ACCOUNTING FOR CHANGE

Paul Azores, Vice President of Finance at ARI in New Jersey, USA, explains how the latest accounting standards could affect fleet management.

Both the International Accounting Standards Board (IASB) and the Financial Standards Accounting Board (FASB) have recently issued new accounting standards relating to lease assets. For public companies following FASB standards, the effective date for implementation is for the fiscal year beginning on or after December 15, 2018. For all other companies, the effective date will be for the fiscal year beginning on or after December 15, 2019.

The IFRS standards for all companies are required to be effective starting in January 1, 2019. For US companies, a prior period comparison is required, although this is not a requirement for companies that follow IASB standards. There are certain exemptions that may preclude these assets from consolidating onto your balance sheet.

These new accounting regulations will have a significant impact on companies that are leasing or expect to lease their vehicle fleet. While it seems there is plenty of time to implement this accounting change, the time to start preparing is now.

The new standards change how lease assets are accounted for and presented on the balance sheet and should not impact the decision in the "lease vs. purchase" debate.

Both the IASB and the FASB have stated that the intent behind these revisions was to improve the transparency related to lease assets. In a statement released by the IASB, it was estimated the accounting change would result in an increase of over $3.3 trillion in total assets on the related balance sheet for companies that follow either standard.

While astute investors have always adjusted the financial statements when analysing the impact of leased assets on a company's financial strength, these changes provide for more consistent comparisons across companies. As such, we do not expect the investor's assessment of a company's performance to change; this is especially true for investors in the fixed rate market.

AREAS OF FOCUS

When the standard becomes effective, an asset called a "Right of Use Asset" will be calculated and recorded on the company's balance sheet, along with a liability referred to as "Lease Liability". To simplify, the Right of Use Asset is the net present value of the remaining lease payments. In order to do the calculation, a company needs to make a number of assumptions and these will need to be disclosed in the financial statement footnotes. The Lease Liability at inception will match the Right of Use Asset.

Full service lease products will make the accounting more complicated due to the presence of the services component in the lease payment. New guidance will require that the two components in the full service lease payments are accounted for distinctly

This accounting change may result in significant investments of time and resources to ensure that companies are ready to implement the requirements under this standard. Since the implementation time frame is quickly approaching, especially for US public companies, now is the time to start planning to ensure accounting compliance.

KEY CONSIDERATIONS

During this process, it will be critical for fleet managers to work closely with both their internal and external finance and accounting groups for guidance and interpretation, to ensure a successful and timely implementation. Among the key things for your team to consider are:

- Which Standard applies to your company (IASB or FASB)
- Which data points are required for the calculations under the applicable Standard
- What is the information you currently possess
- What investments are required to successfully implement the Standard?

Companies decide to lease for a number of different reasons, all of which remain viable under the new accounting standards. Given the right circumstances, leasing will allow a company to improve cashflow, with the potential to reap additional benefits. It can allow companies to meet their fleet needs with newer vehicles, which results in additional cost savings relating to maintenance and fuel efficiency.

Leasing, in all its forms, is expected to remain a viable financing strategy with significant benefits for most companies. As the new standards take effect, proper reporting, compliance and other associated factors need to be considered in the decision making process.