

#21 PMR Request for “Bifurcation of Land and Buildings” and addition of Stand-alone component

Issue

Within the Tririga system users are currently unable to:

- 1) Separately classify and account for Land and Building components with shared payment schedule(s) under a single Lease ID
- 2) Separately classify and account for an additional component with an individual (non-shared) payment schedule(s) under a single Lease ID

Guidance overview – Lease Bifurcation

For leases that include a Land element, guidance in paragraph [842-10-15-28] requires entities to classify and account for the right to use the land as a separate lease component unless the accounting effect of doing so would be insignificant (for example, separating the land element would have no effect on lease classification of any lease component or the amount recognized for the land lease component would be insignificant)

With the application of the above, the classification of single lease components (land and building) should be evaluated separately and where different classifications are determined for each of the lease components entities should have the ability to bifurcate the lease.

Guidance overview – Addition of Stand-alone Component

Lease Modifications 842-10-25-8 An entity shall account for a modification to a contract as a separate contract (that is, separate from the original contract) when both of the following conditions are present: a. The modification grants the lessee an additional right of use not included in the original lease (for example, the right to use an additional asset). b. The lease payments increase commensurate with the standalone price for the additional right of use, adjusted for the circumstances of the particular contract. For example, the standalone price for the lease of one floor of an office building in which the lessee already leases other floors in that building may be different from the standalone price of a similar floor in a different office building, because it was not necessary for a lessor to incur costs that it would have incurred for a new lessee.

Details

- Application: Business Application - IBM TRIRIGA.
- Application **Version: 10.5.3.5**
- Platform Version: 3.6.0.2
- Priority: Severity 2
- Is user impacted? Yes
- Is Production Environment is impacted? Yes

Bifurcation – Initial Lease Activation

1. FASB Lease Type - Multiple

On the Accounting Tab > FASB Treatment Section, allow users to select “multiple” as a dropdown option to facilitate splitting out the accounting functionality for multiple components within a single lease record.

2. Separate Lease Components

When FASB Lease Type: “multiple” selected a lease component section should display.

- Ability to Add lease components
- Ability to Enter Payment timing of each component

Ability to associate payment schedule(s) to separate lease components

- Ability to associate single payment schedule to a single component (one to one)
- Ability to associate single payment schedule to multiple components (one to many)
- New action button “associate/de-associate payment schedules”
- Select components via checkbox to the left and click ‘associate/de-associate’ payment schedules’ a pop-up window will display with a list of payment schedules for selection. User has the ability to select schedules and click associate or de-associate.

3. Ability to calculate apportionment for the same payment schedule associated to multiple components (one to many).

- Add new field “FMV (% split)” at component level
 - o Numeric value
 - o If a component is associated to a ‘shared’ payment schedule then FMV (% split) field should be mandatory for that component.
 - o If a component is associated to a stand-alone payment schedule then FMV (% split) field should not be mandatory for that component.
 - o Note. This field “FMV(% split) is NOT used for impairment
- Add new field “% Split” at the component level
 - o Once user has manually entered the FMV in “FMV (%split) field” for each component the system should calculate the “% Split” field based on the FMV.
 - o **Note.** Components not associated to ‘shared payment’ schedules (one to one) will have a default % split of 100%.
 - o User has the ability to override and manually enter percentages.

Assumption: All components will have the same lease term and IBR.

4. Ability to calculate separate NPV’s for each component.

- On Clicking “Calculate NPV” the appropriate Net Present Value should be calculated separately and populated in the “NPV of Rent” field for each component.

Note. Individual components can have different payment timings and different payment streams.

- Total NPV of the lease record will be the sum of the individual component's NPV's.

Note. On Modification FMV (% split) fields in the components sections can be updated and the % split changed. If updates are made, the new component % split will be applied to apportion payments used in the updated NPV calculation.

Component	Fair Market Value	% Split	Total Rent	NPV of Rent	Estimated Useful life (Yrs)	NPV as % FMV	Does component Transfer Ownership at End of Lease?	Does Lease have a Bargain Purchase Option?	Does Lease Begin in the last 25% of economic life?	Is Lease Term 75% or more of components economic useful life?	Is this a specialized asset?
LAND	\$50,000	83.33 %									
BUILDING	\$120,000	16.67 %									

Calculate Separate Lease Classification for components with Non-Shared payment schedules.

Stand-alone components without shared payment schedules should have the standard classification logic applied and be assessed separately to components with shared payments.

Calculate Separate Lease Classifications for components with Shared payment schedules.

Once the system has calculated the % percentage split and NPV of each component when 'Calculate Lease Treatment' button is clicked the system should apply the below lease classification calculator logic:

1st Overall level:

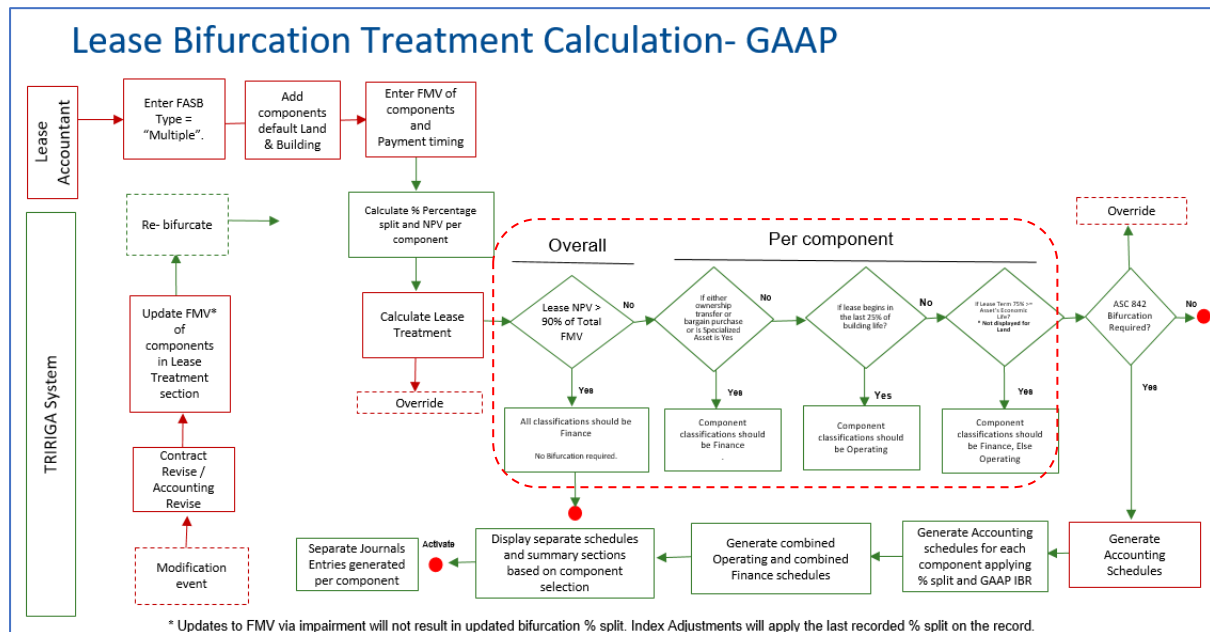
1. If the combined NPV is greater than 90% of the total FMV, then the entire lease is classified as finance and no bifurcation is required.

2nd Component level:

2. If the 90% test (1) is not met, then the remaining lease classification tests are done separately on each component.

If the classification for both is the same, i.e. both operating or both finance, then bifurcation is not required. If, however, they are different, then bifurcation is required.

Note. For 'Land' question "Is Lease Term >75% of the Assets economic useful life is not displayed" as land is assumed to have an indefinite useful life.



Note. Users should have the ability to override component classifications.

Calculate if bifurcation required

Based on the individual lease component classifications the system should determine if bifurcation is required. On "Lease components" section add field "ASC 842 Bifurcation Required"

- New Boolean field: "ASC 842 Bifurcation Required?" Y/N
- User has the ability to override
- Auto calculated:

If all component classification = Finance then "ASC 842 Bifurcation Required?"= No

If all component classification = Operating then "ASC 842 Bifurcation Required?"=No

Else "ASC 842 Bifurcation Required?"= Yes

Separate Accounting scheduled for each lease component

If "ASC 842 Bifurcation Required?" = Yes then the system should generate separate accounting schedules for each lease component.

System should apply the component % split to determine Net Rent Payment amount to be associated to each component. Accounting schedules of each component should be displayed separately.

Note. For components with separate (non-shared) payment schedules the component % split would be 100%.

Separate Journal Entries for each lease component

Separate journal entries should be produced for each component if bifurcation has occurred.

- Journal entries per bifurcated component will be generated.
- Journal entries for all components will utilize the JE setup and debit and credit accounts configured.
- If component is Operating, only operating journal entries should be created for that component. If component is Finance only finance journal entries should be generated for that component.
Both Finance and Operating journals should not be created.
- A Lease ID with the component type and name as a suffix will be created for each bifurcated component and mapped to lease ID field on the journal entries.
Lease ID - component type - name
Example:
100567 - Land - Plot#124

MODIFICATION:

Ability to bifurcate or **re-bifurcated** an existing lease record when

- Contract Revise > Amendment or
- Accounting Revise> Change in Contractual Factors or
- Change in Assessment is performed.

Once the Accounting tab is editable, in the Lease Treatment section, user has ability to add or remove component(s), update component FMV's resulting in an updated component % split, edit answers to classification questions, recalculate NPV and recalculate component classifications.

1. "Is Bifurcation required?" will be updated based on new classifications.
2. Record will be bifurcated or re-bifurcated based on the percentage split as at modification. I.e. New Modified NPV of Rent for each component should be calculated by the system based on the reassessed component % split.
3. Any payment (PLI) updates should reflect in total Net Rent Payments and % split as at modification should be used to apportion to bifurcated components.
4. System should create separate accounting schedules for each bifurcated component when "Re-generate accounting schedules" clicked.
 - New component schedules will be generated from modification fiscal period. First fiscal period on component schedules will be modification effective.
 - Existing component schedules will be re-generated from modification fiscal period. [OOTB logic].Fiscal periods prior to modification will display but remain unchanged.

Ability to perform **Accounting Revise > Change in Contractual Factors** on a lease for multiple FASB schedules.

- On Accounting Revision form, new section/ fields to be displayed to capture FMV (impairment) of each component. To enable separate impairment of components.
- If the user must amend the FMV value of any of the lease components this will prompt an impairment which will follow the standard OOTB logic.

Note.

New FMV entered on revision form when impairment is performed will NOT impact GAAP/ IFRS bifurcation % splits. A separate field "FMV % Split" is used for this purpose.

Process Summary:

