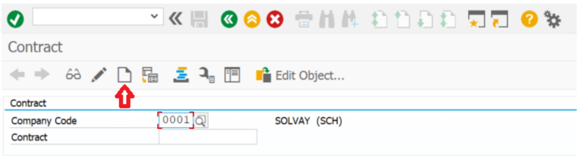
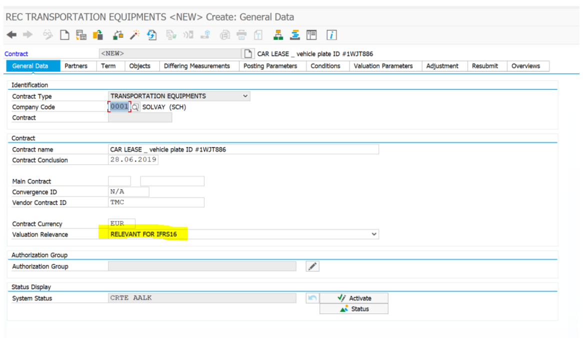
WW IFRS 16 - RE-FX Contracts

CONTRACT CREATION

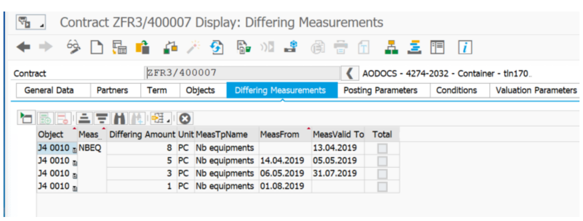
To create a RE-FX Lease Contract you have to access to transaction /RECN/ and insert the company code for which the contract needs to be created and then click on the blank page (contract creation – red arrow)



This will open a new window where you can choose which kind of contract you are going to create (ex: a car contract will be categorized as "Transportation equipment")
Fill in all the necessary information page by page (General data, Partners, Terms…)



- In *Partner* part always choose Lessor and put the Business Partner number
- In the *Term* part you can choose if the contract has a renewal option
- In *Objects* part always choose *Contract Object* options and fill *Contract Item* with the short description of the contract, the *Object Type* and the *Account Assignment* with the correct Cost Center or WBS
- *Differing Measurement* part is optional; it can be used when you have to apply the condition to more than one item and the nr. of these items changes during the time (ex: Containers contracts – see contract ZFR3/400007 as example below)



- In *Posting Parameters* part, can be set the frequency of postings (if it's in advance, in arrears, if the amount is daily, monthly, annually etc)
- In *Conditions* part always choose the appropriate one, starting by "R" (ex: car contract = R160 Lease for cars). Here you have to fill the start date, the rent amount and the 1st posting date. ATTENTION: if the start date of the contract is before 01.01.2019, the first posting date will be ALWAYS 01.01.2019, as shown below.

Scope

WW

ERP

PF2 WP2

Frequency

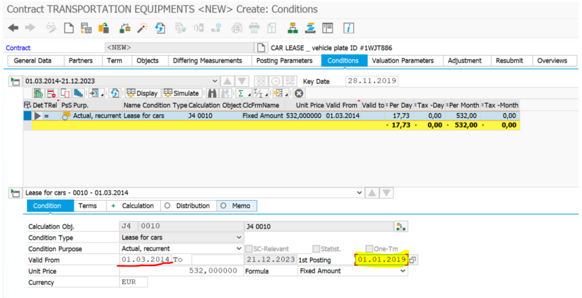
Month

Attachments

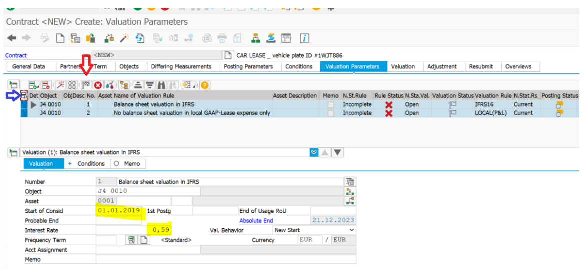
IFRS16 Contract Creation

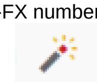
Errors in RECN - PPT

Rule contract type.xlsx

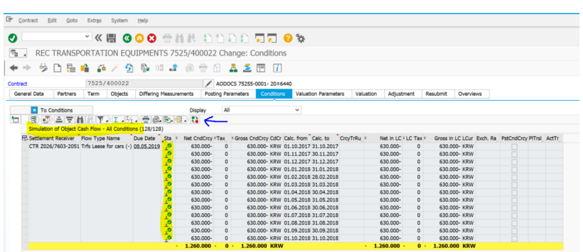


- In *Valuation Parameters* part, always choose the Valuation for both IFRS 16 and Local GAAP (the last one may vary based on the country for which the contract is created, according to IFRS16 rule). The correct Valuation to be chosen is the J4 one. ATTENTION: the system by default assumes that the start date of the valuation is the same of the start date of the contract, but as in *Conditions*, if the start date of the contract is before 01.01.2019, the *Start of Consideration* of the valuation date should be 01.01.2019 (both for IFRS16 and Local GAAP). Fill in both valuation with the correct interest rate (in case of some countries like France, China, etc. where IFRS16 is not applicable at Local GAAP level, choose as *Distribution Form* "Divide equally"). In order to create the valuation, it's necessary to "apply the rule", by selecting both lines (blue arrow) and clicking on the flag (red arrow). Once the Valuation is completed an asset number will be created and in the Rule Status 2 flags will appear and it will say *Complete.*

