

Oracle Fusion Assets Asset Leases

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Introduction

Leasing is an important activity for many organizations—whether a public or private company, or a not-for-profit organization. It is a means of gaining access to assets, obtaining financing, and reducing an organization's exposure to the risks of asset ownership. Many organizations lease assets such as real estate, airplanes, trucks, ships, and construction and manufacturing equipment. Because of the prevalence of leasing, it is important for users of financial statements to have a complete and understandable picture of an organization's leasing activities.

The two leading accounting standard setting bodies, International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB), published new lease accounting standards, IFRS 16 Leases and Leases (Topic 842) respectively. From January 2019, the two standards are in effect.

Oracle Fusion Assets allows the lessee to comply with these new accounting standards from Oracle Fusion Financials Cloud Release 13. In Oracle Financials Cloud, a lessee can use Oracle Assets and Oracle Payables together.

From Oracle Assets:

- Create asset leases and calculate the lease liability and cost to be capitalized.
- Add the leased asset to the asset book.
- Calculate the periodic depreciation expense and interest expense on the lease liability for finance lease assets.
- Calculate the periodic lease expense for operating lease assets.
- Generate periodic lease payment invoices with the correct distribution account.
- Schedule transfer of lease payment invoice to Fusion Payables
- Change lease term and payment schedules, and capitalize changes in liability.
- Terminate the lease at the end of the lease term or earlier.
- Report and inquire on leased assets.

From Oracle Payables:

- Validate, approve, and account lease invoices transferred from Assets.
- Pay lease invoices on the due date.

This whitepaper provides detailed information about the new asset lease feature.

Chapter 1 Prerequisite Setups

Assets

You must complete the following setup steps to enable the lease feature for an asset book:

1. Enable the Allow leased assets option for your asset book on the Create Book page
2. Setup the leased asset category and assign it to your asset book. You must enter the correct values for the following attributes when setting up the lease category
 - Enter Lease as the category type.
 - Enter all lease default accounts:
 - **Lease Liability Account:** Initial lease liability, periodic interest on lease liability, and periodic lease payments are charged to this account.
 - **Lease Interest Expense Account:** Only expense type account is allowed. For finance lease assets, the interest on lease liability is charged to this account.
 - **Operating Lease Expense Account:** Only expense type account is allowed. For operating lease assets, operating lease expense that is calculated to allocate the cost of the lease over the lease term is charged to this account.
 - **Gain or Loss on Leased Asset:** Only expense and revenue type account is allowed. Gain or loss arising from the termination and scope change are charged to this account.
 - **Lease Clearing Account:** Only asset type account is allowed. Periodic lease payments that reduces the lease liability is credited to this account and credit will be reversed when lease payment invoice is accounted in your payables system. The excess of cost over the lease liability in leased asset addition is charged to this account. For example, initial direct costs incurred to negotiate or arrange a lease are not included in lease liability, but they are only included in the leased asset's cost. When you create invoices in Payables to make lease-related payments that need to be included in the leased asset cost but not in the lease liability calculation, use this account as the distribution account for the invoices.
 - **Lease Currency Rate Gain or Loss:** Only expense and revenue type account are allowed. Required for asset book with reporting currency. Gain or loss on lease liability due to change in the currency rate is charged to this account.
 - Specify default rules that are applied automatically when you create leases using the Create Lease page. Payments such as variable lease payments and initial direct costs are normally not included in lease liability and cost calculations. You must specify the lease payments to be excluded from lease liability and cost calculation in the following fields:
 - Payment Types Excluded from Liability
 - Payment Types Excluded from Cost

Payables

Complete the following setup steps to create the lease payment invoices and make payments:

- Assign at least one business unit as Payable Business Unit to your primary ledger
- Create at least one Supplier and site for each of your Lessors from the *Suppliers Work Area in Oracle Procurement*

Chapter 2 Create Leases

Use the Manage Leases page to manage all of your asset leases and perform the following activities:

- Create new leases
 - View pending lease transactions and post them
 - View existing leases, asset information, and accounting entries
 - Generate lease payment invoices
 - Review lease payment invoices
 - Transfer lease payment invoices to Payables
 - Change financial terms, such as the lease term or payment schedule
 - Terminate leases
- ❖ Navigation: Select your asset book in the Assets landing page and then select the Manage Leases task.
- ❖ Note: The Manage Leases task is displayed only for books for which the lease feature is enabled.

You can create leases in two ways

- Using the Create Lease page
- Using the Import Asset Leases file-based data import template

Lease information comprises of two parts: general lease information and financial terms. Complete both the sections so that the Lessee's books reflect the correct accounting as required by the accounting standards.

1. General Lease Information

The general lease information includes:

- Lease Number: A unique identifier to track the lease in Assets
- Lease Description: A general description of the lease
- Category: A lease category to be defaulted to the lease's right-of-use assets.
- Contract Number: Enter lease contract number, if any and need not be unique
- Payables Business Unit: Select the Payables Business Unit responsible to make lease payments.
- Lessor and Lessor Site: Select the Supplier and Site corresponding to each Lessor.
- Lease Start Date: Lease payment commencement date. If you are creating an existing lease with advance payment option, lease start date has to be the last payment date.
- Payment Frequency: Choose an interval from the list: monthly, yearly, quarterly, and half-yearly.
- Payment Option: Specify whether the lease payment is made in advance or arrears. For example in monthly frequency whether payment to be made on 1st day of the month or last day of the month.
- Generate Payment Invoices: Specify whether the lease payment invoices to be generated at the lease level (one invoice per lease) or asset level (one invoice for each right-of-use asset).

Notes:

- ❖ 1: You can generate lease payment invoices for a corporate book only.
- ❖ 2: When you choose not to generate invoices at all, you have to enter the invoices directly using the lease clearing account as invoice distribution account in your payables system.
- ❖ 3: Use 'Leases' descriptive flexfield to capture additional generic lease information

2. Financial Terms

Financial terms include the lease term, the lease classification, and the payment schedules. The financial terms are specific to a book to allow multiple representations of an asset lease. For example, it is possible to classify a lease as an operating lease in a GAAP reporting book and a finance lease in an IFRS reporting book.

First, create the lease in the corporate book. Then, copy the lease using the action 'Assign Book' to the associated tax book or other corporate books sharing the same primary ledger. The option copy financial term allows to copy the financial terms including the payment schedule from the corporate book to the tax book. It is not possible to create leases directly in any tax book.

You can delete leases from an asset book using the action 'Delete Book' only if any of its leased asset is not yet added to that asset book. If the lease exists in only one book then it will be deleted completely.

2.1. Lease Term

Assets calculates the lease term based on the information that you enter in the following fields:

- Noncancelable Term: Number of months in which the lease cannot be cancelled by the lessee. Always included in lease term calculation.
- Extendable Term: Number of months the lease can be extended by the lessee. Included in the lease term only if you decide to extend the lease.
- Cancelable Term: Number of months the lessee has an option to terminate the lease. Included in the lease term only if you decide not to terminate the lease.
- Lessor Option Term: Number of months the lessor can extend or cancel the lease. Always included in lease term calculation.
- Exercise Options: Indicates whether you want to exercise the option to purchase, extend, or cancel the lease.

Lease term = Noncancelable Term + Lessor Option Term + Extendable Term (Only if you decide to extend the lease) + Cancelable Term (Only if you decide to cancel the lease)

2.2. Number of Assets

Assets allows you to add any number of assets from a lease. While creating the lease, specify the number of assets that you want to add from that lease. Assets automatically divides the lease level schedule into the correct number of asset level schedules based on the number of assets you specified and also creates a mass addition line for each asset schedule. These lines will be available in the Additions Infotile in the Assets Landing page. You simply prepare the mass additions and add them as assets in the asset book. If a lease has only payments that cannot be capitalized, you can enter **zero** as the number of assets, and generate and transfer lease payment invoices to Oracle Payables without adding any leased assets in the asset book.

2.3. Lease Classification

Leases are automatically classified as finance leases if any one of the following options is enabled. If none of the options are enabled, the lease is an operating lease.

- Purchase: Lessee decides to buy the leased asset at the end of lease term.

- Major lease term: Lease term is 75 percent or more of the remaining economic life of the leased asset.
- Substantial present value: Present value of the lease payments is 90 percent or more of the fair value of the leased asset.
- Ownership transfer: Ownership of the leased asset is transferred to the lessee at the end of the lease term.
- Specialized asset: Leased asset has no alternative use to the lessor at the end of the lease term.

2.4. Variable Lease Expense Account

Lease payments that are not included in lease liability calculation such as variable lease payments are charged to this account. Generated lease payment invoices have a separate line for this payment with this account as its distribution account.

