



Lease Versus Buy 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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Lease Versus Buy

The LvB is a comparative analysis of two different acquisition models: an asset purchase or a lease. The comparison between the two is done by discounting the corresponding after-tax cash flows for each scenario. The purchase scenario is further bifurcated into two components, one assuming the use of cash on hand and the other assuming that cash is borrowed. The split between cash on hand and borrowed funds is based on the debt weight assigned to the Lessee in the system. The value in running an LvB is to make sure you are making the most effective financial decision when acquiring an asset. By having the LvB functionality integrated into your Enterprise lease accounting system, you also have the opportunity to use it as an early “warning” signal and alert your accounting team that there may be a new lease transaction about to be executed.

The system is very flexible, and the client will elect which rate to use for the discounting of the different cash flows that are part of the LvB analysis. The choices are Debt, Equity, or WACC (Weighted Average Cost of Capital). As this functionality is a comparative analysis, it is highly advisable that the same rate is selected for every cash flow. The best practice suggestion is to use the WACC, as that is the typical rate companies use for capital allocation decisions. As such, LeaseAccelerator defaults all clients to use WACC. If a client wants to use Debt or Equity, they must submit a ticket to have the rates changed and populate the LvB Settings tab of a CIW to include with the request.

What Is Needed to Generate an LvB

In order to generate an accurate Lease Versus Buy Analysis, clients should have the following metadata configured in their environment. Please note that while some of these may be entered for each LvB Analysis, it is best practice to have this configured in your Settings for consistency between each analysis.

- **Lessee Rates:** Clients likely already have IBR, but you need Debt and Equity Rates for accurate and easy LvB results. If configured, these will auto-populate based on the Lessee, Country, and Term you input in the LvB tiles.
 - **Debt Rate:** Represents the rate at which you can borrow funds through a loan. When configuring, Debt Rate must be greater than 0.000001. It cannot be 0.
 - **Equity Rate:** Represents the compensation the market demands in exchange for owning the stock and bearing the risk of ownership. When configuring, Equity Rate must be greater than 0.000001. It cannot be 0.
- **Tax Rates:** Need both Federal and State (where applicable) in order for this to auto-populate when generating an LvB.
- **Lessee Info:** Clients will need their Lessee Info pre-configured in Settings prior to generating an LvB.
 - **Debt Weight:** Debt Weight is the most important factor, specifically because LA defaults to use WACC for cash flows. In order to calculate WACC, LA needs the Debt Weight, Equity Rate, and Debt Rate.
 - **Fiscal Calendar:** Needed to determine accurate cash flows.

- **Tax Depreciation Method:** Each country (Geo) that you do business in must have unique entries for the Tax Depreciation Method so that the calculations can be aligned appropriately with the tax rate information entered in the Tax Rate table.
 - It is inappropriate to select all countries when setting your Depreciation Methods. You should only indicate countries you have configured as Geos.

**Note:**

- The 'Lease Net Cash Flows' are dependent on the Lease Payment, State and Federal Tax.
- The 'Buy Net Cash Flows' are dependent on the Asset Cost, WACC, Depreciation, Salvage Value, and State and Federal Tax.

Entering the LvB

The Lease Versus Buy workspace contains four tiles, each with data that must be populated.



Participants Tile

On the Participants tile, you will enter the relevant data regarding the LvB analysis that you are about to perform. Key participants include:

- **BU (Business Unit):** Also known as SBU or Strategic Business Unit. This is an internal operating and reporting group.
- **Lessee:** The legal entity that is entering into the lease transaction that is being evaluated.
- **Geographic Area (Geo):** Refers to the location (country) where this lease transaction is being contemplated.
- **Analyst:** Employees responsible for generating the Lease vs. Buy.
- **Order Administrator:** Employees who have procurement responsibility for the leased assets, shepherding the administrative process in your organization to finance the acquisition of equipment and securing its delivery to the asset user.

Step	Action
1	Go to the Lease vs. Buy workspace from the Left NavBar.
2	On the <i>Participants</i> tile, select the appropriate BU, Lessee, Geo, Analyst, and Order Administrator .
3	Proceed to the Details tile.



Lease vs. Buy

Participants

Details

Terms

Analysis

BU:

Acme Headquarters

+

-

⌵

Lessee:

Acme, Inc.