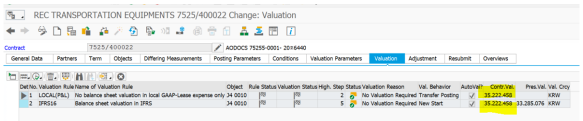


The contract is now fully filled, but it's necessary to save it, in order to create the RE-FX number and, most important, it's necessary to activate the contract by clicking on the following icon  .
Once the contract is active it will automatically generate a *Valuation* and in *General Data* part the *System Status* will appear as *ACTV REL***.**

SPECIAL FLOW
Once a contract has been modified several times, it may create a SPECIAL FLOW, which is a posting that falls into the P&L account and it's not supposed to. If this happens the accounts are not balanced. In order to solve this problem you have to revert the previous postings to have the same amount in both local and IFRS16 valuation.
Once you have done that, you have to change the status of the postings of the previous years that are "marked manually" as shown below:



Activate the rule and save the contract, the amount will be the same.



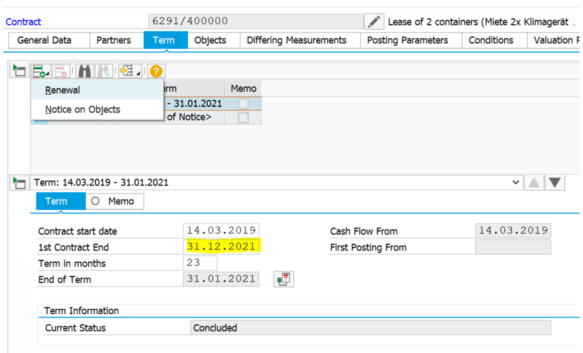
Be aware that, before posting again, you have to change the status of the posting the conditions .

Contract update

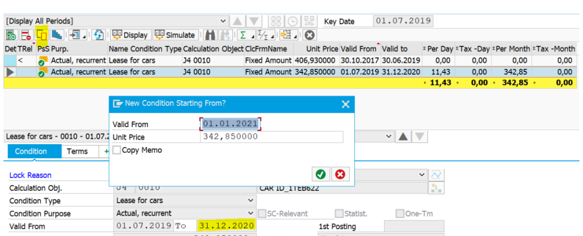
Contract update scenarios:
1 – Contract term extension
2 – Amount increase/decrease
3 – Number of Equipment increase/decrease

1.Contract term Extension

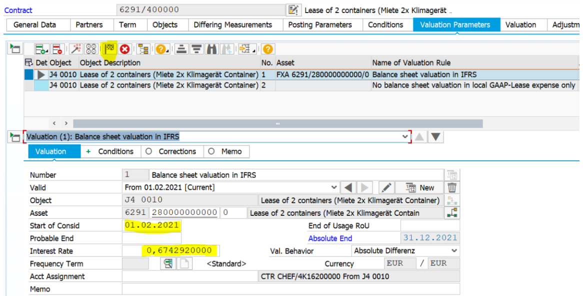
Example: contract ended on 31.01.2021 and extended until 31.12.2021
It often happens that leasing contracts are renewed or extended. In order to proceed with the contract extension, you need to have an amendment or an official document stating the new end date. To proceed with this update, go to "terms" and insert the new end date (in case in the amendment it is stated that the contract will have a specific type of renewal, instead of changing the end date, add a "renewal").



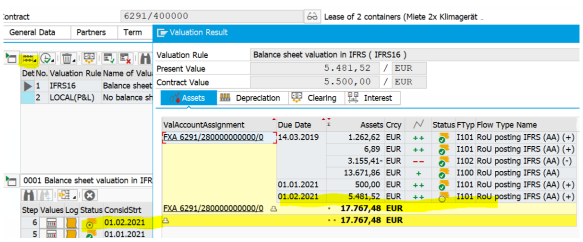
The number of terms in months will update automatically after inserting the new end date.
Then go to condition and in order to avoid special flow, end the condition of the previous year on the last day of the previous year and duplicate it starting on the first day of the current year.



In valuation parameters, create new valuations (both for IFRS16 and Local BS or Local GAAP) starting the day of the extension (in this case 01.02.2021 as the end date of the contract was 31.01.2021) and insert the correct discount rate (in this case the contract has been extended for 11 months, but we will always take in consideration 12 months as it's the minimum period). Then validate the rule with the flag.



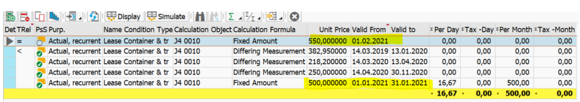
In Valuation, simulate the new valuations and if no special flows or errors appears, save the contract and post both valuation part and contract part.



2. Amount increase/decrease

If the amount of the contract has increased or decreased in a previous time respect today, first you need to reverse the valuation and the contract part. (The reversal can ONLY be done for the current year, not previous years and it should be done only for the necessary period. For example the amount will change starting 01.02.2021, I will reverse the contract until 01.02.2021 not until 01.01.2021).

