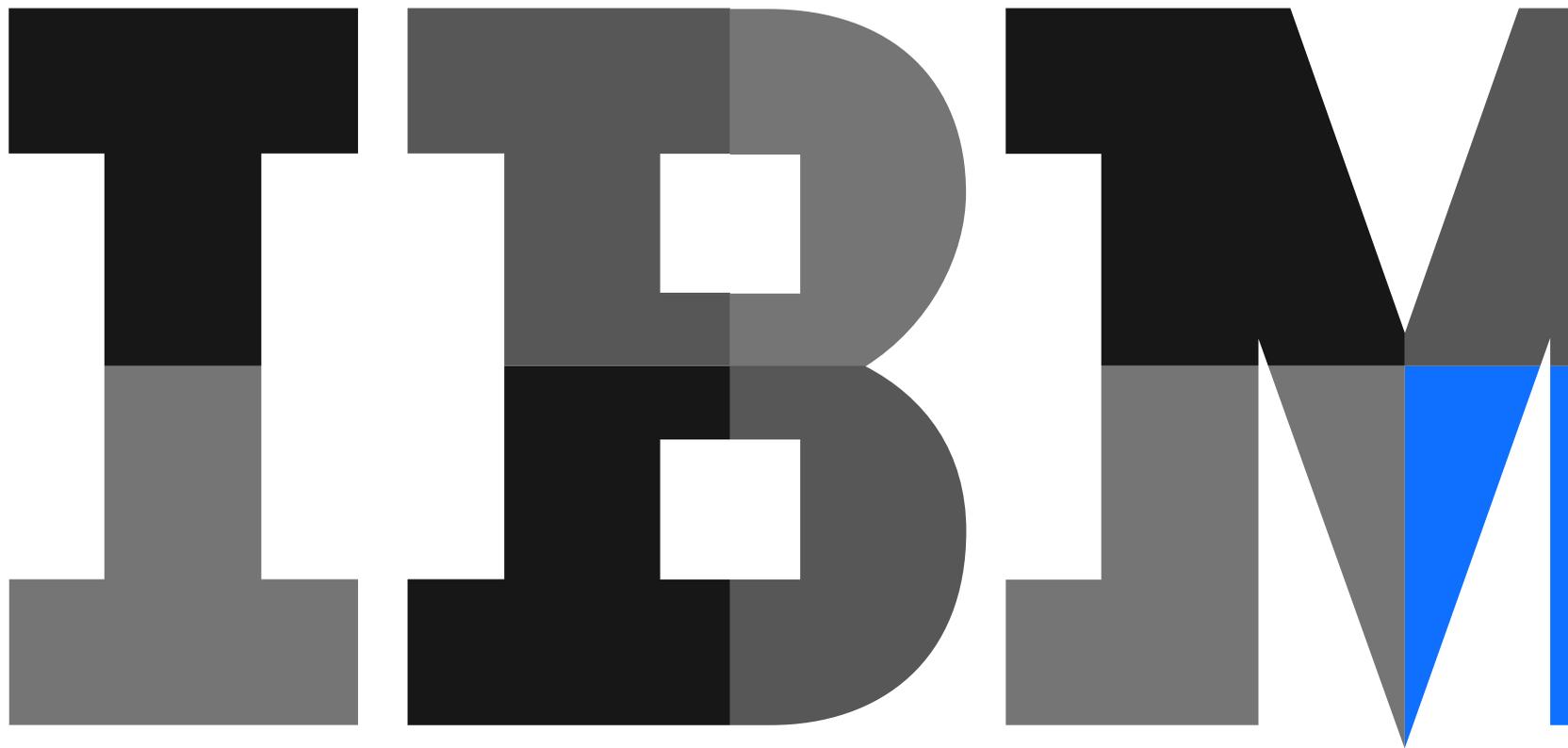


# IBM Planning Analytics Solution Accelerator for IFRS 16

*An application to speed and simplify lease reporting  
under IFRS 16*



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## Highlights

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- Manages the complete lease accounting workflow, from contract creation to expiration
  - Includes rules to calculate right-of-use (ROU) assets and lease liabilities, including future payments, interest and depreciation
  - Features built-in IFRS 16 Qualifier
  - Integrates IFRS 16 into ERP and the close, consolidate, and report process
  - Provides flexible modelling, planning, reporting and analysis for all contract types
  - Deployable on cloud or on premise
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## Are you ready for IFRS 16?