+

-

Geographic Area:

US

+

-

Analyst:

Audra Kirby

+

-

⌵

Order Administrator:

Corinna Rost

+

-

Required

Details Tile

On the Details tile, you enter the asset-level information regarding the transaction you are evaluating from an acquisition method perspective. In the pop-up, the only items needed for the LvB Analysis to run are the Product category, Quantity, and Unit Price. You may add additional information for the specific asset, which will be helpful for other activities related to this particular transaction down the road. If you have multiple assets that you want to include in the LvB analysis, you can add other assets as necessary.

Step	Action
1	On the <i>Details</i> tile, click the plus sign to add an asset.
2	Select the appropriate Product Category . <i>Note: LeaseAccelerator's Lease Versus Buy functionality is for equipment only.</i>
3	Enter any relevant information for Product Number, Manufacturer, and Description .
4	Enter the Quantity .
5	Enter the Unit Price .
6	Click Add .
7	Repeat steps 1-6 as necessary for additional assets.
8	Check the box labeled <i>Are the assets specialized for lessee use?</i> if the assets meet the standard's conditions. <i>Note: This selection applies to all assets on the lease.</i>
9	Proceed to the Terms tile.

Lease vs. Buy

Participants | **Details** | Terms | Analysis

Summary by Asset Type:

Agriculture and Forestry	\$70,777.00	
Total Hard Costs:	\$70,777.00	Total Soft Costs: 0.00%
	100.00%	
Total Costs:	\$70,777.00	

Lease vs Buy Details:

Line #	Description	Category	Quantity	Unit Price	Value
1	Machine 1	Agriculture and Forestry	1	\$70,777.00	\$70,777.00
Total Price:					\$70,777.00

Are the assets specialized for lessee use?

Product Category: Agriculture and Forestry Sale/Leaseback

Product Number:

Manufacturer:

Description: Machine 1

Quantity: 1

Unit Price (0): 70777.00 Total Price (0): 70777.00

*Required

Terms Tile

On the Terms tile, you specify the details of the lease structure that you are contemplating for this transaction. Key data points include:

- **Payment Based On:** The default is Lease Rate Factor (LRF), which is the most common method for lease quotes (industry-standard method); however, you may choose fixed or floating interest rate if applicable.
- **Lease Type:** The default is True/Operating Lease (FMV), but the list has a number of choices to select from. The reason for the default being a True/Operating Lease (FMV) is that it has a residual position built into it, which makes it advantageous as a financial structure when compared to buying the asset outright, as you typically end up paying less than 100% of the original cost of the equipment.
- **Frequency:** Indicates how often you will make lease payments.
- **# of Payments:** Indicates the term of the proposed lease.
- **Mid-Term/EOT Options:** The default is to return the leased asset at the end of the initial term. As the LvB analysis is a mathematical calculation, the system has to be given definitive guidance as to what the lease structure will look like. This means that the only two valid choices

for the end-of-term selection are to return the asset at the end of the initial term or to buy it out. If your intent is to buy it out, you will have to specify what the buyout price will be in dollar terms.

Step	Action
1	On the <i>Terms</i> tile, select the Payment Based On from the drop-down.
2	Next, select the appropriate Lease Type .
3	Select the Frequency from the drop-down.
4	Populate the number of payments (term) based on the frequency.
5	Populate other related fields according to the terms of the transaction you are evaluating. Red fields are required.
6	If your transaction has step payments, click Payment Schedule Calculator , populate the necessary fields in the pop-up, and click Submit .
7	Interim Rent is by default no, and for the purpose of the LvB analysis, that is what you should assume to run the analysis. You typically will not know what any amount of interim rent is until the transaction has been executed.
8	If you wish to change the EOT Option from Return to Buyout, click Mid-Term/End-of-Term Options and edit the single option, changing the type from <i>Return</i> to <i>Buyout</i> . You must indicate the buyout price.
9	Proceed to the Analysis tile.