After the reversal, go to conditions and create a new line, inserting the new amount. If the update occurs in the future no reversal are needed.



Check in Simulate if the update is correct for the following months:

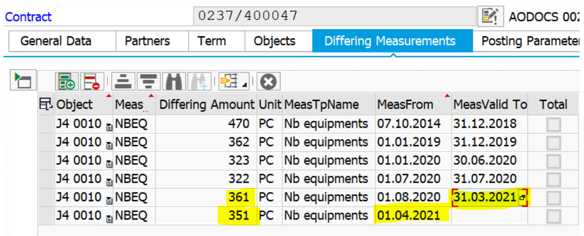
31.01.2021	500,00	0,00	500,00	EUR	01.01.2021	31.01.2021
28.02.2021	550,00	0,00	550,00	EUR	01.02.2021	28.02.2021
31.03.2021	550,00	0,00	550,00	EUR	01.03.2021	31.03.2021
30.04.2021	550,00	0,00	550,00	EUR	01.04.2021	30.04.2021
31.05.2021	550,00	0,00	550,00	EUR	01.05.2021	31.05.2021
30.06.2021	550,00	0,00	550,00	EUR	01.06.2021	30.06.2021
31.07.2021	550,00	0,00	550,00	EUR	01.07.2021	31.07.2021
31.08.2021	550,00	0,00	550,00	EUR	01.08.2021	31.08.2021
30.09.2021	550,00	0,00	550,00	EUR	01.09.2021	30.09.2021
31.10.2021	550,00	0,00	550,00	EUR	01.10.2021	31.10.2021
30.11.2021	550,00	0,00	550,00	EUR	01.11.2021	30.11.2021
31.12.2021	550,00	0,00	550,00	EUR	01.12.2021	31.12.2021

In valuation Parameters, if no valuation has been created for the current year, create a new valuation for the current year. In this case the Discount rate will remain the same as the duration of the contract hasn't been impacted.

Validate the rule and simulate the new valuation in Valuations. If everything is correct, save the contract and post it.

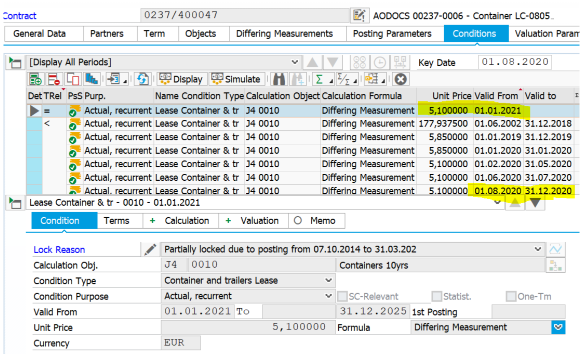
3. Number of Equipment increase/decrease

The number of equipment in a RE-FX contract can be found on "Differing Measurements" part.
(Example: 10 containers have been off-hired starting 01.04.2021)
I will have to reverse both contract and valuation until 31.03.2021 as this change will impact the monthly amount.
In differing measurement create a new condition starting 01.04.2021 with the correct number of equipment needed.



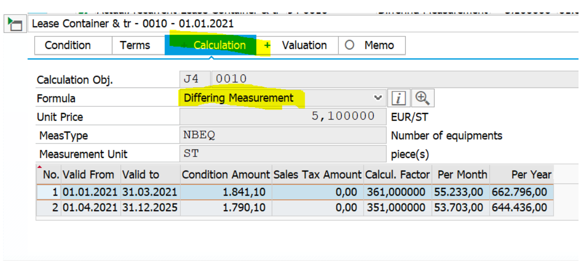
Object	Meas	Differing Amount	Unit	MeasTpName	MeasFrom	MeasValid To	Total
J4 0010	NBEQ	470	PC	Nb equipments	07.10.2014	31.12.2018	
J4 0010	NBEQ	362	PC	Nb equipments	01.01.2019	31.12.2019	
J4 0010	NBEQ	323	PC	Nb equipments	01.01.2020	30.06.2020	
J4 0010	NBEQ	322	PC	Nb equipments	01.07.2020	31.07.2020	
J4 0010	NBEQ	361	PC	Nb equipments	01.08.2020	31.03.2021	
J4 0010	NBEQ	351	PC	Nb equipments	01.04.2021		

The update will automatically reflect on the conditions.
In this case as no condition was created for the current year, I ended the current condition on the last day of the previous year and duplicate it with start date the first day of the current year in order not to impact the previous years.



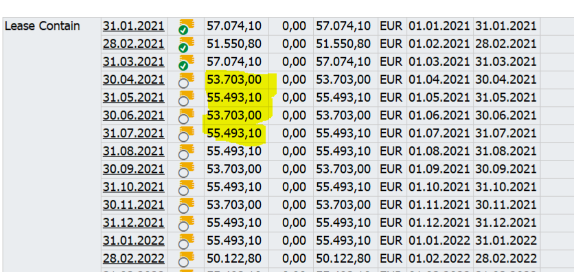
Det	TRel	PsS	Purp.	Name Condition Type	Calculation Object	Calculation Formula	Unit Price	Valid From	Valid to
	=		Actual, recurrent	Lease Container & tr	J4 0010	Differing Measurement	5,100000	01.01.2021	
	<		Actual, recurrent	Lease Container & tr	J4 0010	Differing Measurement	177,937500	01.06.2002	31.12.2018
			Actual, recurrent	Lease Container & tr	J4 0010	Differing Measurement	5,850000	01.01.2019	31.12.2019
			Actual, recurrent	Lease Container & tr	J4 0010	Differing Measurement	5,850000	01.01.2020	31.01.2020
			Actual, recurrent	Lease Container & tr	J4 0010	Differing Measurement	5,100000	01.02.2020	31.05.2020
			Actual, recurrent	Lease Container & tr	J4 0010	Differing Measurement	5,100000	01.06.2020	31.07.2020
			Actual, recurrent	Lease Container & tr	J4 0010	Differing Measurement	5,100000	01.08.2020	31.12.2020