IFRS 16 is the new accounting standard for lease reporting under International Financial Reporting Standards (IFRS). It introduces a single accounting model that requires lessees to recognize assets and liabilities on the balance sheet for all leases with a term of more than 12 months (unless the underlying asset is of low value).

Under IFRS 16, lessees are required to record leases as assets, representing the right of use (ROU) of an underlying leased asset (for example, a floor in an office building), and as liabilities, representing the obligation to make lease payments. Lease liabilities are reported at the present value of future payments, with only depreciation and interest cost separated on the P&L. The new leasing standard also removes the distinction between finance and operating leases.

The objective of IFRS 16 is to have companies “report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.”<sup>1</sup> For most companies, the new standard takes effect for annual reporting periods beginning on or after 1 January, 2019. IFRS 16 replaces the earlier leasing standard, IAS 17.

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## Effects that go beyond the balance sheet

The new rule is expected to have a major impact on companies and how they present their financial results. Not only will it affect lease administration and accounting, it will also influence decisions companies make about whether to lease or purchase, when and for how long to enter into lease agreements, and a range of other issues.

Leases, for example, are a major component in the business model of most retailers, with leased space sometimes occupied by the same business for decades. In the case of banks and other financial institutions, lease assets and liabilities on the balance sheet can even have an effect on regulatory capital requirements.

Leases on the balance sheet will also have an impact on the way investors and other stakeholders view a company’s financial strength and performance. Companies with operating leases will appear to be more asset-rich but also more heavily indebted. And total lease expenses will be more front-loaded even when cash rentals are constant.

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## IBM Planning Analytics Solution Accelerator for IFRS 16

IFRS 16 is certain to generate discussion and reassessment of virtually all business decisions involving leases. It will also generate a lot of work for those in finance and accounting departments. Fortunately, however, IBM offers a solution to help speed and simplify much of that work.

The **IBM Planning Analytics Solution Accelerator for IFRS 16** is a pre-packaged framework that helps organizations accelerate their compliance with IFRS 16.

The Solution Accelerator uses a customized IFRS 16 model built in IBM Planning Analytics, the planning, budgeting, forecasting, reporting and analysis solution powered by the multidimensional calculation engine of IBM TM1. It is designed to help organizations manage the entire lease administration and lease accounting workflow, from contract creation to expiration. It can retrospectively analyze data, and perform calculations for current and future costs, all while

presenting compliant data to the office of Finance. The Solution Accelerator can receive data manually (keyed in or imported from a Microsoft Excel spreadsheet) or by automatic feed from a data warehouse.

The Solution Accelerator is designed with specific rules to calculate the correct right-of-use asset value and lease liability, including future payments, interest expenses and depreciation for the full contract term. A contract can easily be created either by import from a source system or by manual input. An intuitive three-step process starts at the IFRS 16 Portal.

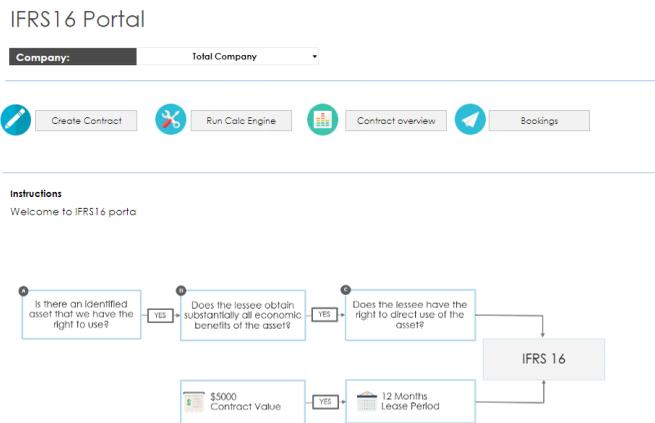


Figure 1: The Solution Accelerator's three-step process begins in the IFRS 16 Portal.

## Solution Accelerator three-step process

To cover all aspects of the regulation, many different parameters must be covered, for example, from a simple car lease to a complex property lease agreement with many different options.

Figure 2: A pre-configured menu speeds the entry of lease information.

## Step 1 – Contract Creation

All data necessary for the calculation of the right-of-use asset value and corresponding lease liability is collected, such as the type of lease, contract start and end dates, asset value, lease payments and so on. A contract ID (specific identification number) is created and mapped to the correct company and other measure dimensions. Dimensions used in the reporting can be connected to the data in order to ensure the correct level for calculation and analysis.