Lease vs. Buy

Participants | Details | **Terms** | Analysis

Payment Based On: Lease Rate Factor

Lease Type: True/Operating Lease (FMV)

Periodic Payment Frequency: Monthly **# of Monthly Payments:** 36

Advance or Arrears: Advance

Down Payment: 0

Enter LRF by Asset Type

Blended LRF: (e.g. 0.034729) 0.0123456

Periodic Payment: 12 @ \$537.03
12 @ \$515.00
12 @ \$495.00

[Payment Schedule Calculator](#) [Remove All Step Payments](#)

Mid-Term/EOT Options: [Mid-Term/End-of-Term Options](#)

Return @ End of Term

Step Payments - Payment Schedule

Payment Schedule (Payment Based On 36 month term with payments in Advance):

Calculate Fixed Payment Schedule Based on Estimated Start Date of:

Periodic Payment Frequency	Payment Amount	# of Periodic Payments	Ending Month		
Monthly	payments of 537.03 USD	12 (payments)	12 ending month	+	X
Monthly	payments of 515.00 USD	12 (payments)	24 ending month	+	X
Monthly	payments of 495.00 USD	12 (payments)	36 ending month	+	X

Goal Seek Objective:

Mid-Term/EOT Options

Line #	Option	Terms	Fee/Penalty
1	Return @ End of Term		

Analysis Tile

The Analysis tile contains the data points needed to generate the actual comparison. All the pre-configured values are tied to the Lessee entering into the transaction or its parent Lessee. Once you enter a Commencement Date, pre-configured values will populate.

Step	Action
1	On the <i>Analysis</i> tile, enter your Lease vs Buy Analysis # . This is a unique identifier for this LvB.
2	Select the estimated Commencement Date . Once this date is populated, other fields will be auto-populated based on the <i>Lessee</i> , <i>Geo</i> , and <i>Commencement Date</i> .
3	If you have any <i>Leasing</i> or <i>Purchase Fees</i> , populate the relevant fields.
4	If your transaction is in a currency other than USD, change the Currency drop-down.
5	The <i>Economic Life</i> and <i>Depreciation Method</i> should auto-populate based on the <i>Product Category</i> and <i>Lessee</i> , but you may change as necessary. If you change, you will be required to enter Notes below with an explanation.

Step	Action
6	If you have not pre-configured your <i>Salvage Values</i> based on Product Categories, you may change the default 0.00 if necessary.
7	The <i>IBR</i> , <i>Debt Rate</i> , <i>NOL Final Year</i> , <i>Federal Tax Rate</i> , and <i>State Tax Rate</i> will auto-populate if you have pre-configured your Settings. You may override these values but must provide an explanation in the Notes section for doing so.
8	Once all fields on all tiles are populated, click Save to save and return to workspace later.
9	If you are ready to generate the analysis, click Lease vs. Buy .
10	A PDF of your analysis will be generated.

Participants
Details
Terms
Analysis

Lease vs. Buy Analysis #:

Commencement Date: Oct 1 2021

Leasing Fees: Currency: United States dollar (USD)

Purchase Fees:

Category	Net Cost	Economic Life (Months)	Tax Depreciation Method	Estimated Salvage Value at EOT
Material Handling	\$43,500.00	84 Reset	Straight Line 7-Year	0.00

Fiscal Year End:

Debt Weight: %

Equity Rate: % NOL Final Year:

IBR: Use Default IBR

Debt Rate: Reset

Federal Tax Rate: Reset State Tax Rate: Reset

Discount Rate Policy

Notes:

Required

Save
Lease vs. Buy
RFP
Create Schedule

Current LvB scenario favors Lease.

Lease NPV: \$12,905.62

Purchase NPV: \$31,618.16

Understanding the Lease Versus Buy Results

Once the Lease Versus Buy has been generated, LeaseAccelerator creates a PDF version of the analysis.

This includes a high-level overview of the results, a break-even analysis section, the key rates used in the analysis, along with the lease terms used.

Additionally, the analysis outlines all the relevant cash flows and tax deductions for both a lease and buy scenario.

The top section includes key participants such as the Lessee and Business Unit. You will also see the name of this LvB analysis and the user who generated it.

Lease vs. Buy Analysis:		Prepared By: Corinna Rost
Velocity LvB 01		March 18, 2021
Lessee:	Acme, Inc.	
Business Unit:	Acme Business Solutions	
Country:	US	

Results Section

Under the Results header, you will see the PV of Net After-Tax cash flows for both a lease scenario and a buy scenario.

You will also see if the analysis favors a **lease** or a **buy** in this section and the difference in PV between the two scenarios.

