- Engage: when you are lessee of any lease property.
- Engage: when you using IFRS16 accounting tool, but it's causing inefficiency, manual work and need to optimize .

Key features

The solution is made of a combination of the following NAV modules:

- Financial Management
- Fixed Asset
- Purchase and payables

The core functionality includes:

Management of Contract Data Storing:

- Possibility to define individual lease conditions to each lease schedule.
- Possibility to calculate separate schedules for each RoU asset.

Lease Schedule Calculation Logic:

- Present value calculation, based on periodical payment amount and lease period.
- Periodical Payment split into principal part and interests over lease period.
- Support of variety payment periods: monthly, quarterly, half year, annual.
- Flexible payment calculation for the first and last payment period.
- Fixed and variable interest rates.
- Schedule status workflow management.



RoU Asset Management:

- RoU assets management using standard Fixed Assets functionality with its features, functionalities, reporting possibilities.
- Automated Fixed Assets cards creation and schedule calculation in case of lease agreements with multiple items of lease property.
- Periodical RoU depreciation calculation.
- Depreciation expenses allocation using RoU Asset dimensions allocation template.

Contract Amendment Management:

- Contract conditions (periodical payment amount, lease period) update and schedule recalculation at any moment of lease period.
- Changes history tracking.
- Automated schedule recalculation after variable interest rate change.

Ending and termination:

- Automated schedule ending and RoU disposal when zero balance for lease liabilities is reached.
- Premature termination (early buy-out or termination) management.

Lease agreement accounting operations:

- Lease liabilities and RoU acquisition cost posting on schedule activation to General Ledger and Fixed Asset module.
- Automated periodical lease liabilities reduction posting, based on confirmed lease schedule.
- Automated calculation of schedule amendment affect (gain/loss) and posting to General Ledger and Fixed Assets module.
- Premature termination affect calculation and posting it to General Ledger and Fixed Assets module.

Reporting:

- Standard NAV reports for dimension analysis.
- Standard Fixed Assets reporting tools.



Differentiators

- Customer approved: solution basis is built with cooperation of international company and will be used by it's braches in several countries.
- Dedicated team of functional and technical consultant.
- Microsoft technology: Columbus IFRS16 is built using standard Microsoft Dynamics NAV functionalities, has familiar interface and grants access to all standard system features and reports.
- Financially Stable: Columbus' strong financial position provides stability and allows the company to invest into employees' competence growth and solutions' development.

 Do you want to learn more?

Let's talk!

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About Columbus:

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