

## Leasecat FAQs

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Q1 What is the Implicit Interest Rate?

A1 The Implicit Interest Rate is the nominal interest rate calculated based on the equation provided in the AAS17 accounting standard. Variables involved in the calculation are: fair value, rental payment, rental period and residual amount, the latter three forming what is termed Minimum Lease Payments. If no interest rate can be implied then the message Unreasonable will be displayed in place of an interest rate.

Q2 Why is the Implicit Interest Rate Unreasonable?

A2 Two main factors cause the implicit rate to be unreasonable: insufficient variables specified or total minimum lease payments less than Fair Value. Minimum lease payments consist of total rental payments plus any Guaranteed Residual.

Insufficient variables specified:

should any of the variables, i.e. fair value, rental payment, rental period, be omitted, the software would be unable to calculate/imply an interest rate.

Total minimum lease payments less than Fair Value:

where the rental payment stream in total, plus any guaranteed residual, is less than the fair value of the lease, the lessee would therefore be paying less to the lessor, implying no interest is applicable to the lessee's rental payments.

Q3 How does the Unguaranteed Residual affect a finance lease?

A3 Where a portion or all of the residual is stated as not being guaranteed in a lease contract, this implies that the lessee does not guarantee payment of this amount at the end of the lease term.

From a finance lessee point of view, the lease at inception, i.e. the leased asset and the corresponding lease liability will be adjusted accordingly to reflect the reduced liability to the lessee. This Adjusted Fair Value is the remainder of the fair value after subtracting the present value of the unguaranteed residual (this information can be obtained by pressing the F9 calculator button next to the Guaranteed Residual field).

From a finance lessor point of view, the unguaranteed residual forms part of the lease receivable so no adjustment occurs.

Q4 What is the difference between Estimated Residual and Guaranteed or Unguaranteed Residual?

A4 The Estimated Residual is the residual for the purpose of amortising the leased

asset account and the Guaranteed or Unguaranteed Residual is the residual for the purpose of reducing the lease liability account, for a finance lease from a lessee point of view.

Q5 What happens if I enter in an Estimated Interest Rate?

A5 Ideally, the Implicit Interest Rate should be adjusted to be equal to the Estimated Interest Rate. The Implicit Interest Rate can only be adjusted indirectly by adjusting any of the other variables in the lease equation, i.e. fair value, rental payment, rental period, guaranteed residual. Only if the Estimated Interest Rate specified is greater than the Implicit Interest Rate, the Estimated Interest Rate will apply requiring an adjustment to be made. If the user does not adjust any of the other variables, then the fair value of the lease will be adjusted automatically to ensure that the lease equation is met. This automatic adjustment does not occur on the entry screen but is only reflected in the lease reports.

Q6 A finance lease contract has been cancelled. How do I make Leasecat reflect this event?

A6 Through the Lease/HP Maintenance entry screen, call up the lease in question, edit it, then in the Payment section, set the Early Termination flag to Yes and key in the Termination Date. This lease will still appear in reports set up for periods prior to the termination date. This lease will also appear in the Termination/Expirations Schedule if the reporting period covers the termination date. The lease will be omitted from reports set up for periods after the early termination date.

Deleting the lease record is the other option, although the result may be undesirable should the user still wish to view reports for periods prior to the lease's termination date. DO NOT change the ending date in the rental stream to the termination date as this will affect the Implicit Interest Rate and result in incorrect calculations.

Q7 A finance lease contract has been cancelled and replaced with a new one. How do I make Leasecat reflect this?

A7 Terminate the old lease record by giving it a Termination Date (refer to above question on canceling a lease contract). Add a new lease record with the new contract details using the terminated lease's ID but with a lease ID extension of, e.g. 001, to differentiate that entry from the terminated lease.

Q8 How do I set up a Username and Password?

A8 Select Tools | Security Settings, add a new user record with a corresponding password, then save the entry. The next time Leasecat is accessed, a sentry dialog box will greet the user requesting for a username and password before granting the user access.