Results	
Lease PV of Net After-Tax Cash Flows:	\$7,719.78
Finance/Buy PV of Net After-Tax Cash Flows:	\$17,987.23
Favors Lease by:	\$10,267.45
Based on asset cost of:	\$25,000.00

Break-Even Analysis Section

Another informative section of the PDF is the Break-Even Analysis. This section tells you what your maximum payment amount can be and still favor a lease, with all other parameters being the same. If the analysis favored buy, this section will explain the payment needed to change the financial benefit. You can use this information to go back to your Lessor and try to negotiate a more favorable rate.

Lease Terms Section

In this section, all of the terms for the lease scenario will be listed, including the estimated lease start date, term and payment amount, and end-of-term option.

Lease Terms	
Lease Start Date:	01-Jul-2020
Lease Structure and Payment:	36 monthly payments of \$308.64 in Advance
At End of Term:	Return

Annual and Monthly Cash Flows

The remaining pages of the PDF analysis go through each of the cash and tax flows for each scenario, both annually and monthly. The analysis takes into consideration actual cash flows occurring as a result of the specific transaction being evaluated. The tax benefit is a result of an actual cash tax payment.

The **Lease Net Cash Flows: Annual Report** breaks down lease payments and tax benefits for the life of the lease by year. The **Buy Net Cash Flows: Annual Report** does the same thing, but for the buy scenario, which will include Debt Repayment and Interest.

Lease Net Cash Flows: Annual Report						
Year Ending	Asset Purchase	Lease Payments & Fees	State Tax (Benefit)	Federal Tax (Benefit)	Net After Tax Cash Flows	
Dec-2020	\$0.00	\$1,851.84	\$-55.56	\$-467.03	\$1,329.25	
Dec-2021	\$0.00	\$3,703.68	\$-111.11	\$-934.07	\$2,658.50	
Dec-2022	\$0.00	\$3,703.68	\$-111.11	\$-934.07	\$2,658.50	
Dec-2023	\$0.00	\$1,851.84	\$-55.56	\$-467.03	\$1,329.25	
Dec-2024	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
TOTAL	\$0.00	\$11,111.04	\$-333.34	\$-2,802.20	\$7,975.50	

Buy Net Cash Flows: Annual Report						
Year Ending	Asset Purchase	Debt Repayment	Interest & Fees	State Tax (Benefit)	Federal Tax (Benefit)	Net After Tax Cash Flows
Dec-2020	\$15,000.00	\$1,640.61	\$72.63	\$-77.18	\$-648.82	\$15,987.24
Dec-2021	\$0.00	\$3,296.26	\$130.22	\$-153.91	\$-1,293.84	\$1,978.73
Dec-2022	\$0.00	\$3,359.43	\$67.05	\$-152.01	\$-1,277.91	\$1,996.56
Dec-2023	\$-250.00	\$1,703.70	\$9.54	\$-367.79	\$-3,091.85	\$-1,996.40
Dec-2024	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL	\$14,750.00	\$10,000.00	\$279.44	\$-750.89	\$-6,312.42	\$17,966.13

Lease Net Cash Flows: Monthly Report					
Month Ending	Asset Purchase	Lease Payments & Fees	State Tax (Benefit)	Federal Tax (Benefit)	Net After Tax Cash Flows
Jul-2020	\$0.00	\$308.64	\$0.00	\$0.00	\$308.64
Aug-2020	\$0.00	\$308.64	\$0.00	\$0.00	\$308.64
Sep-2020	\$0.00	\$308.64	\$-27.78	\$-233.52	\$47.34
Oct-2020	\$0.00	\$308.64	\$0.00	\$0.00	\$308.64
Nov-2020	\$0.00	\$308.64	\$0.00	\$0.00	\$308.64
Dec-2020	\$0.00	\$308.64	\$-27.78	\$-233.51	\$47.35

Buy Net Cash Flows: Monthly Report						
Month Ending	Asset Purchase	Debt Repayment	Interest & Fees	State Tax (Benefit)	Federal Tax (Benefit)	Net After Tax Cash Flows
Jul-2020	\$15,000.00	\$285.54	\$0.00	\$0.00	\$0.00	\$15,285.54
Aug-2020	\$0.00	\$270.16	\$15.38	\$0.00	\$0.00	\$285.54
Sep-2020	\$0.00	\$270.59	\$14.95	\$-38.59	\$-324.41	\$-77.46
Oct-2020	\$0.00	\$271.01	\$14.53	\$0.00	\$0.00	\$285.54
Nov-2020	\$0.00	\$271.44	\$14.10	\$0.00	\$0.00	\$285.54
Dec-2020	\$0.00	\$271.87	\$13.67	\$-38.59	\$-324.41	\$-77.46
Jan-2021	\$0.00	\$272.30	\$13.24	\$0.00	\$0.00	\$285.54
Feb-2021	\$0.00	\$272.74	\$12.80	\$0.00	\$0.00	\$285.54
Mar-2021	\$0.00	\$273.17	\$12.37	\$0.00	\$0.00	\$285.54
Apr-2021	\$0.00	\$273.60	\$11.94	\$-38.48	\$-323.46	\$-76.40