The update will happen automatically if the condition will have Differing measurement in the calculation part



No.	Valid From	Valid to	Condition Amount	Sales Tax Amount	Calcul. Factor	Per Month	Per Year
1	01.01.2021	31.03.2021	1.841,10	0,00	361,000000	55.233,00	662.796,00
2	01.04.2021	31.12.2025	1.790,10	0,00	351,000000	53.703,00	644.436,00

Check in simulate if everything is correct. The monthly amount decreased as (in this case) we decreased the number of containers. In this specific example the monthly amount changes also according to the number of days of the month.



Lease Contain	31.01.2021		57.074,10	0,00	57.074,10	EUR	01.01.2021	31.01.2021
	28.02.2021		51.550,80	0,00	51.550,80	EUR	01.02.2021	28.02.2021
	31.03.2021		57.074,10	0,00	57.074,10	EUR	01.03.2021	31.03.2021
	30.04.2021		53.703,00	0,00	53.703,00	EUR	01.04.2021	30.04.2021
	31.05.2021		55.493,10	0,00	55.493,10	EUR	01.05.2021	31.05.2021
	30.06.2021		53.703,00	0,00	53.703,00	EUR	01.06.2021	30.06.2021
	31.07.2021		55.493,10	0,00	55.493,10	EUR	01.07.2021	31.07.2021
	31.08.2021		55.493,10	0,00	55.493,10	EUR	01.08.2021	31.08.2021
	30.09.2021		53.703,00	0,00	53.703,00	EUR	01.09.2021	30.09.2021
	31.10.2021		55.493,10	0,00	55.493,10	EUR	01.10.2021	31.10.2021
	30.11.2021		53.703,00	0,00	53.703,00	EUR	01.11.2021	30.11.2021
	31.12.2021		55.493,10	0,00	55.493,10	EUR	01.12.2021	31.12.2021
	31.01.2022		55.493,10	0,00	55.493,10	EUR	01.01.2022	31.01.2022
	28.02.2022		50.122,80	0,00	50.122,80	EUR	01.02.2022	28.02.2022
	31.03.2022		55.493,10	0,00	55.493,10	EUR	01.03.2022	31.03.2022

In valuation Parameters, if no valuation has been created for the current year, create a new valuation for the current year. In this case the Discount rate will remain the same as the duration of the contract hasn't been impacted.
Validate the rule and simulate the new valuation in Valuations. If everything is correct, save the contract and post it.

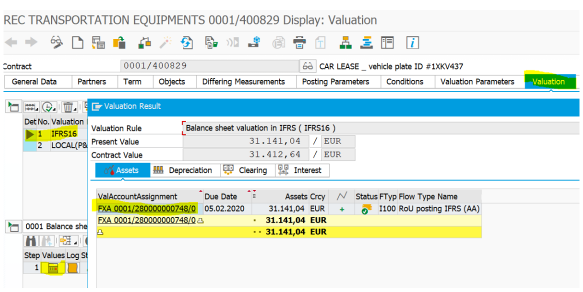
Cancel contract

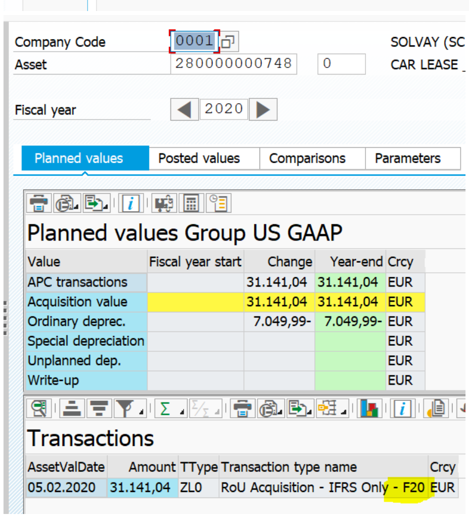
How to cancel / terminate a RE-FX contract in transaction RECN.
There are various case scenario:

1. Contract created in current year with flow F20 that:
2. It should have never been created (for example it's a duplication)
3. It should terminate earlier than expected

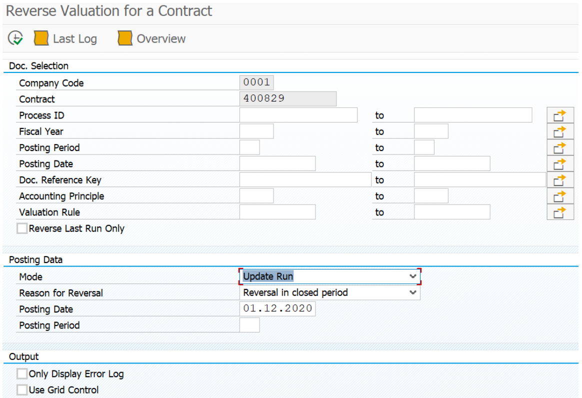
1. Contract created in previous years that:
2. It should have never been created (for example it's a duplication)
3. It should terminate earlier than expected in the current year
4. It should terminate earlier than expected in the past year

Case 1.A - Contract created in current year with flow F20 that should have never been created:
First of all, check that the contract has been created with the flow F20, by going in IFRS16 valuation and opening the asset.

