

## Operating Leases

### What is an Operating Lease?

Commonly Operating leases are found in the supply of office equipment such as photocopiers, fax machines etc. However Operating Leases could exist for other types of assets. It usually involves the lessee paying a rental for the hire of an asset for a period of time which is normally substantially less than its useful economic life.

In any lease arrangement it is an operating lease if it is NOT a finance lease.

A finance lease is a funding structure for an asset in which the lease transfers substantially all the risks and rewards of ownership to the lessee. It usually involves payment to the lessor the full cost of the asset together with a return on the finance provided by the lessor.

So if it is not a finance lease, it is an operating lease.

Finance leases are commonly found in the financing of specific assets for a business, such as a machine for production.

If you are unsure as to what lease type you are considering consult your accountant.

### What is the significance of a Lease Type?

The accounting for an operating lease is different from that of a finance lease.

For a finance lease, the capital value of the lease is treated as a fixed asset. The liability to pay the lessor is shown as a creditor. The financing (interest) is charged to the Profit and Loss account on a regular basis.

It can be complex and you are advised to agree with your accountant the accounting entries.

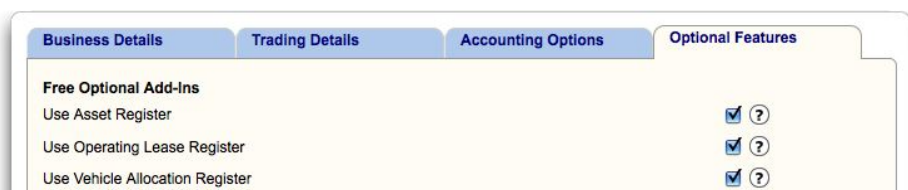
For operating leases no fixed asset or creditor accounting is required. (There is however an obligation to make certain disclosures in the statutory accounts of company's and limited liability partnerships). The rentals under an operating lease should be charged on a straight line basis over the lease term, even if actual payments are made on a different basis. For example if there is a rental holiday for the first three months (although the asset is in use during these three months) of a five year lease, the total rentals should be charged to profit and loss over the period in which the asset is in use. The system has specific functionality to properly deal with operating leases.

### Initiating Operating Leases

The use of the operating lease functions is initiated by ticking the **Use Operating Lease Register** box on the **Optional Features** tab of **Profile**.

**ENTITY NAME → PROFILE → OPTIONAL FEATURES tab**

An **Operating Leases** sub-menu is now visible under the **ADD-INS** menu.



Business Details	Trading Details	Accounting Options	Optional Features
<b>Free Optional Add-Ins</b>			
Use Asset Register			<input checked="" type="checkbox"/> ?
Use Operating Lease Register			<input checked="" type="checkbox"/> ?
Use Vehicle Allocation Register			<input checked="" type="checkbox"/> ?

The operating leases register is accessed via the **ADD-INS** menu

**ADD-INS → OPERATING LEASES**

## Setting up an Operating Lease in summary

- ◆ Ensure that you have the details of the lease
- ◆ Add the details of the Lease
- ◆ Make the lease payments to the Lessor.
- ◆ The system will run a batch update for operating lease accounting either monthly or annually depending selected charging schedule.
- ◆ If required a manual batch run can be selected.
- ◆ If the operating lease charge is to be allocated to a particular branch, then ensure that the relevant branches are set up. See **Setting up and using branches** user guide for more details.

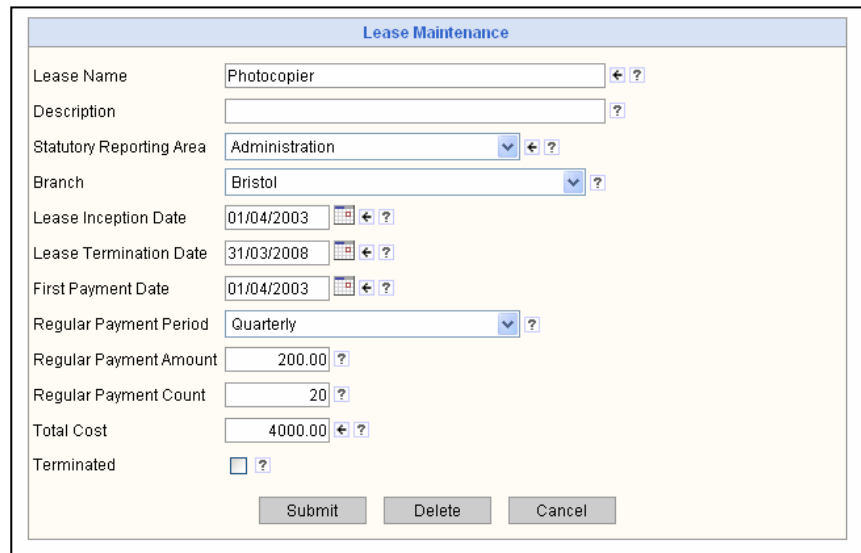
An operating lease needs to be dealt with in two stages. The first stage is to set up the details of the lease to allow the system to calculate the appropriate charge to the expense account. (See Adding an Operating Lease below). The second is to deal with the request for payment from the lessor such as an invoice. (See Making Operating Lease Payments below)

## Adding an Operating Lease

Details of leases are entered in the lease maintenance screen that is accessed via the **ADD-INS** menu