2.5. Payment Schedules

There are two levels of lease payment schedules - lease-level and asset-level.

Lease-Level Payment Schedule

Many assets of an asset class or types are leased through a single lease contract with one lease payment schedule for all assets included in that lease. The lease term, lease payment amount, and interest rate will be same for all assets and there will not be any asset-specific terms in the contract. For this type of lessee, you can either add one asset or you can add each leased asset as a separate asset in the asset book.

Lease payments can be either recurring or onetime. Use the Recurring Payments tab and the Onetime Payments tab to enter lease payment schedule information. If you are adding more than one asset, Assets automatically divides the lease-level schedule that you entered into many asset-level schedules based on the number of assets to add that you specified.

When asset-level schedules are created automatically from lease-level schedules, any changes that you make to the lease-level schedule are automatically propagated to all asset-level schedules.

You can update the asset-level schedule when the lease payment amount changes for only one particular asset. Any changes made directly to the asset schedule or any additional asset schedules that were added directly in the Assets tab will make the lease-level schedule inactive, and will hide the Recurring Payments and Onetime Payments tabs.

Asset-Level Payment Schedule

Many different assets are leased through a single lease contract for a specific period with each asset having its own lease payment schedule. The lease payment amount and interest rate may be different for each asset. For this type for lessee, you cannot have any lease-level schedules, and you can enter only a separate payment schedule for each asset in the Assets tab.

Now, let us look at the Payment Schedule information in detail starting with the payment types. Payment types are tied to the frequency of the lease payments.

Lease contracts normally have recurring and onetime lease payments. For example, a lease payment that needs to be made on the first day of every month is a recurring payment and the purchase price that needs to be paid on the last day of the lease term is a onetime payment.

Recurring Payments: Amount payable on a specific date at specific frequency for throughout or part of the lease term. Amortization schedule will be generated to show all recurring payments to be made during the lease term.

The different recurring payment types are:

- Periodic lease payment
- Variable lease payment
- Other payments

Onetime Payments: Amount payable at a specific date during the lease term.

The various onetime payment types are:

- Initial direct cost
- Advance lease payment
- Purchase price
- Residual value
- Termination penalty

The remaining attributes are:

- Payment Date:** Date when the payment needs to be made to the lessor.
- Interest Due Date:** Date when interest on a lease liability is recognized. For a finance lease, interest on a lease liability is recognized in the period in which the interest due date falls. For operating leases, the operating lease expense is recognized in the period in which the interest due date of the periodic lease payment falls. For example, if the lease payment is made on 1st January of every year and the interest on lease liability is calculated 31st December of every year.
- Amount:** Amount payable to the lessor.
- Number of Payments:** For periodic lease payments, the number of payments is automatically calculated using the lease term, lease payment frequency, and lease payment option.
- Interest Rate:** Enter only for the payment type Periodic Lease Payment. Only one interest rate is allowed for all payments and cannot have different rate for each payment type
- Exclude from Liability:** Indicates whether the lease payment is included in the lease liability calculation.
- Exclude from Cost:** Indicates whether the lease payment is included in the leased asset cost calculation.

You must enter interest a due date if you choose No for the Exclude for liability option. Any payment that is included in the lease liability calculation will be automatically include in the cost calculation. Liability and Cost are calculated as below:

Lease Liability: Present value of lease payments included in liability calculation (Exclude from liability is No)

Asset Cost: Lease liability plus payments excluded from liability (Exclude from liability is Yes) but included in cost (Exclude from Cost is No)

Chapter 3 Leased Asset Additions

A leased asset addition line is created automatically when you create a lease using the Create Lease page. The cost, in service date, and category are defaulted from the lease. You can review and prepare these lines from the Additions Infotile on the Assets landing page or from the Assets tab on the Edit Lease page. Similar to owned asset lines, you need to change the queue to Post and run the Post Mass Additions process to add a leased asset in your asset book.

- ❖ Note: When you update the cost defaulted from the lease, any difference between the cost that you entered and the lease liability will be charged to the asset clearing account.

You can use Import Asset Leases file-based data import template to load lease data first in the corporate and latter in tax book. In the template, you must:

- For the corporate book, enter a unique asset schedule identifier for each asset payment schedule.
- For the tax book, enter the same asset schedule identifier as of the corporate book.

After creating the leases, you can add leased assets to corporate books using the Mass Additions file-based data import template. For each asset, you must enter the cost as zero, the lease number, and the asset schedule identifier that you used using the Import Asset Leases file-based data import template. At the time of addition, the cost of the asset is defaulted for the asset schedule. If you enter a cost other than zero, then the entered amount is considered to be the cost of the leased asset. Any difference between the cost that you entered and the lease liability is accounted in the asset clearing account.

If you created a lease and added the leased asset to your corporate book, you need to add it to an associated tax book. Run Asset Lease Data Extract Report to extract the lease data from the corporate book and populate it in the Import Asset Leases file-based data import template. For each asset schedule, enter the asset number (as in the corporate book) in both the Asset Schedule Identifier and Asset Number columns.

The Periodic Mass Copy process copies the leased assets from the corporate book to the tax book. The cost of the asset is defaulted from the asset payment schedule that you set up for the tax book.

Chapter 4 Finance Lease

For a finance lease, the lessee must recognize two different types of expenses:

- Interest on the lease liability
- Amortization or depreciation of the right-of-use asset.

The interest on the lease liability must be recognized separately from the amortization of the right-of-use asset in the profit and loss account

When a lessee makes a lease payment, the lessee is in effect making a capital repayment against the lease obligation and an interest payment. To show this impact in financial statements, the interest expense must be recognized on the due date and added to the lease liability balance. The lease liability balance must be reduced when the lease payment is made to the lessor.

The amortization schedule calculates and stores the interest amount, principal reduction amount, and interest due date for each lease payment included in the lease liability calculation. Interest expense is recognized in the period in which the interest due date falls. Number of lease interest expense in a fiscal year depends upon the lease payment frequency. In the case of monthly payments, the lease interest is

accounted in each period (assuming your asset book uses a monthly depreciation calendar). For annual payments, the interest expense is accounted only once in the period in which the interest due date falls.

- ❖ Note: In case of leases with annual, quarterly or semiannual frequency, interest expense will be recognized only once in a year, quarter or half year respectively. If monthly provisioning is required, create monthly provisioning recurring journal in your general ledger

Assets recognize two periodic expenses for all finance lease assets:

- Depreciation
- Interest on lease liability

Finance lease assets depreciate just like owned capitalized assets using standard depreciation rules, such as the depreciation method, convention, and prorate calendar. At the time of addition, the depreciation rules, such as the method and life, are defaulted from the category. You can override the defaulted rules, if necessary.

In Assets, run the Calculate Lease Interest and Expense process for each period to recognize the interest expense on the lease liability in asset books. You can run the process from the Depreciation Infotile on the Assets landing page. You cannot close the period without calculating the lease interest expense for all finance lease assets in the book.

The following is the accounting entry for interest expense of \$175 and the reduction in liability for lease payment of \$1000:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Lease Interest Expense	175	
Lease Liability		175
Lease Liability	1,000	
Lease Clearing		1,000

For interest expense account, all segments except natural account defaults from depreciation expense account in asset assignment/distribution and natural account will be from the category default accounts. The liability account will be the active liability account for the asset.

Oracle Assets generates lease payment invoices with lease clearing account as invoice distribution account and transfers it to Oracle Payables. From Oracle Payables, run Import Payables Invoices process with source as 'Assets' to import any lease payment invoices. The sample accounting entries for an invoice of \$10000 are:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Lease Clearing	10,000	
Supplier Liability		10,000

The supplier liability of 10,000 will become zero when payment is made for the above lease invoice. At the end of lease term, the net book value of leased asset and its lease liability will become zero.

Asset inquiry shows lease interest expense balances such as Periodic Interest Amount, YTD Interest Amount, Interest Adjustment Amount, lease and liability balance.

Here is how the period end balances for the lease liability balance are worked out from its opening balance:

Lease liability on addition/Opening Balance	XXX
(+/ -) Increase/Decrease in Lease liability on Adjustment	AAA
(+) Increase due to Interest on lease liability	BBB
(-) Decrease due to lease payment	CCC
Lease liability balance at the end of the period	YYY

Chapter 5 Operating Lease

For an operating lease, lessee has to recognize a single lease expense, calculated to amortize the total cost of the lease over the lease term on a straight-line basis.

Operating lease expense in each period calculated as amortization of the remaining cost of the lease at the beginning of the period over the remaining lease term on a straight-line basis. The remaining cost of the lease is calculated as net book value of the asset plus outstanding interest on lease liability.