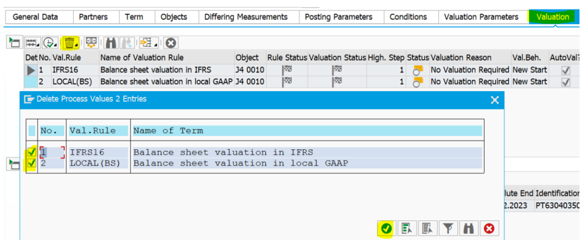




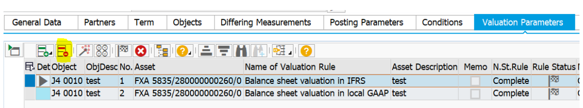
Going back to the contract, go to "Extras" "Post" and then reverse first all the valuation part and then all the contract part.



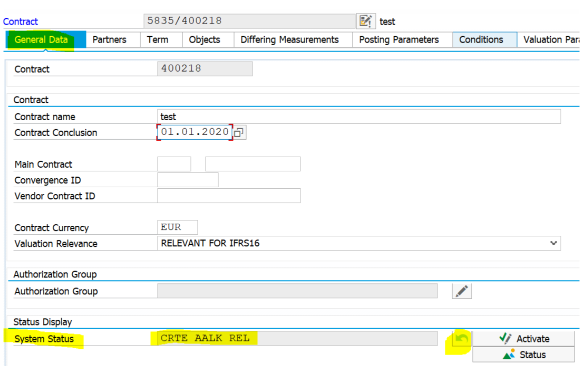
Once done, in Edit mode inside the contract, select both valuations and cancel them.



Then go to Valuation Parameters and cancel both valuations and the asset by selecting one valuation at the time and clicking on the red minus.



Go to General Data and de-activate the contract by clicking twice on the arrow on System Status until the name CRTE AALK REL appears.

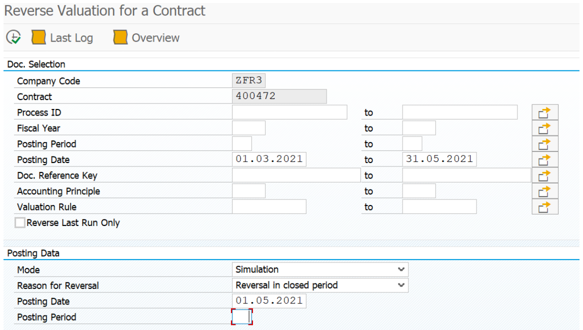


Case 1.B - Contract created in current year with flow F20 that should terminate earlier than expected

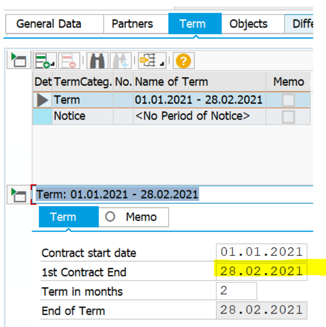
Example: Start date on RE-FX: 01.01.2021 - End date on RE-FX: 31.12.2023 . New end date: 28.02.2021

As per Case 1.A check if the contract has been created with flow F20.

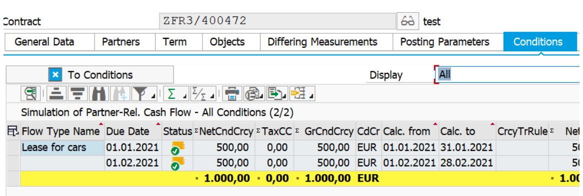
Then reverse first the valuation from 01.03.2021 (next month after new end date) to current month and do the same with the reversal of the contract part.



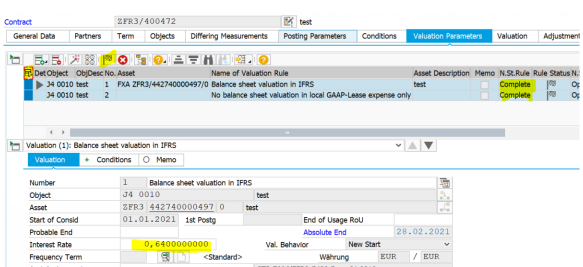
Once reversed change the end date in Term with the new end date.



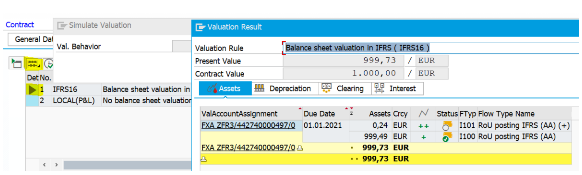
Make sure that in Conditions Simulate, there are no rents created after the new end date.