**ADD-INS → OPERATING LEASES → ADD LEASE**

- ◆ Lease details are entered in the lease maintenance screen, **LEASE NAME** is a unique name for the lease. A **DESCRIPTION** may be added as necessary. Select the **STATUTORY REPORTING AREA** from the list. (If unsure seek advice from your accountant). Select the relevant **BRANCH** from the drop down list, if branch analysis of the operating lease charge is required. The allocation to a branch takes place from the next operating lease batch run and does not allocate the cumulative lease charge, only the lease amount for that period and subsequent periods. If it is necessary to have the allocation from a prior date, it may be possible to roll back operating lease batch runs and re-run to current date. See **Running Batch Jobs** user guide.
- ◆ Enter the **LEASE INCEPTION DATE** and the **LEASE TERMINATION DATE** in the next two fields. This information will be available from the operating lease



Lease Maintenance	
Lease Name	Photocopier
Description	
Statutory Reporting Area	Administration
Branch	Bristol
Lease Inception Date	01/04/2003
Lease Termination Date	31/03/2008
First Payment Date	01/04/2003
Regular Payment Period	Quarterly
Regular Payment Amount	200.00
Regular Payment Count	20
Total Cost	4000.00
Terminated	<input type="checkbox"/>

agreement documentation.

- ◆ Enter the date of the first payment on the lease in **FIRST PAYMENT DATE**. Again this information will be on the lease documentation.
- ◆ Select the payment period from the drop down list in **REGULAR PAYMENT PERIOD**; enter the payment amount in the **REGULAR PAYMENT AMOUNT**. Enter the number of payments which will be made under the terms of the lease in **REGULAR PAYMENT COUNT**. These pieces of data will be shown in the lease documentation. The system will calculate the total cost of the lease and display in the **TOTAL COST** field.
- ◆ Confirm and record the data by clicking on the **SUBMIT** button.
- ◆ If the charge schedule that was selected for the entity (see **Setting up limited company, LLP, sole trader or Not for Profit** user guides) is Month End, then the system will charge each month to the operating lease expense the appropriate monthly amount and create a liability in the Other Creditors account. If the charge schedule is Annual, it will make the change at the last day of the accounting year.
- ◆ It is possible to run a batch job which allows the user to select a date up to which lease charging should be calculated and accounted for. See **Running Batch Jobs** user guide.
- ◆ If manual was selected it is up to you to use a journal entry to put in the correct figures.

## Making Operating Lease Payments

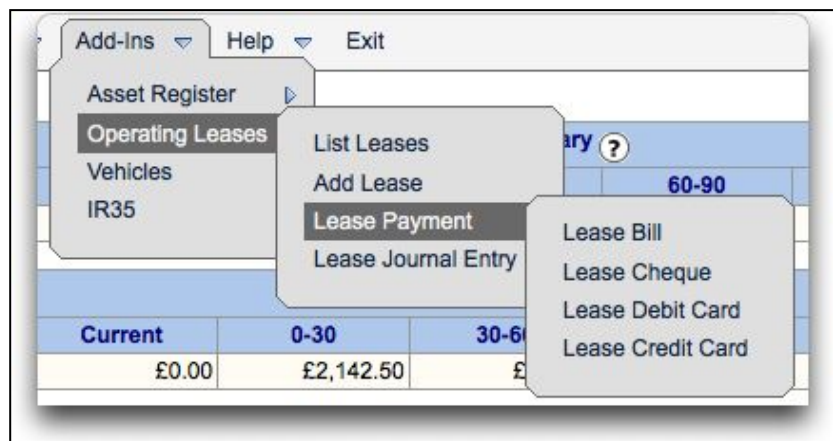
Specific operating lease payment functions are provided under the **ADD-INS** menu.

**ADD-INS → OPERATING LEASES → LEASE PAYMENT → Select payment method**

The usual payment methods are available, Bill, Cheque, Debit or Credit card. These are used in the usual way except that account selection drop down will offer the **Other Creditors account** as the account to record the payment. The amount will offset the expense account charges made by the automatic charging described above.

For more details of using the payment methods are available in the following user guides.

- ◆ Receiving supplier bills and paying them
- ◆ Writing a Cheque
- ◆ Using Credit Cards
- ◆ Using Debit Cards



## Terminating a Lease

If a lease is terminated early, select the relevant lease maintenance screen from the list of leases under the **ADD-INS → OPERATING LEASES** menu. Check the termination box. The system will cease any accounting entries immediately. It may well be necessary to make adjusting payments to the Lessor to settle the lease. These adjustments should be entered via the lease journal entry facility. See below.

## Lease Reports

Reports are available on all transactions relative to a specific lease, groups of leases or all leases. These reports are available via the **REPORTS** menu.

**REPORTS → TRANSACTION → TRANSACTIONS BY LEASE**

Select the relevant leased, group or All, determine the period over which you want the transactions to be shown and click on **GENERATE** to prepare the report. See **Preparing Reports** user guide for more information.

## Lease Journal Entry

If it is necessary to make adjustments to accounting entries for a specific lease, use lease journal entry that is available under the **ADD-INS** menu.

**ADD-INS → OPERATING LEASES → LEASE JOURNAL ENTRY**

Using this Journal Entry retains the link and transaction history with the specific lease and it is recommended this route is used. More details on using journal entries are available from the **Journal Entry** use guide.