Depreciate checkbox will be automatically unchecked while adding operating lease asset as it's not require to depreciate like financial lease asset. When you run the Calculate Depreciation process, no depreciation is calculated for operating leases.

Calculate Lease Interest and Expense process will calculate and recognize operating lease expense. You cannot close the period without calculating operating lease expense for all operating lease assets in the book. The sample accounting entries for the operating lease expense and reduction in liability are:

Accounts	Debit Amount (\$)	Credit Amount (\$)	Comment
Operating Lease Expense	1,200		
Lease Liability		900	Interest on lease liability
Depreciation Reserve		300	300 = 1,200 - 900
Lease Liability	1,000		Lease payment amount
Lease Clearing		1,000	Lease payment amount

At the end of lease term, the net book value of leased asset and its lease liability are both zeroed out.

For operating lease expense account, all segments except natural account will come from depreciation expense account in asset assignment and natural account will be from category default accounts. The liability account will be the active liability account for the asset. Depreciation reserve account derived using the same logic used for the depreciation accounting for finance lease asset and owned asset.

Any transaction happens after recognition of operating lease expense for the current period, the recognized lease expense will be automatically rolled back just like depreciation amount is rolled back. Lease expense will be recognized again when calculate lease interest and expense process is run.

- ❖ Note: No catchup operating lease expense will be calculated for the backdated operating lease. You must manually enter the opening depreciation reserve at the time of adding the operating lease ROU asset or later before closing the period in which asset was added.

Chapter 6 Transactions on Leased Assets

Oracle Assets has following restrictions for leased assets:

- Cost adjustment, source line adjustment, and Retirement transactions that change the cost of leased asset.
- Retroactive or backdated asset transfers.

- Reclass from leased category to owned or leasehold improvement category
- Depreciation, Impairment and Revaluation for an operating lease asset

Cost of the leased asset is always calculated from the lease payment schedule. You have to change the lease payment schedule to make cost adjustments to the right-of-use assets.

When category change happens for owned assets, asset cost and depreciation reserve are moved to new category accounts. Similarly when category is changed for a lease asset, balance in cost, depreciation reserve, and lease liability accounts are transferred from old category accounts to the new category accounts. You can transfer a leased asset from one leased category to another lease category only. The sample accounting entries are as follows:

Accounts	Debit Amount (\$)	Credit Amount (\$)
New Category – Asset Cost	10,000	
New Category – Depreciation Reserve		5,000
New Category – Lease Liability		5,000
Old Category – Asset Cost		10,000
Old Category – Depreciation Reserve	5,000	
Old Category – Lease Liability	5,000	

When asset is transferred to a new company, cost center or an expense account, the cost and depreciation reserve balances are transferred to from old account to new category accounts. For lease asset, transfer date must be in current open period.

The cost, depreciation reserve, and leases liability as at the start of the current period will be transferred to new company, cost center, or account. The sample accounting entries for current period transfer are:

Accounts	Debit Amount (\$)	Credit Amount (\$)
New account – Asset Cost	10,000	
Old account – Asset Cost		10,000
New account – Depreciation Reserve		5,000
Old account – Depreciation Reserve	5,000	
New account – Lease Liability		5,000
Old account – Lease Liability	5,000	

Chapter 7 Lease Payment Invoices

Lease payment invoice are generated from the amortization schedule which has the details of all payments that are to be made during the lease term. Periodic lease payment invoices are generated with below invoice distribution account:

- Lease clearing account for the payment included in lease liability calculation
- Variable expense account for the payments not included in lease liability calculation

1. Generate and Transfer Lease Payment Invoices

Generate Lease Payment Invoices process will generate invoices from the asset level amortization schedule and summarized based on invoice generation level option (asset level or lease level) and invoice date for various lease payment types.

Number of invoices to be generated for a lease in a period depends upon the invoice date of lease payments due in that period. If invoice dates for lease payments are different, then one invoice for each

invoice date will be generated. For example if a lease have periodic and variable lease payments. Invoice date for the periodic lease payment is 1st of the month and variable lease payment is last day of the month. Two invoices will be generated. In case the invoice date for both is 1st day of the month only one invoice with two lines will be generated.

There are four statuses to indicate the state of the generated lease payment invoices:

- a. New: Newly generated invoices and not updated or transferred to Payables.
- b. Updated: Updated by user and not transferred to payables.
- c. Transferred: Invoices successfully transferred to Payables
- d. Error: An error occurred either during generating or transfer to payables.

Transfer Lease Payment Invoices process will transfer the lease payment invoices to Oracle Payables invoice interface table. Payables clerk can import the invoices and make payment.

2. View and Update Lease Payment Invoices

In Lease Payments tab by default shows the invoices with the invoice date in current open period. Only shows invoices that are not yet transferred to Oracle Payables and Imported in Oracle Payables. Invoices that are in Oracle Payables interface table will not be displayed and it will be displayed when they are successfully imported in Payables. When running generate invoices process you must set the transfer to Oracle Payables as No to review the invoices before transferring them to Payables.

After generation but before transfer to Oracle Payables some of the lease payment invoice attributes can be updated. The attributes that are not allowed to be updated are Lease Number, Amount, Lessor, Status, Transfer Date, Line Type, and Line Amount.

3. Import Invoices

Use Oracle Payables Import Payables Invoices process with source as Assets to import the lease payment invoices transferred by Oracle Assets.


Chapter 8 Change Financial Terms

The lessee can make changes to lease term and payment schedule at any time during the lease term. The reason for the changes can be a) To correct data entry mistake made while creating lease, b) Change in circumstances necessitate change in exercise option such as renew or terminate, and c) Change in scope of the lease Increase or decrees in number of assets leased.

Whenever lease term or payment schedule or both is changed, new amortization schedule will be generated to calculate the present value of the lease payment (lease liability) to be made on or after the transaction date. The difference between the current lease liability balance at the start of the period and new liability will be adjusted to the cost of the leased asset. The accounting assuming \$20000 for the increase in lease liability are:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Asset Cost	20,000	
Change in Liability		20,000

To change financial term of a lease, go to Manage Lease page, and select Change Financial Terms action. In Change Financial Terms page, you can change the lease term, exercise option, descriptive flexfield segments, and payment schedule details.



After entering change details including transaction date, click the Generate Schedules button. This will generate new amortization schedule which will calculate new lease liability or present value of lease payment to be made on or after the transaction date.

- ❖ Note: You must enter transaction date for the periodic lease payment row. Entered date will be defaulted to all other type payment rows.

Review the impact of financial term changes before posting it by going to Manage Lease page, select Pending Transactions tab, and click on lease number.

Verify the amortization schedule and following values in Review Changed Financial Terms page as follows:

- Cost: Current cost of the associated leased assets
- Liability: Lease liability at the start of the period
- New Cost: Cost of the associated leased assets after this transaction
- New Liability: Present value of lease payments with payment data on or after transaction date.

If above values are correct, click Submit button to post the transaction. If values are not correct, update the financial terms and Click Generate Schedules button to regenerate amortization schedule again.

1. Change Lease Term

Lease term can be increased or decreased by changing the lease term value for Noncancelable Term, Extendable Term, Cancelable Term, and Lessor Option Term or by changing the Exercise Options. Change in lease term will result in change in number of payments for recurring payments and payment date for onetime payments.

Change in lease term will be automatically applied to the existing periodic lease payment in the lease payment schedule and associated asset payment schedules. Enter transaction date for the periodic lease payment rows. You need to manually update a) number of payments for variable lease payment, and other payment. b) Payment date for onetime payments to be made on or after the transaction date.

2. Change Payment Schedule

You can change either lease level or asset level lease payments details. Lease level payments details change will automatically updated to all the associated asset level schedules. When a particular asset level schedule is updated it will impact only that asset but will make the lease level schedule inactive as the lease level schedule will not be sum of all asset level schedules.

Recurring Payments:

Always enter a new row when the payment amount or payment date of any recurring payment type is changed. Only payment rows that have the end date less than the start date of the current open period can be updated. Enter Transaction Date that fall in the current open period for all updated periodic lease payment type rows and it will be defaulted to all other payment types.

Onetime Payments:

You can update the existing onetime payments with the payment date greater than the start date of the current open period. Onetime payment rows that have the payment date less than the start date of the current open period cannot be updated. You can add new payment types if required.