Annual and Monthly Tax Deductions

Next is the breakdown of Lease Tax Deductions by year, which includes any Fees, Depreciation, Lease Expense, and NOL Adjustments, along with the total federal tax deduction, which is equal to the total deductions less the tax benefit created for state taxes.

In this example, the Federal tax benefit that is listed under the Lease Net Cash Flows: Annual Report of \$467.03 for the year 2020 is derived by multiplying the Federal Tax Deduction of \$1,796.28 times the federal tax rate of 26% as shown in the rate section. This is how the tax benefit is calculated.

Lease Tax Deductions: Annual Report						
Year Ending	Amortized Fees	Depreciation	Lease Expense	NOL Adjustment	Total Deductions	Federal Tax Deductions
Dec-2020	\$0.00	\$0.00	\$1,851.84	\$0.00	\$1,851.84	\$1,796.28
Dec-2021	\$0.00	\$0.00	\$3,703.68	\$0.00	\$3,703.68	\$3,592.57
Dec-2022	\$0.00	\$0.00	\$3,703.68	\$0.00	\$3,703.68	\$3,592.57
Dec-2023	\$0.00	\$0.00	\$1,851.84	\$0.00	\$1,851.84	\$1,796.28
Dec-2024	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL	\$0.00	\$0.00	\$11,111.04	\$0.00	\$11,111.04	\$10,777.70

The same breakdown for the Buy Tax Deductions by year includes any Fees, Depreciation, Interest payments, and NOL Adjustments in addition to the federal tax deduction.

Buy Tax Deductions: Annual Report						
Year Ending	Amortized Fees	Depreciation	Interest & Fees	NOL Adjustment	Total Deductions	Federal Tax Deductions
Dec-2020	\$0.00	\$2,500.02	\$72.63	\$0.00	\$2,572.65	\$2,495.47
Dec-2021	\$0.00	\$5,000.00	\$130.22	\$0.00	\$5,130.22	\$4,976.31
Dec-2022	\$0.00	\$5,000.00	\$67.05	\$0.00	\$5,067.05	\$4,915.04
Dec-2023	\$-250.00	\$12,499.98	\$9.54	\$0.00	\$12,259.52	\$11,891.73
Dec-2024	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL	\$-250.00	\$25,000.00	\$279.44	\$0.00	\$25,029.44	\$24,278.55

The PDF gives the same Tax Deduction breakdown by month.

Lease Tax Deductions: Monthly Report						
Month Ending	Amortized Fees	Depreciation	Lease Expense	NOL Adjustment	Total Deductions	Federal Tax Deductions
Jul-2020	\$0.00	\$0.00	\$308.64	\$0.00	\$308.64	\$308.64
Aug-2020	\$0.00	\$0.00	\$308.64	\$0.00	\$308.64	\$308.64
Sep-2020	\$0.00	\$0.00	\$308.64	\$0.00	\$308.64	\$280.86

Buy Tax Deductions: Monthly Report						
Month Ending	Amortized Fees	Depreciation	Interest	NOL Adjustment	Total Deductions	Federal Tax Deductions
Jul-2020	\$0.00	\$416.67	\$0.00	\$0.00	\$416.67	\$416.67
Aug-2020	\$0.00	\$416.67	\$15.38	\$0.00	\$432.05	\$432.05
Sep-2020	\$0.00	\$416.67	\$14.95	\$0.00	\$431.62	\$393.03
Oct-2020	\$0.00	\$416.67	\$14.53	\$0.00	\$431.20	\$431.20



Version Summary

Version	Changes/ Updates	Date
21R1.1	User Guide created	03/18/2021
23R4	Changed Customer to Client	10/30/2023
24R2.3	Minor edits, added Specialized Asset checkbox to the Details tile section, and updated screenshots for Details and PDF output.	08/07/2024