In Valuation Parameters part, change the interest rate with the correct one based on the new end date and then validate the rule by clicking on the flag (the N.Status Rule will appear as Complete)

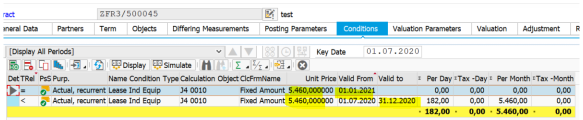


Before Saving, go to valuation and simulate the new IFRS16 valuation to check that no special flow has been created by clicking on Simulate Valuation Selected Rule Continue

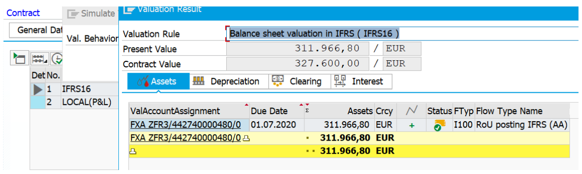


If no Special Flow has been created, Save the contract and post the new Valuation.

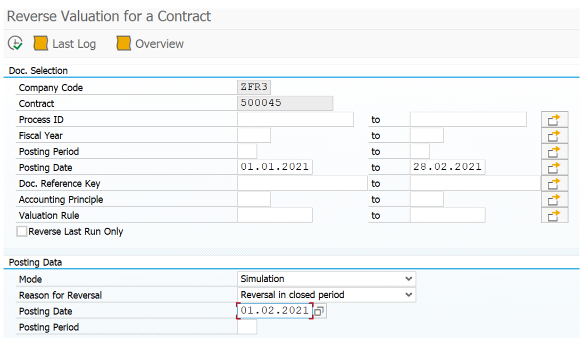
Case 2.A - Contract created in previous years that should have never been created
First of all, in Conditions end the current condition at the end of the previous year and create a new condition for the current year with the same amount.



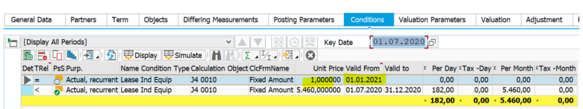
In Valuation Parameters *Complete* the Rules and in Valuation, simulate the new IFRS 16 valuation to make sure that this change has no impact on the contract (no actual change has been performed, as the existing condition has been divided but kept the same data) and save the contract.



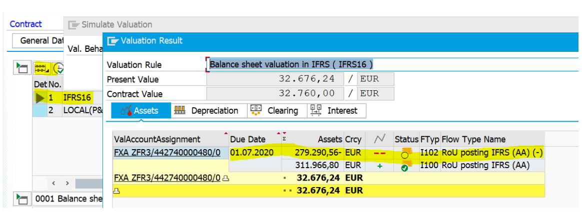
Then reverse first <u>only</u> the current year Valuation and Contract parts.



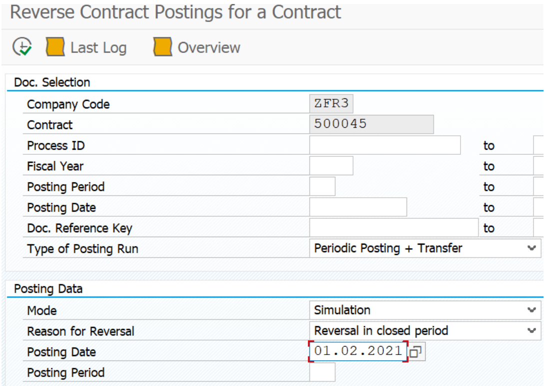
Once done, in conditions, set 1 euro as amount for the current year condition.



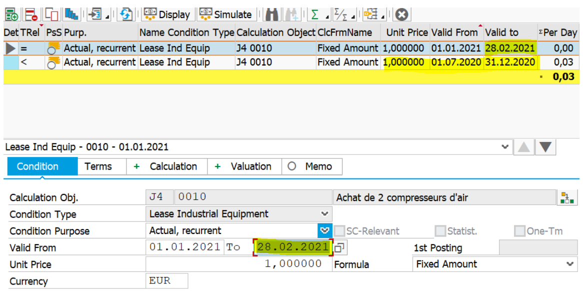
Go to Valuation Parameters and complete the rule by clicking on the flag. Before saving the contract in Valuation, simulate the new valuation to make sure that no Special flow has been created and then save the contract.



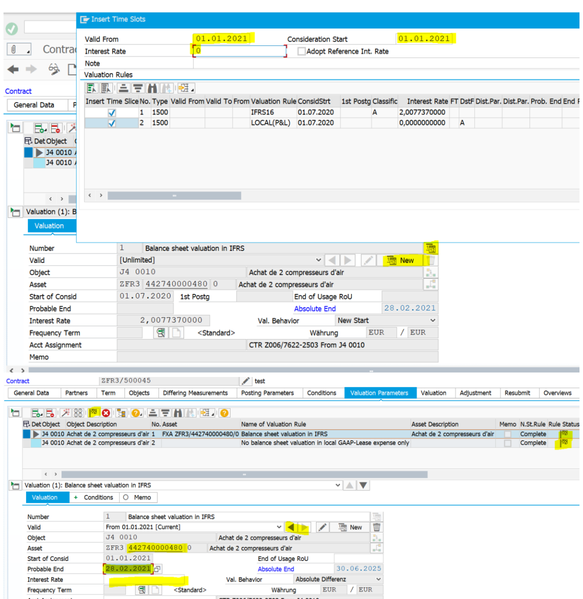
Now reverse <u>only</u> the contract part for the previous year.