Chapter 9 Terminate Lease

Lessee can terminate a lease any time; start of the lease term, middle of lease term, or at the end of the lease term. Termination of a lease before the expiration of the lease term shall be accounted by the lessee by removing the right-of-use asset and the lease liability, with profit or loss recognized for the difference. When termination happen at the end of lease term the lease liability balance and net book value of the asset would have become zero and there is no gain or loss to be recognized. Gain or loss may arise only when the termination happens before the end of the lease term.

Whole lease or a particular asset in the lease can be terminated. Enter termination details in the lease level payment schedule to terminate the whole lease and asset level payment schedule to terminate a particular lease. When a particular asset is terminated, the lease level schedule will become inactive as the lease level schedule will not be sum of all asset level schedules.

To terminate a lease, go to Manage Lease page, Select Leases tab, and select Terminate action. In Terminate Lease page, you can only enter:

- Transaction Date for all active periodic lease payment type rows. All other columns will be read-only. The date must fall in the current open period.
- Select Period End Liability option which indicate whether the termination is effective from the start of the period or end of the period
- In onetime payments tab, you can update the payment date and amount for the existing termination penalty payment type row. When termination penalty row not exists, you can add it, if required.

Enter transaction date and termination penalty for lease level payment schedule to terminate whole lease and a specific asset level payment schedule to terminate a specific asset. Enter transaction date only for active periodic lease payment rows. In case there is more than one periodic lease payment rows then date needs to be entered for all rows with end date is greater than transaction date. The transaction date that you enter for periodic lease payment will be defaulted to all payment types (in both recurring and onetime) that have an end date greater than transaction date.

After entering transaction date and termination penalty, click on Generate Schedules button. This will generate new amortization schedule which will calculate new lease liability which is principal reduction portion in the current period lease payments.

To review the termination transaction, go to Manage Lease page, Select Leases tab, and select Review Termination action.

Verify the following values in review termination page:

Cost: Current cost of the associated leased assets

Liability: Lease liability at the start of the period

Net Book Value: Book value of the leased asset

New Cost: Cost of the associated leased assets after the termination

New Liability: Principal reduction portion in the current period lease payments.

Gain or Loss: Difference between the book value of the asset and change in liability (Liability minus New Liability)

After your verification, click Submit button to post the termination transaction. If values are not correct, update the termination transaction and Click Generate Schedules button to regenerate amortization schedule again.

Asset draft retirement transaction will created when the termination is posted. The retirement transaction will be available in the Retirements Infotile in the Assets Landing page. You simply review the retirement convention and post them.

- ❖ Note: Rollback of lease termination and reinstatement of leased asset retirement are not allowed.

The change in lease liability due to termination is calculated based on the period end liability option.

If Period End Liability is 'Yes'

Current liability at the start of the period

Less: Principal reduction for payments with interest due date in current period

Less: Increase in termination penalty

If Period End Liability is 'No'

Current liability at the start of the period

Less: Termination penalty if any with Interest Due date in current period

The gain or loss on termination calculated as below:

Cost

Less: Depreciation Reserve*

Less: Impairment Reserve, if any

Less: Change in Lease Liability

*Depreciation reserve balance will be calculated using default retirement convention of the asset category.

When termination transaction is posted, a retirement transaction will be created for each associated asset. Sample accounting entries for the retirement transaction are:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Depreciation Reserve	800	
Impairment Reserve	200	
Lease Liability	1,100	
Asset Cost		2,000
Gain on Leased Asset		100

Example:

A lessee enters into a six-year lease of equipment with annual lease payments of \$59,000, payable at the end of each year. At the end of Year 5, the lessee has an option to terminate the lease for \$5,000. The lessee concludes that it has a significant economic incentive to exercise the termination option.

The rate that the Lessor charges the lessee in this example is the rate implicit in the lease, which is 6.33 per cent. The lessee classifies the lease as a finance lease. The lessee measures the lease liability at the commencement date at \$250,000 (the present value of five payments of \$59,000 plus the present value of the termination option payment of \$5,000).

At the lease commencement date, the lessee recognizes lease assets and liabilities as follows:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Right-of-use asset	250,000	
Lease liability		250,000

Finance Lease:

The lessee amortizes the right-of-use asset over the lease term of five years. The lessee expects to consume the asset's future economic benefits evenly over the five years and, thus, amortizes the asset on a straight-line basis.

During the first year of the lease, the lessee recognizes interest on the lease liability and amortization of the right-of-use asset as follows:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Interest Expense	15,825 (6.33% × 250,000)	
Lease liability		15,825
Depreciation Expense	50,000 (250,000 ÷ 5)	
Right-of-use asset		50,000

At the end of Year 1, the right-of-use asset is \$200,000 (\$250,000 – \$50,000) and the lease liability is \$206,825 (\$250,000 + \$15,825 – \$59,000).

At the end of Year 5, the lessee has amortized the right-of-use asset to \$0 (\$250,000 – \$50,000 × 5) and has a liability of \$60,190 relating to the last lease payment and termination penalty. The lessee terminates the lease with period end liability as 'Yes' and makes the final lease payments. As the termination happens at the end of the lease term there is no gain or loss on this transaction.

Year5:

Entry for Interest on liability:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Lease Interest Expense	3,810 (interest amount)	
Lease liability		3,810
Lease Liability	64,000 (Lease payment)	
Lease Clearing		64,000

Retirement Entry:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Depreciation Reserve	250,000	
Right-of-use asset		250,000

Lease Invoice Accounting Entry:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Lease Clearing	64,000	
Supplier Liability		64,000

Lease Invoice Payment Entry:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Supplier Liability	64,000	
Bank		64,000

In a situation where the termination penalty is \$6,000.00 then the increase or decrease in liability is first calculated and then reflected in the accounting entries as follows:

Year5:

Change in Lease Liability:

Current liability at the start of the period	\$60,190
Less: Principal reduction for current period payments	\$60,190

Less: Increase in termination penalty	\$1,000
Decrease/Increase (-) liability	(1,000)

Entry for Interest on liability:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Lease Interest Expense	3,810 (interest amount)	
Lease liability		3,810
Lease Liability	65,000 (Lease payment amount + increase or decrease in liability)	
Lease Clearing		65,000

Retirement Entry:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Depreciation Reserve	250,000	
Right-of-use asset		250,000
Lease Liability		1,000
Gain or Loss	1,000 (increase or decrease in liability)	

Lease Invoice Accounting Entry:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Lease Clearing	65,000	
Supplier Liability		65,000

Lease Invoice Payment Entry:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Supplier Liability	65,000	
Bank		65,000

Chapter 10 Finance Lease Example

Lessee and Lessor enter into a three-year lease of equipment. Lease starts on 01-Jan-2016. Lessee pays \$10,000 monthly to the landlord at the start of each month. At the end of the lease term Lessee will purchase the asset for \$15,000. Lessee's incremental borrowing rate is 6%. Lessee incurs an initial cost of \$2,000 to negotiate and finalize the lease. Lessee wants to record this lease as finance lease, add a leased asset in asset book, account lease liability and make lease payments.

Current open period of the asset book is Jan-16

1. Create Lease Category

Create a leased category EQUIPMENTS-LEASED and assign to asset book with default lease accounts, other accounts and depreciation rules

Asset Cost	Lease Liability	Depreciation Reserve	Depreciation Expense	Lease Interest	Lease Clearing
01-000-1560	01-000-2560	01-000-1660	01-000-7360	01-000-7460	01-000-1760

2. Create lease

Create a lease with following information:

Lease Start Date: 01-Jan-2016

Payment Frequency: Monthly

Payment Option: In advance

Generate Payment Invoices: Lease level

Noncancelable Term: 36

Exercise Option: Purchase

Recurring Payments:

Payment Type	Payment Date	Interest Due Date	Number of Payments	Amount	Exclude from Liability	Exclude from Cost
Periodic Lease Payment	01-Feb-16	31-Jan-16	35	10,000	No	No

Onetime Payments:

Payment Type	Payment Date	Interest Due Date	Amount	Exclude from Liability	Exclude from Cost
Advance Lease Payment	01-Jan-16		10,000	Yes	No
Initial Direct Cost	01-Jan-16		2,500	Yes	No
Purchase Price	31-Dec-18	31-Dec-18	15,000	No	No

Click Amortization Schedule button to view amortization schedule and verify calculated values:

Present Value of future lease payments: 332,888.41

Lease Liability: 332,888.41

Leased Asset Cost: 345,388.41 (332,888.41+10,000+2,500)

Amortization Schedule:

Invoice Date	Interest Due Date	Period Name	Lease Payment	Interest	Principal Reduction	Liability
						332,888.41
1/1/2016		Jan-16	12,500.00	0	0	332,888.41
2/1/2016	1/31/2016	Jan-16	10,000.00	1,664.44	8,335.56	324,552.85
3/1/2016	2/29/2016	Feb-16	10,000.00	1,622.76	8,377.24	316,175.61
4/1/2016	3/31/2016	Mar-16	10,000.00	1,580.88	8,419.12	307,756.49
5/1/2016	4/30/2016	Apr-16	10,000.00	1,538.78	8,461.22	299,295.27
6/1/2016	5/31/2016	May-16	10,000.00	1,496.48	8,503.52	290,791.75
7/1/2016	6/30/2016	Jun-16	10,000.00	1,453.96	8,546.04	282,245.71
8/1/2016	7/31/2016	Jul-16	10,000.00	1,411.23	8,588.77	273,656.94
9/1/2016	8/31/2016	Aug-16	10,000.00	1,368.28	8,631.72	265,025.22
10/1/2016	9/30/2016	Sep-16	10,000.00	1,325.13	8,674.87	256,350.35
11/1/2016	10/31/2016	Oct-16	10,000.00	1,281.75	8,718.25	247,632.10
12/1/2016	11/30/2016	Nov-16	10,000.00	1,238.16	8,761.84	238,870.26
1/1/2017	12/31/2016	Dec-16	10,000.00	1,194.35	8,805.65	230,064.61
2/1/2017	1/31/2017	Jan-16	10,000.00	1,150.32	8,849.68	221,214.93
3/1/2017	2/28/2017	Feb-16	10,000.00	1,106.07	8,893.93	212,321.00
4/1/2017	3/31/2017	Mar-16	10,000.00	1,061.60	8,938.40	203,382.60
5/1/2017	4/30/2017	Apr-16	10,000.00	1,016.91	8,983.09	194,399.51
6/1/2017	5/31/2017	May-16	10,000.00	972.00	9,028.00	185,371.51
7/1/2017	6/30/2017	Jun-16	10,000.00	926.86	9,073.14	176,298.37
8/1/2017	7/31/2017	Jul-16	10,000.00	881.49	9,118.51	167,179.86
9/1/2017	8/31/2017	Aug-16	10,000.00	835.9	9,164.10	158,015.76
10/1/2017	9/30/2017	Sep-16	10,000.00	790.08	9,209.92	148,805.84
11/1/2017	10/31/2017	Oct-16	10,000.00	744.03	9,255.97	139,549.87
12/1/2017	11/30/2017	Nov-16	10,000.00	697.75	9,302.25	130,247.62
1/1/2018	12/31/2017	Dec-16	10,000.00	651.24	9,348.76	120,898.86
2/1/2018	1/31/2018	Jan-16	10,000.00	604.49	9,395.51	111,503.35
3/1/2018	2/28/2018	Feb-16	10,000.00	557.52	9,442.48	102,060.87
4/1/2018	3/31/2018	Mar-16	10,000.00	510.3	9,489.70	92,571.17
5/1/2018	4/30/2018	Apr-16	10,000.00	462.86	9,537.14	83,034.03
6/1/2018	5/31/2018	May-16	10,000.00	415.17	9,584.83	73,449.20
7/1/2018	6/30/2018	Jun-16	10,000.00	367.25	9,632.75	63,816.45
8/1/2018	7/31/2018	Jul-16	10,000.00	319.08	9,680.92	54,135.53
9/1/2018	8/31/2018	Aug-16	10,000.00	270.68	9,729.32	44,406.21
10/1/2018	9/30/2018	Sep-16	10,000.00	222.03	9,777.97	34,628.24
11/1/2018	10/31/2018	Oct-16	10,000.00	173.14	9,826.86	24,801.38
12/1/2018	11/30/2018	Nov-16	10,000.00	124.01	9,875.99	14,925.39
12/31/2018	12/31/2018	Dec-16	15,000.00	74.61	14,925.39	0

Click Submit button to generate leased asset addition line

Go to Assets landing page, prepare leased asset addition line in Additions Infotile

Queue Name: Post

Assignments:

Units	Depreciation Expense Account	Location
1	01-110-7360	USA-NY-NEW YORK

Post leased asset addition line

3. Accounting for Leased Asset Addition

Accounts	Debit Amount (\$)	Credit Amount (\$)
Asset Cost 01-000-1560	345,388.41	
Lease Liability 01-000-2560		332,888.41
Lease Clearing 01-000-1760		12,500.00

4. Run Calculate Lease Interest and Expense process

This process must be run for each period to calculate interest on lease liability and operating lease expense for the period. You cannot close your period in Oracle without running this process. Accounting entries for interest on the lease is as follows:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Lease Interest Expense 01-110-7460	Interest Amount	
Lease Liability 01-000-2560		Interest Amount
Lease Liability 01-000-2560	Lease Payment (10,000)	
Lease Clearing 01-000-1760		Lease Payment (10,000)

5. Run Calculate Depreciation process

This process must be run for each period to calculate the depreciation expense for the ROU asset.

The accounting entry will be:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Depreciation Expense 01-110-7360	Depreciation Amount	
Depreciation Reserve 01-000-1660		Depreciation Amount

Period-wise lease interest and depreciation amounts are as follows:

a) Interest Expense for the lease term		
Period Name	Interest Due Date	Interest
Jan-16	1/31/2016	1,664.44

a) Depreciation Expense for the asset life			
Cost	Depreciation	LTD Depreciation	NBV
345388.41	9,594.12	9,594.12	335,794.29

16-Feb	2/29/2016	1,622.76	345388.41	9,594.12	19,188.24	326,200.17
16-Mar	3/31/2016	1,580.88	345388.41	9,594.12	28,782.36	316,606.05
16-Apr	4/30/2016	1,538.78	345388.41	9,594.12	38,376.48	307,011.93
16-May	5/31/2016	1,496.48	345388.41	9,594.12	47,970.60	297,417.81
16-Jun	6/30/2016	1,453.96	345388.41	9,594.12	57,564.72	287,823.69
16-Jul	7/31/2016	1,411.23	345388.41	9,594.12	67,158.84	278,229.57
16-Aug	8/31/2016	1,368.28	345388.41	9,594.12	76,752.96	268,635.45
16-Sep	9/30/2016	1,325.13	345388.41	9,594.12	86,347.08	259,041.33
16-Oct	10/31/2016	1,281.75	345388.41	9,594.12	95,941.20	249,447.21
16-Nov	11/30/2016	1,238.16	345388.41	9,594.12	105,535.32	239,853.09
16-Dec	12/31/2016	1,194.35	345388.41	9594.15	115,129.47	230,258.94
16-Jan	1/31/2017	1,150.32	345388.41	9,594.12	124,723.59	220,664.82
16-Feb	2/28/2017	1,106.07	345388.41	9,594.12	134,317.71	211,070.70
16-Mar	3/31/2017	1,061.60	345388.41	9,594.12	143,911.83	201,476.58
16-Apr	4/30/2017	1,016.91	345388.41	9,594.12	153,505.95	191,882.46
16-May	5/31/2017	972.00	345388.41	9,594.12	163,100.07	182,288.34
16-Jun	6/30/2017	926.86	345388.41	9,594.12	172,694.19	172,694.22
16-Jul	7/31/2017	881.49	345388.41	9,594.12	182,288.31	163,100.10
16-Aug	8/31/2017	835.9	345388.41	9,594.12	191,882.43	153,505.98
16-Sep	9/30/2017	790.08	345388.41	9,594.12	201,476.55	143,911.86
16-Oct	10/31/2017	744.03	345388.41	9,594.12	211,070.67	134,317.74
16-Nov	11/30/2017	697.75	345388.41	9,594.12	220,664.79	124,723.62
16-Dec	12/31/2017	651.24	345388.41	9594.15	230,258.94	115,129.47
16-Jan	1/31/2018	604.49	345388.41	9,594.12	239,853.06	105,535.35
16-Feb	2/28/2018	557.52	345388.41	9,594.12	249,447.18	95,941.23
16-Mar	3/31/2018	510.3	345388.41	9,594.12	259,041.30	86,347.11
16-Apr	4/30/2018	462.86	345388.41	9,594.12	268,635.42	76,752.99
16-May	5/31/2018	415.17	345388.41	9,594.12	278,229.54	67,158.87
16-Jun	6/30/2018	367.25	345388.41	9,594.12	287,823.66	57,564.75
16-Jul	7/31/2018	319.08	345388.41	9,594.12	297,417.78	47,970.63
16-Aug	8/31/2018	270.68	345388.41	9,594.12	307,011.90	38,376.51
16-Sep	9/30/2018	222.03	345388.41	9,594.12	316,606.02	28,782.39
16-Oct	10/31/2018	173.14	345388.41	9,594.12	326,200.14	19,188.27
16-Nov	11/30/2018	124.01	345388.41	9,594.12	335,794.26	9,594.15
16-Dec	12/31/2018	74.61	345388.41	9594.15	345,388.41	0.00

6. Generate Lease Payment Invoices:

Run generate lease payment invoices process for each period to generate invoices for lease payments that due in that period.