**Create Contract**

Contract Number #	I-6602453	10100 - Company A
Contract Name	CAR lease FLT-602	
Lease Category	Cars *	
Legal Company	10100 - Company A *	
Operative Organisation	10009001 *	
Additional dimension	No Bankid *	
Name of the contract		

Create Contract

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**IFRS 16 Qualifiers**

Right of use of an identified asset	Yes
All Economic Benefits	Yes
Direct Use of Asset	Yes

**Additional Contract Information**

Internal Lease		HeadLease / Sublease	
Lessor	Autoplan	Headlease contract or (if sublease)	
Internal Lessor		Is the Contract a Joint Arrangement?	
Additional description of the contract	Car belongs to email id #E3E3432323	Is the Contract a Joint Operation?	
		If Joint Operation, Share owned	
		Is the Contract a Sale and Leaseback?	0

next >

Figure 3: Lease contracts can be created for cars, plant and equipment, real estate and more.

### IFRS 16 Qualifier

An IFRS 16 Qualifier is built in, to ensure that the contract in question qualifies as a lease under IFRS 16. It can determine whether or not the contract includes: 1) an identified asset, 2) the right to obtain substantially all of the economic benefits from using the identified asset, and 3) the right to direct the use of the identified asset.

### Additional Contract Information

Necessary contract information is entered, such as lessor, internal or external contract, asset type (such as buildings, machinery, vehicles, etc.) and contract type (such as a head or sublease, joint arrangement, or sale and leaseback). There are also open dimensions that can be connected to operating units such as company, operational/management function, cost center etc.

## Step 2 – Time

Data is collected as to contract commencement date and end date, extension or termination options, whether those options are likely to be exercised, and if so, the new contract end date.

**Time**

Contract Number	1000011	10100 - Company A
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**Time**

Contract Inception Date (YYYYMM)	201806
Commencement Start Date (YYYYMM)	201903
Contract End Date (YYYYMM)	202202
Is there an extension Option	Yes
Reasonably Certain to use?	Yes
Extension Option End Date (YYYYMM)	202402
Extension Comment	
Is there a termination option?	
Reasonably Certain to use?	
Termination Option End Date (YYYYMM)	
Termination Comment	
Open End Contract?	
Termination Notice? (Months)	0
Estimated End Date (YYYYMM)	
Open End Comment	
Effective End Date (YYYYMM)	202402

**Index**

Named index used	
Index uplifts will start from this period	0
Numeric Base Index for contract	0
The Base Rent for index bound leases	0

back next >

Figure 4: The Time step includes provisions for extension or termination options.

## Step 3 – Amount

In order to calculate the net present value of the lease liability, the user needs to enter information such as monthly/yearly lease payments, the value of the right-of-use asset, if any lease components should be split, applicable discount rates (depending on currency/country, contract basis, portfolio basis, etc.), any residual value guaranteed, initial direct cost and more. (Leases of under 12 months and leases of low value are exempt from IFRS 16.)

**Amounts**

Contract Number: 1000011 | 10100 - Company A

Contract Periodic Payment: 9,000  
 Of which - Service Component: 800  
 Of which - Other Deductible Fees: 0  
 Non-leasing items, Only P&L Impacting: 0

Yearly Percentage uplift: 0  
 Calculated Asset Value: 0

Payment is prepaid: Yes  
 Payment Frequency: 3 - Quarterly  
 Fair Value/Value of Asset: 0  
 Yearly percentage uplift %: 2,00%  
 Number of free months: 2  
 Non deductible VAT rate %: 0,00%

Use Company default currency: Yes  
 Currency: SEK

Use Central Discount Rate: Yes  
 Discount Rate %: 0,0000%  
 Effective Discount Rate %: 0,0706%

Termination Penalties: 1000  
 Other Monthly Tax Amounts to include: 0

Figure 5: Payment amounts, asset values, discounts and penalties can all be calculated in the Solution Accelerator.

The calculation engine of the system calculates all future cash flow payments, calculated at net present value, interest payments and so on. Finally, it creates booking material for import into your general ledger (GL) or consolidation system.

