



# Classification User Guide

LeaseAccelerator

Version 25.2

# Document Information

## Notices

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This guide is designed to help you to use the LeaseAccelerator applications effectively and efficiently. All data shown in graphics are provided as examples only. The example companies and calculations herein are fictitious. No association with any real company or organization is intended or should be inferred.

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# Accounting Classifications

LeaseAccelerator supports all four accounting standards: ASC 840, ASC 842, IAS 17, and IFRS 16. To classify a lease within LeaseAccelerator, once you've navigated to the Accounting Classification Analysis workspace, you can select the appropriate Classify Effective date from a drop-down. If this is the first time you are classifying a lease, then you should click Refresh Classification. Once that is done you can review the classification test results and view the system-generated classification.

## Classification Tests by Standard

	ASC 840	ASC 842	IAS 17	IFRS 16
Materiality Threshold	X	X	X	X
Short Term Lease	X	X	X	X
Cancellable	X	X	X	X
PV of Lease Payments*	X	X	X	
Economic Life	X	X	X	
Ownership Transfer	X	X	X	X
Bargain or Likely Purchase	X	X	X	
Specialized Assets		X	X	
Interrelated Assets				X
Small Value				X

\*LeaseAccelerator calculates PV by using the PV formula in Excel.

## Accounting Standards vs LeaseAccelerator Classifications

According to the accounting standards, the typical classifications include Operating, Non-Lease, and Finance, also referred to as Capital. The standard doesn't distinguish between on-balance sheet operating and off-balance sheet operating, so LeaseAccelerator adopted its own nomenclature to make that distinction. The following classifications are present in LeaseAccelerator.

**Operating:** Off-balance sheet operating leases that include short term (less than 12 months) and evergreen. The accounting treatment for leases with this classification include debiting Lease Rental Expense as a straight-line expense and crediting Accounts Payable Clearing. Any difference in these values will go through Deferred Rent.

**Non-Lease:** Accounting treatment includes debiting Operating Expense as a straight-line expense that appears on the income statement.

Why would a lease show Non-Lease as it's classification? Three possibilities include:

1. The product category (or asset type) was configured with Non lease component Default Lease Treatment.

2. This lease falls below the materiality threshold configured in Policy Thresholds.

3. The lease has never been classified.

**Capitalized-Operating:** On-balance sheet operating lease which creates an Operating lease asset and liability. Monthly sum of Lease Rental Expense and Lease Rental Expense-CapOp Depreciation is straight-lined (equal in each period).

**Finance:** On-balance sheet finance lease which creates a Finance lease asset and liability. The asset is depreciated on a straight-line basis over the life of the lease.

**Capital:** Used for ASC 840 only and is equivalent of a Finance classification. You may see that Capital and Finance are used interchangeably throughout the user interface and in reports.

## Classifications by Standard

	ASC 840	ASC 842	IAS 17	IFRS 16
Non-Lease	X	X	X	X
Operating	X	X	X	X
Capitalized-Operating		X		
Capital	X			
Finance		X	X	X

## Classification Overrides

There are times when a client may need to override the system-generated classification results. This may be due to adopting a practical expedient to maintain the original classification or a number of other reasons. If overriding is necessary, it is required to have an override explanation. If you are overriding via the user interface, once you select the classification that you are overriding to and provide explanation, it is important that after you select the Effective Date that you do NOT click the refresh classification button. Clicking that button will refresh the classification and wipe out any overrides provided.

## Reclassifying a Lease

There may be times when reclassification is necessary. There are important considerations and things to remember when reclassifying.

- By selecting an Effective date AND clicking Refresh Classification, you will create a new Accounting Classification Analysis and you will see another classification line item on Deal Summary/Summary tile.
- If you are reclassifying after a lease has gone into Evergreen and a contractual renewal has been recorded to put the lease back on-balance sheet and resume the original classification, it is important that once you select the Effective Date, you do not click Refresh Classification.

- In the above scenario, you should choose the earlier of the Renewal Date or Change in Estimate Date as your Effective date.



# Version Summary

Version	Changes/Updates	Date
23R4	Guide created.	12/26/2023