Period	Invoice Number	Invoice Date	Invoice Line Number	Amount	Distribution Account
Jan-16	01	01-Jan-16	1	12,500	01-000-1760
Feb-16	02	01-Feb-16	1	10,000	01-000-1760
Mar-16	03	01-Mar-16	1	10,000	01-000-1760
Apr-16	04	01-Apr-16	1	10,000	01-000-1760

May-16	05			10,000	01-000-1760
Jun-16	06	01-May-16	1	10,000	01-000-1760
Jul-16	07	01-Jun-16	1	10,000	01-000-1760
Aug-16	08	01-Jul-16	1	10,000	01-000-1760
Sep-16	09	01-Aug-16	1	10,000	01-000-1760
Oct-16	10	01-Sep-16	1	10,000	01-000-1760
Nov-16	11	01-Oct-16	1	10,000	01-000-1760
Dec-16	12	01-Nov-16	1	10,000	01-000-1760
Jan-17	13	01-Dec-16	1	10,000	01-000-1760
Feb-17	14	01-Jan-17	1	10,000	01-000-1760
Mar-17	15	01-Feb-17	1	10,000	01-000-1760
Apr-17	16	01-Mar-17	1	10,000	01-000-1760
May-17	17	01-Apr-17	1	10,000	01-000-1760
Jun-17	18	01-May-17	1	10,000	01-000-1760
Jul-17	19	01-Jun-17	1	10,000	01-000-1760
Aug-17	20	01-Jul-17	1	10,000	01-000-1760
Sep-17	21	01-Aug-17	1	10,000	01-000-1760
Oct-17	22	01-Sep-17	1	10,000	01-000-1760
Nov-17	23	01-Oct-17	1	10,000	01-000-1760
Dec-17	24	01-Nov-17	1	10,000	01-000-1760
Jan-18	25	01-Dec-17	1	10,000	01-000-1760
Feb-18	26	01-Jan-18	1	10,000	01-000-1760
Mar-18	27	01-Feb-18	1	10,000	01-000-1760
Apr-18	28	01-Mar-18	1	10,000	01-000-1760
May-18	29	01-Apr-18	1	10,000	01-000-1760
Jun-18	30	01-May-18	1	10,000	01-000-1760
Jul-18	31	01-Jun-18	1	10,000	01-000-1760
Aug-18	32	01-Jul-18	1	10,000	01-000-1760
Sep-18	33	01-Aug-18	1	10,000	01-000-1760
Oct-18	34	01-Sep-18	1	10,000	01-000-1760
Nov-18	35	01-Oct-18	1	10,000	01-000-1760
Dec-18	36	01-Nov-18	1	10,000	01-000-1760
Dec-18	37	31-Dec-18	1	5000	01-000-1760

Chapter 11 Operating Lease Example

Lessee and Lessor enter into a three-year lease of equipment. Lease starts on 01-Jan-2016. Lessee to pay \$10,000 per month to the landlord at the start of every month. At the end of the lease term Lessee will purchase the asset for \$15,000. Lessee's incremental borrowing rate is 6%. Lessee incurs an initial cost of \$2,000 to negotiate and finalize the lease. Lessee wants to record this Operating lease, add a leased asset in asset book, account lease liability and make lease payments.

Current open period of the asset book is Jan-16

1. Create Lease Category

Create a leased category EQUIPMENTS-LEASED and assign to asset book with default lease accounts, other accounts and depreciation rules

Asset Cost	Lease Liability	Depreciation Reserve	Depreciation Expense	Lease Interest	Lease Clearing
01-000-1560	01-000-2560	01-000-1660	01-000-7360	01-000-7480	01-000-1760

2. Create lease

Create a lease with following information:

Lease Start Date: 01-Jan-2016

Payment Frequency: Monthly

Payment Option: In advance

Generate Payment Invoices: Lease level

Noncancelable Term: 36

Exercise Option: Purchase

Recurring Payments:

Payment Type	Payment Date	Interest Due Date	Number of Payments	Amount	Exclude from Liability	Exclude from Cost
Periodic Lease Payment	01-Feb-16	31-Jan-16	35	10,000	No	No

Onetime Payments:

Payment Type	Payment Date	Interest Due Date	Amount	Exclude from Liability	Exclude from Cost
Advance Lease Payment	01-Jan-16		10,000	Yes	No
Initial Direct Cost	01-Jan-16		2,500	Yes	No
Purchase Price	31-Dec-18	31-Dec-18	15,000	No	No

Click Amortization Schedule button to view amortization schedule and verify calculated values:

Present Value of future lease payments: 332,888.41

Lease Liability: 332,888.41

Leased Asset Cost: 345,388.41 (332,888.41+10,000+2,500)

Amortization Schedule:

Invoice Date	Interest Due Date	Period Name	Lease Payment	Interest	Principal Reduction	Liability
						332,888.41
1/1/2016		Jan-16	12,500.00	0	0	332,888.41
2/1/2016	1/31/2016	Jan-16	10,000.00	1,664.44	8,335.56	324,552.85
3/1/2016	2/29/2016	Feb-16	10,000.00	1,622.76	8,377.24	316,175.61
4/1/2016	3/31/2016	Mar-16	10,000.00	1,580.88	8,419.12	307,756.49
5/1/2016	4/30/2016	Apr-16	10,000.00	1,538.78	8,461.22	299,295.27
6/1/2016	5/31/2016	May-16	10,000.00	1,496.48	8,503.52	290,791.75
7/1/2016	6/30/2016	Jun-16	10,000.00	1,453.96	8,546.04	282,245.71
8/1/2016	7/31/2016	Jul-16	10,000.00	1,411.23	8,588.77	273,656.94
9/1/2016	8/31/2016	Aug-16	10,000.00	1,368.28	8,631.72	265,025.22
10/1/2016	9/30/2016	Sep-16	10,000.00	1,325.13	8,674.87	256,350.35
11/1/2016	10/31/2016	Oct-16	10,000.00	1,281.75	8,718.25	247,632.10
12/1/2016	11/30/2016	Nov-16	10,000.00	1,238.16	8,761.84	238,870.26
1/1/2017	12/31/2016	Dec-16	10,000.00	1,194.35	8,805.65	230,064.61
2/1/2017	1/31/2017	Jan-16	10,000.00	1,150.32	8,849.68	221,214.93
3/1/2017	2/28/2017	Feb-16	10,000.00	1,106.07	8,893.93	212,321.00
4/1/2017	3/31/2017	Mar-16	10,000.00	1,061.60	8,938.40	203,382.60
5/1/2017	4/30/2017	Apr-16	10,000.00	1,016.91	8,983.09	194,399.51
6/1/2017	5/31/2017	May-16	10,000.00	972.00	9,028.00	185,371.51
7/1/2017	6/30/2017	Jun-16	10,000.00	926.86	9,073.14	176,298.37
8/1/2017	7/31/2017	Jul-16	10,000.00	881.49	9,118.51	167,179.86
9/1/2017	8/31/2017	Aug-16	10,000.00	835.9	9,164.10	158,015.76
10/1/2017	9/30/2017	Sep-16	10,000.00	790.08	9,209.92	148,805.84
11/1/2017	10/31/2017	Oct-16	10,000.00	744.03	9,255.97	139,549.87
12/1/2017	11/30/2017	Nov-16	10,000.00	697.75	9,302.25	130,247.62
1/1/2018	12/31/2017	Dec-16	10,000.00	651.24	9,348.76	120,898.86
2/1/2018	1/31/2018	Jan-16	10,000.00	604.49	9,395.51	111,503.35
3/1/2018	2/28/2018	Feb-16	10,000.00	557.52	9,442.48	102,060.87
4/1/2018	3/31/2018	Mar-16	10,000.00	510.3	9,489.70	92,571.17
5/1/2018	4/30/2018	Apr-16	10,000.00	462.86	9,537.14	83,034.03
6/1/2018	5/31/2018	May-16	10,000.00	415.17	9,584.83	73,449.20
7/1/2018	6/30/2018	Jun-16	10,000.00	367.25	9,632.75	63,816.45
8/1/2018	7/31/2018	Jul-16	10,000.00	319.08	9,680.92	54,135.53
9/1/2018	8/31/2018	Aug-16	10,000.00	270.68	9,729.32	44,406.21
10/1/2018	9/30/2018	Sep-16	10,000.00	222.03	9,777.97	34,628.24
11/1/2018	10/31/2018	Oct-16	10,000.00	173.14	9,826.86	24,801.38
12/1/2018	11/30/2018	Nov-16	10,000.00	124.01	9,875.99	14,925.39
12/31/2018	12/31/2018	Dec-16	15,000.00	74.61	14,925.39	0