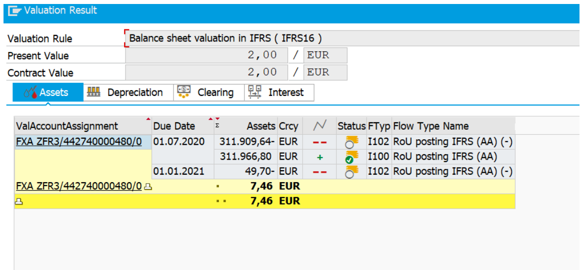
Now set 1 euro as amount for the old condition as well and in the new condition of the current year set as end date the last day of the current month.

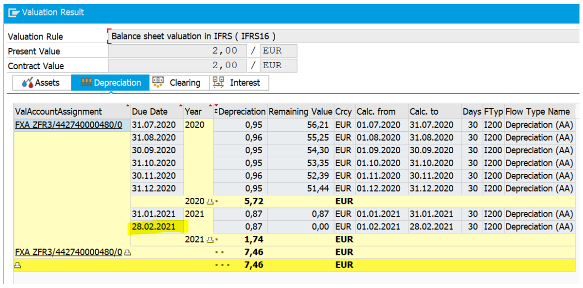


And create the new valuation for the current year in valuation parameters (both for IFRS16 and P&L part) with interest as 0, as the contract should have never existed in the current year, by clicking first on the calendar and then on New in the existing valuation. Set as end date in Probable end date the last day of the current month (same date you used for the new condition, so as the depreciation will be calculated until that day). Make sure that the asset number is the same in both valuations.



Simulate once again the new IFRS16 valuation in Valuations to check if no special flow has been created and if the depreciation is being calculated properly until the set end date.





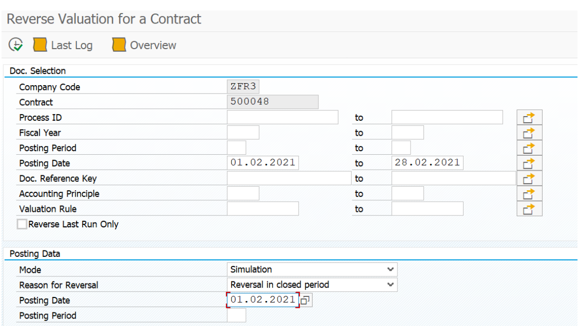
Save the contract and post both valuation and contract part.

Case 2.B - Contract created in previous year that should terminate earlier than expected in current year

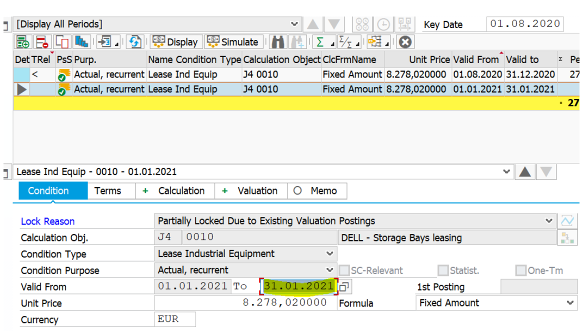
Example: Start date on RE-FX: 01.08.2020 - End date on RE-FX: 31.07.2023 . New end date: 31.01.2021

As for case 2.A start by splitting the existing condition in 2: end the existing condition on the last day of the previous year and create the new condition with the same amount starting the first day of the current year. Complete the rule in valuation parameters, simulate the new IFRS16 valuation in Valuations and save the contract.

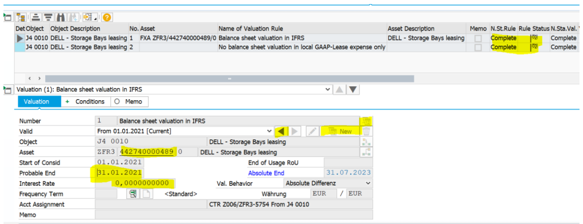
Reverse the valuation and contract parts for the current year starting the first day after the new end date



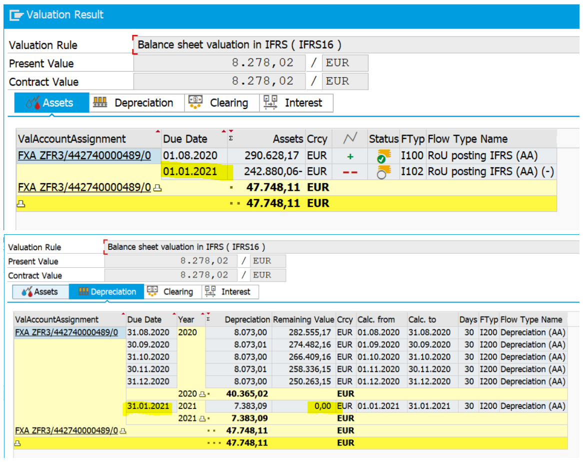
Set now in the new condition of the current year the new end date



And in Valuation Parameters create the new valuation for the current year with 0 as interest and probable end date the new end date used also in the condition (see all the detailed steps in case 2.A), complete the rule and simulate IFRS16 valuations to check if no special flow has been created.