Monthly Breakdown of Contract

Month	Lease liability GD	Lease pmt	Interest pmt	Decrease in lease liab	Lease liability GD	Contract Monthly Payment	Contract length (months)	Effective Discount Rate	Monthly Depreciation	PV	
201802	1	187,182	4,800	280	4,360	182,912	4,800	38	0,16816%	4,365	4,483
201803	2	182,912	4,800	280	4,347	178,664	4,800	38	0,16816%	4,365	4,480
201804	3	178,664	4,800	280	4,334	174,431	4,800	38	0,16816%	4,365	4,478
201805	4	174,431	4,800	278	4,321	170,203	4,800	38	0,16816%	4,365	4,475
201806	5	170,203	4,800	277	4,308	166,085	4,800	38	0,16816%	4,365	4,480
201807	6	166,085	4,800	274	4,295	162,084	4,800	38	0,16816%	4,365	4,485
201808	7	162,084	4,800	272	4,282	158,101	4,800	38	0,16816%	4,365	4,489
201809	8	158,101	4,800	270	4,269	154,233	4,800	38	0,16816%	4,365	4,493
201810	9	154,233	4,800	269	4,257	150,388	4,800	38	0,16816%	4,365	4,494
201811	10	150,388	4,800	268	4,244	146,564	4,800	38	0,16816%	4,365	4,496
201812	11	146,564	4,800	267	4,231	142,761	4,800	38	0,16816%	4,365	4,495
201901	12	142,761	4,800	265	4,218	139,079	4,800	38	0,16816%	4,365	4,492
201902	13	139,079	4,800	263	4,205	135,517	4,800	38	0,16816%	4,365	4,484
201903	14	135,517	4,800	262	4,192	132,074	4,800	38	0,16816%	4,365	4,477
201904	15	132,074	4,800	260	4,180	128,749	4,800	38	0,16816%	4,365	4,470
201905	16	128,749	4,800	259	4,167	125,542	4,800	38	0,16816%	4,365	4,462
201906	17	125,542	4,800	258	4,154	122,453	4,800	38	0,16816%	4,365	4,453
201907	18	122,453	4,800	257	4,141	119,481	4,800	38	0,16816%	4,365	4,443
201908	19	119,481	4,800	256	4,128	116,626	4,800	38	0,16816%	4,365	4,431
201909	20	116,626	4,800	255	4,115	113,887	4,800	38	0,16816%	4,365	4,418
201910	21	113,887	4,800	254	4,102	111,264	4,800	38	0,16816%	4,365	4,407

Figure 6: Multidimensional cubes facilitate flexible slice-and-dice analysis.

## Analysis

All data is stored in multidimensional cubes, giving the user the ability to slice and dice through different views for analysis and forecasting. Data can be viewed by group/company and down to individual contract level, using the solution's drill-down capabilities.

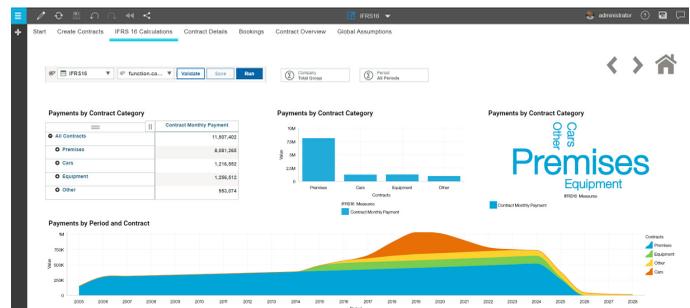


Figure 7: Self-service visualizations inform your analysis and help you communicate insights quickly.

## Easier compliance and smarter decision making for IFRS 16

Using the Solution Accelerator, users can easily get an overview of the movement of lease liability, including lease payments (cash), interest payments (PL), depreciation (PL) and other services (PL) received during the life of the contract. All data is stored in multidimensional cubes, giving users the ability to slice and dice through different views for analysis, forecasting and what-if scenario modeling which can be useful for calculating the effect that different leasing options can have on the balance sheet.

IFRS 16 is certain to drive many changes in how, when and where companies use leases as part of their business strategy. But with the help of IBM Planning Analytics Solution Accelerator for IFRS 16, compliance tasks can be performed more efficiently, leaving your finance and accounting teams the time and the accurate data—to drive smarter, more informed decision making.

<sup>1</sup> *IFRS 16 Leases*, <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-16-leases/>, IFRS Foundation 2017

## About IBM Analytics

IBM Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

IBM Analytics solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals.

For further information please visit:  
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