Click Submit button to generate leased asset addition line

Go to Assets landing page, prepare leased asset addition line in Additions Infotile

Queue Name: Post

Assignments:

Units	Depreciation Expense Account	Location
1	01-110-7360	USA-NY-NEW YORK

Post leased asset addition line

3. Accounting for Leased Asset Addition

Accounts	Debit Amount (\$)	Credit Amount (\$)
Asset Cost 01-000-1560	345,388.41	
Lease Liability 01-000-2560		332,888.41
Lease Clearing 01-000-1760		12,500.00

4. Run Calculate Lease Interest and Expense process

This process must be run for each period to calculate interest on lease liability and operating lease expense for the period. Assets will not allow closing the period without running this process. Accounting entries any period's interest for one lease is as follows:

Accounts	Debit Amount (\$)	Credit Amount (\$)
Operating Lease Expense 01-110-7480	Operating lease expense amount	
Lease Liability 01-000-2560		Interest amount
Depreciation Reserve 01-000-1660		Difference between operating lease expense amount and interest amount
Lease Liability 01-000-2560	Lease payment amount (10,000)	
Lease Clearing 01-000-1760		Lease payment amount (10,000)

Operating lease expense basis is 377,500.00 which is calculated as sum of the total lease cost (cost of the asset plus total interest on lease liability) and amortized over the lease term.

a) Interest expense for full lease term

Period Name	Interest Due Date	Interest
Jan-16	1/31/2016	1,664.44
16-Feb	2/29/2016	1,622.76
16-Mar	3/31/2016	1,580.88
16-Apr	4/30/2016	1,538.78
16-May	5/31/2016	1,496.48

b) Operating Lease expense

Lease Expense	Cost	LTD Depreciation	NBV
10,486.11	345388.41	8,821.67	336,566.74
10,486.11	345388.41	17,685.02	327,703.39
10,486.11	345388.41	26,590.25	318,798.16
10,486.11	345388.41	35,537.58	309,850.83
10,486.11	345388.41	44,527.21	300,861.20

16-Jun	6/30/2016	1,453.96
16-Jul	7/31/2016	1,411.23
16-Aug	8/31/2016	1,368.28
16-Sep	9/30/2016	1,325.13
16-Oct	10/31/2016	1,281.75
16-Nov	11/30/2016	1,238.16
16-Dec	12/31/2016	1,194.35
16-Jan	1/31/2017	1,150.32
16-Feb	2/28/2017	1,106.07
16-Mar	3/31/2017	1,061.60
16-Apr	4/30/2017	1,016.91
16-May	5/31/2017	972.00
16-Jun	6/30/2017	926.86
16-Jul	7/31/2017	881.49
16-Aug	8/31/2017	835.9
16-Sep	9/30/2017	790.08
16-Oct	10/31/2017	744.03
16-Nov	11/30/2017	697.75
16-Dec	12/31/2017	651.24
16-Jan	1/31/2018	604.49
16-Feb	2/28/2018	557.52
16-Mar	3/31/2018	510.3
16-Apr	4/30/2018	462.86
16-May	5/31/2018	415.17
16-Jun	6/30/2018	367.25
16-Jul	7/31/2018	319.08
16-Aug	8/31/2018	270.68
16-Sep	9/30/2018	222.03
16-Oct	10/31/2018	173.14
16-Nov	11/30/2018	124.01
16-Dec	12/31/2018	74.61

10,486.11	345388.41	53,559.36	291,829.05
10,486.11	345388.41	62,634.24	282,754.17
10,486.11	345388.41	71,752.07	273,636.34
10,486.11	345388.41	80,913.05	264,475.36
10,486.11	345388.41	90,117.41	255,271.00
10,486.11	345388.41	99,365.36	246,023.05
10,486.12	345388.41	108,657.13	236,731.28
10,486.11	345388.41	117,992.92	227,395.49
10,486.11	345388.41	127,372.96	218,015.45
10,486.11	345388.41	136,797.47	208,590.94
10,486.11	345388.41	146,266.67	199,121.74
10,486.11	345388.41	155,780.78	189,607.63
10,486.11	345388.41	165,340.03	180,048.38
10,486.11	345388.41	174,944.65	170,443.76
10,486.11	345388.41	184,594.86	160,793.55
10,486.11	345388.41	194,290.89	151,097.52
10,486.11	345388.41	204,032.97	141,355.44
10,486.11	345388.41	213,821.33	131,567.08
10,486.12	345388.41	223,656.21	121,732.20
10,486.11	345388.41	233,537.83	111,850.58
10,486.11	345388.41	243,466.42	101,921.99
10,486.11	345388.41	253,442.23	91,946.18
10,486.11	345388.41	263,465.48	81,922.93
10,486.11	345388.41	273,536.42	71,851.99
10,486.11	345388.41	283,655.28	61,733.13
10,486.11	345388.41	293,822.31	51,566.10
10,486.11	345388.41	304,037.74	41,350.67
10,486.11	345388.41	314,301.82	31,086.59
10,486.11	345388.41	324,614.79	20,773.62
10,486.11	345388.41	334,976.89	10,411.52
10,486.13	345388.41	345,388.41	0.00

5. Generate Lease Payment Invoices

Run generate lease payment invoices process for each period to generate invoices for lease payments that due in that period.

Period	Invoice Number	Invoice Date	Invoice Line Number	Amount	Distribution Account
Jan-16	01	01-Jan-16	1	12,500	01-000-1760
Feb-16	02	01-Feb-16	1	10,000	01-000-1760
Mar-16	03	01-Mar-16	1	10,000	01-000-1760
Apr-16	04	01-Apr-16	1	10,000	01-000-1760
May-16	05			10,000	01-000-1760

Jun-16	06	01-May-16	1	10,000	01-000-1760
Jul-16	07	01-Jun-16	1	10,000	01-000-1760
Aug-16	08	01-Jul-16	1	10,000	01-000-1760
Sep-16	09	01-Aug-16	1	10,000	01-000-1760
Oct-16	10	01-Sep-16	1	10,000	01-000-1760
Nov-16	11	01-Oct-16	1	10,000	01-000-1760
Dec-16	12	01-Nov-16	1	10,000	01-000-1760
Jan-17	13	01-Dec-16	1	10,000	01-000-1760
Feb-17	14	01-Jan-17	1	10,000	01-000-1760
Mar-17	15	01-Feb-17	1	10,000	01-000-1760
Apr-17	16	01-Mar-17	1	10,000	01-000-1760
May-17	17	01-Apr-17	1	10,000	01-000-1760
Jun-17	18	01-May-17	1	10,000	01-000-1760
Jul-17	19	01-Jun-17	1	10,000	01-000-1760
Aug-17	20	01-Jul-17	1	10,000	01-000-1760
Sep-17	21	01-Aug-17	1	10,000	01-000-1760
Oct-17	22	01-Sep-17	1	10,000	01-000-1760
Nov-17	23	01-Oct-17	1	10,000	01-000-1760
Dec-17	24	01-Nov-17	1	10,000	01-000-1760
Jan-18	25	01-Dec-17	1	10,000	01-000-1760
Feb-18	26	01-Jan-18	1	10,000	01-000-1760
Mar-18	27	01-Feb-18	1	10,000	01-000-1760
Apr-18	28	01-Mar-18	1	10,000	01-000-1760
May-18	29	01-Apr-18	1	10,000	01-000-1760
Jun-18	30	01-May-18	1	10,000	01-000-1760
Jul-18	31	01-Jun-18	1	10,000	01-000-1760
Aug-18	32	01-Jul-18	1	10,000	01-000-1760
Sep-18	33	01-Aug-18	1	10,000	01-000-1760
Oct-18	34	01-Sep-18	1	10,000	01-000-1760
Nov-18	35	01-Oct-18	1	10,000	01-000-1760
Dec-18	36	01-Nov-18	1	10,000	01-000-1760
Dec-18	37	31-Dec-18	1	5000	01-000-1760

Chapter 12 Reports

Fusion Assets provides below standard reports to report asset lease balances and information:

- **Asset Lease Liability Report:** Lists asset level lease liability account balance movement for the specified periods. The report is sorted by and groups totals for each balancing segment, expense account, and cost center
- **Asset Lease Expenses Report:** Lists asset lease interest and expense amounts for the specified period. The report is sorted by and groups totals for each balancing segment, expense account, and cost center
- **Asset Lease Data Extract Report:** Extracts and displays the current asset lease data in the Lease Addition File-Based Data Import template format

Chapter 13 Reporting Currency Conversion

The Reporting Currencies feature allows you to report and maintain accounting entries in more than one functional currency. Reporting currencies can be setup for your primary ledger with the conversion level of Subledger, Journal or Balances. Whenever an asset book is setup for the primary ledger in Fusion Assets, a reporting book automatically created for each reporting currency (with subledger level conversion) setup for that primary ledger.

Any transaction that you perform in primary asset book automatically converted to the reporting currency. Asset Leases feature introduced in Release 13 allows the lessees to comply with new lease accounting standards published by FASB and IFRS. All transactions happening at the lease level and asset level converted to reporting currencies when the ledger of the primary asset book has reporting currencies. This section explains how each transactions at lease level and asset level are converted to the reporting currency.

The lease transactions normally performed by the lessee are:

Lease Level:

- a) Create lease, and update lease before asset addition
- b) Update lease in the period of addition
- c) Change financial terms or reassessment
- d) Terminate lease

Asset Level:

- e) Asset addition
- f) Adjustment for reassessment and update
- g) Depreciation for finance lease
- h) Interest expense for finance lease
- i) Operating lease expense

1. Create Lease, and Update Lease before Asset Addition

IAS 21 says that 'All foreign currency transactions should be initially measured and recorded in an entity's functional currency using the exchange rate on the date of the transaction.' The lease creation transaction converted as below:

- a) Lease created in primary book converted to reporting currency using the exchange rate as on lease start date. Financial information, payment schedule, and amortization schedule are converted using this exchange rate

- b) All lease information including lease start date can be updated after lease creation but before adding leased assets to the book. This adjustment transaction also converted to reporting currency using the exchange rate as on the lease start date in this transaction

Mass addition lines to add the lease assets in asset book are created automatically when the lease is created through the Create Lease page. These lines will have exchange rate (on lease start date) in FA_MC_MASS_RATES table. Leased asset cost converted to reporting currency using the rate in FA_MC_MASS_RATES and lease liability converted using the exchange rate as on lease start.

No mass addition line is created when leases are created using Import Asset Leases FBDI template. Leased asset has to be added using Mass Additions FBDI template, the rates for asset cost can be entered in FA_MC_MASS_RATES sheet. The exchange rate for lease liability comes from associated lease's start date and for the cost either from FA_MC_MASS_RATES table or from rate as on DPIS. Difference if any between the cost and liability will be charged to lease clearing account. The accounting will be:

Account	Dr or Cr	Comment
Asset Cost	Dr	Rate in FA_MC_MASS_RATES table or rate as on DPIS
Lease Liability	Cr	Rate as on lease start date
Lease Clearing	Dr/Cr	Balancing line

2. Change Financial Terms or Reassessment

In reassessment, lease term or payment schedule, or both may change. When a reassessment happens, a new amortization schedule generated for the payment schedule entered in the transaction. The amortization schedule shows the periodic lease payments that lessee has to make during the remaining lease term with the details such as present value or liability, interest, and principal reduction for each period. In primary book, the change in liability is adjusted to the asset cost.

In reporting currency, nonmonetary items (Right of Use asset) and monetary item (lease liability) are measured as below:

- All non-monetary items (ROU Assets) carried at historical cost using exchange rate as at the date of transaction.
- All monetary items (Lease liability) carried at the exchange rate at the reporting date.

Lease payment schedule and its amortization schedule converted to reporting currency using the exchange rate as on the reassessment transaction date.

Usually monetary items are restarted on each reporting date (last day of the period) using currency revaluation feature in Fusion General Ledger and reversed on the first day of next period. In Fusion General Ledger, the lease liability in reporting ledger will be on the exchange rate as it's accounted in Assets i.e. as at the date of last transaction.

There are two option to calculate the lease liability balance in reassessment transaction:

- Restated outstanding lease liability balance to exchange rate as on the reassessment date and recognize gain or loss
- Do not restated outstanding lease liability balance to exchange rate as on the reassessment date

Whether to restate or not is depends upon the 'Recognize Lease Liability Exchange Rate Gain or Loss' checkbox in the book setup. If this checkbox enabled, reassessment transaction will restate the

outstanding liability balance to the exchange rate on the transaction date and recognize gain or loss. The conversion will be as below:

- i) Outstanding lease liability balance as at the time of reassessment restated to the exchange rate as on the reassessment date. Any decrease or increase will result in foreign exchange rate gain or loss.
- ii) As the amortization schedule converted to reporting currency using the exchange rate as on the reassessment date, the new liability's exchange rate is on the reassessment date. The difference between restated outstanding lease liability and new lease liability will be the change in lease liability and adjusted to asset cost

The accounting entry for (i):

Account	Dr or Cr	Comment
Increase/Decrease in Lease Liability - A	Cr/Dr	Existing Liability * (Historical rate – Rate on reassessment date)
Exchange Rate Gain/Loss - B	Cr/Dr	Same as A
Increase/Decrease in Lease Liability - C	Cr/Dr	A minus (New Liability * Rate on reassessment date)
Increase/Decrease in Asset Cost - D	Dr/Cr	Same as C

Liability balance will not restated if the 'Recognize Lease Liability Exchange Rate Gain or Loss' checkbox is not enabled. Only change in liability (outstanding liability balance minus new liability) adjusted to asset cost and the accounting entry:

Account	Dr or Cr	Comment
Lease Liability (Increase/Decrease)	Cr/Dr	Current Liability at historical rate minus (New Liability * Rate on reassessment date)
Asset Cost (Increase/Decrease)	Dr/Cr	Same as C

3. Terminate Lease

When a lease is terminated, the existing lease liability balance at the end or start of the period is adjusted against the book value of the leased asset and gain or loss, if any recognized. The termination can be a period end termination and/or lessee require to make a termination penalty payment that is not previously included in payment schedule. In this case, amortization schedule calculates a new liability for the current period payments. This new liability is converted using the exchange rate of outstanding lease liability rate.

4. Depreciation for Finance Lease

No exchange rate is used as the depreciation amount is calculated on the depreciable basis calculated based on the already converted balances such as cost, and depreciation reserve.

5. Interest Expense for Finance Lease

This accounted from the lease amortization schedule in reporting currency.

6. Accounting for Lease Payments

Lease payments due in the current period should reduce the lease liability balance. Only payments included in the lease liability or present value calculation will reduce the lease liability balance and accounted in Fusion Assets. Lease payments not included in lease liability will be charged to variable lease expense while generating lease payment invoices and will be accounted in Fusion Payables.

Amortization schedule has period wise details of lease payment amount with split between principal reduction and interest component, and ending lease liability. Only principal reduction portion of all the lease payment amounts whose invoice date falls in the current open period will be accounted as part of finance lease interest expense or operating lease expense. In reporting currency the lease liability balances in Fusion Assets is maintained at historical rate (rate as on last reassessment date or lease start date whichever is later). The exchange date on the lease invoice date will be different from this historical rate and any change between the historical rate and invoice date rate is accounted as currency exchange rate gain or loss.

The Calculate Lease Interest and Expense process will do this calculation and account this as part of lease interest expense (finance lease) or operating lease expense (operating lease).

The accounting entry for finance lease:

Account	Dr or Cr	Comment
Interest Expense – A	Dr	Interest portion in current period payments
Lease Liability – B	Cr	Interest portion in current period payments
Lease Liability – C	Dr	Lease payment at lease liability rate
Lease Clearing – D	Cr	Lease payment at invoice date rate
Exchange Rate Gain or Loss – E	Dr/Cr	C minus D

Lease invoices transferred from Fusion Assets are accounted in Fusion Payable as below:

Account	Dr or Cr	Comment
Lease Clearing	Dr	Converted using rate on invoice date
Supplier Liability	Cr	Converted using rate on invoice date

Accounting entry for the actual payment

Account	Dr or Cr	Comment
Supplier Liability	Dr	Converted using rate on invoice date
Bank	Cr	Converted using rate on payment date
Exchange Rate Gain or Loss		Balancing line

7. Operating Lease Expense

Calculate Lease Interest and Expense process calculates the operating lease expense based on the lease expense basis calculated in the reporting book. Lease expense basis is net book value of the leased asset plus remaining interest on the lease liability. The interest on lease liability is from the amortization schedule in the reporting currency.

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Asset Leases
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