

## Gearing

### Plan Benefits and Services:

- 1) Minimum administration – all vehicle-operating costs can be included in the rental, i.e. Road Fund Licence renewal, Maintenance and Fleet Management reporting.
- 2) Total Budgetary Control – fixed monthly costs that cover the entire vehicle operating costs.
- 3) Improved Ratios – Please refer to the example below-

By using an Operating Lease, the value of the vehicle fleet (for example, £40,000) can be removed from the balance sheet, resulting in the following effect.

	<b>Before</b>	<b>After</b>
<b>Fixed Assets</b>	<b>£120,000</b>	<b>£80,000</b>
<b>Current Assets</b>		
<b>Stock</b>	£30,000	£30,000
<b>Debtors</b>	£25,000	£25,000
<b>Cash at Bank</b>	£15,000	£15,000
	£70,000	£70,000
<b>Total Assets:</b>	<b>£190,000</b>	<b>£150,000</b>
<b>Current Liabilities</b>		
<b>Creditors</b>	£30,000	£30,000
<b>HP Instalments</b>	£30,000	(Nil)
<b>Long Term Liabilities</b>		
<b>HP Instalments</b>	£10,000	(Nil)
<b>Total Liabilities:</b>	<u><b>£70,000</b></u>	<u><b>£30,000</b></u>
<b>TOTAL NET ASSETS</b>	<b>£120,000</b>	<b>£120,000</b>

While the total Net Assets of the example remain unaltered, the ratios calculated before and after use of an operating lease are as follows:

	<b>Before</b>		<b>After</b>	
<b>Gearing:</b>			<b>Total Liabilities/Net Worth</b>	
	= 70k/120k	<b>= 0.58:1</b>	= 30k/120k	<b>= 0.25:1</b>
<b>Working Capital:</b>			<b>Current Assets – Current Liabilities</b>	
	= 70k – 60k	<b>= £10,000</b>	= 70k – 30k	<b>= £40,000</b>
<b>Return of Assets:</b>			<b>Profit/Fixed Assets</b>	