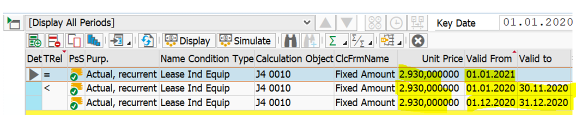
Save the valuation, check if the depreciation is being calculated correctly until the new end date and then post the valuation.



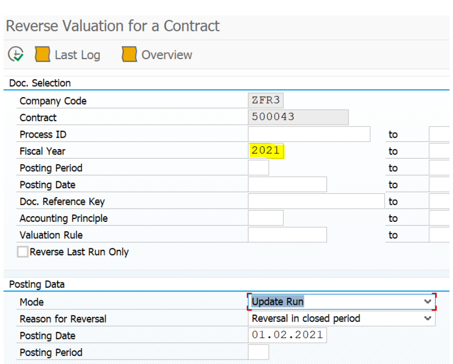
Case 2.C - Contract created in previous year that should terminate earlier than expected in current year

Example: Start date on RE-FX: 15.01.2020 - End date on RE-FX: 14.01.2026 . New end date: 30.11.2020

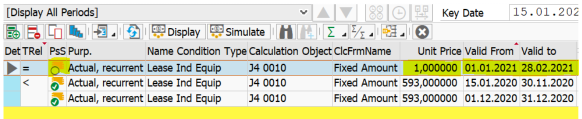
Start by dividing the existing condition, but in this case end the current condition on the new end date (30.11.2020), create another condition with the same amount for the remaining months of the previous year (01.12.2020 – 31.12.2020) and create a new condition starting the first day of the current year (01.01.2021) with the same amount.



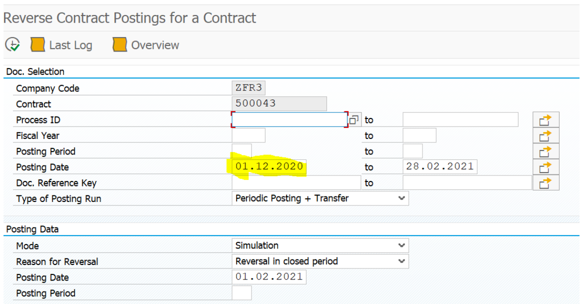
Complete the rule in Valuation Parameters and simulate the new IFRS16 valuation to check that this change has caused no impact in the contract, then save. Reverse valuation and contract only for the current year.



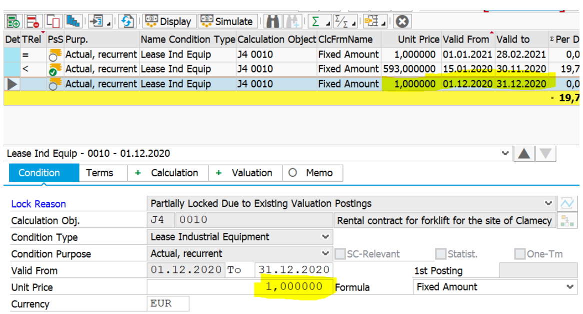
In conditions set 1 euro as rent amount only for the current year condition, complete the rule in valuation parameters, simulate the new valuation to check if no special flow has been created and save the contract.



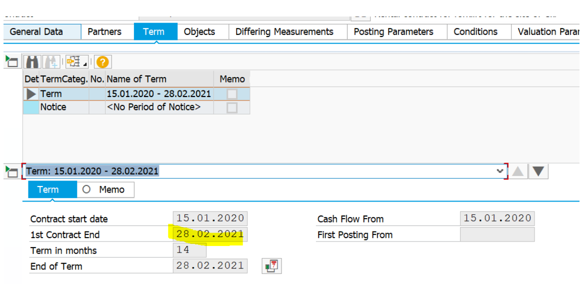
Reverse only the contract part for the month that should have not existed in the previous year (for example for this case starting 01.12.2020).



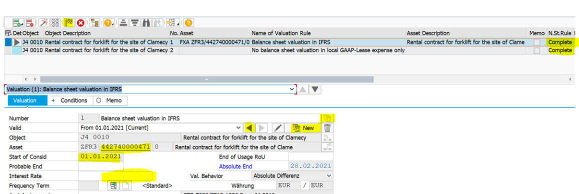
Now in conditions set 1 euro as rent amount for the months of the previous year that should have not existed.



Again complete the rule in Valuation Parameters, simulate the IFRS16 valuation and if no special flow appears, save the contract.
Now in terms change the end date to the last day of the current month.



In valuation parameters create a new valuation for the current year with 0 as interest rate, making sure that the asset number is the same as the previous one (for details check case 2.A).



Once again, complete the rule and simulate IFRS16 valuation to make sure that no special flow has been created. Save the contract and post both valuation and contract parts.

NOTE: After performing any update in the contract always check in transaction FBL3N if the suspense account (WP2: 56030110 and PF2: 5112100020) for that specific contract is balanced.