

115 PMR Request for “Is Cost or Fair Market Value Determinable?” to be defaulted to “yes” and 90% classification test applied

Within the Tririga system under ASC 842, when the FASB Lease Type is selected as “Partial Building”, the system defaults the answer to the question “Is Cost or Fair Market Value Determinable?” as ‘No’ resulting in the 90% classification test not being considered and lease classification defaulting to Operating. Instead “Is Cost or Fair Market Value Determinable?” should be defaulted to ‘Yes’ so that the user will have to fill in the FMV.

Guidance overview

Per guidance paragraph ASC 842-25-2, A lessee shall classify a lease as a finance lease (and a lessor shall classify a lease as a sales-type lease) when the lease meets any of the following criteria at lease commencement:

d. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in accordance with paragraph 842-10-30-5(f) equals or exceeds substantially all of the fair value of the underlying asset.

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
- Link to PMR # 119 - PMR Request for Attention message to be displayed when FMV not entered.

Accounting Corrections required:

1. In Accounting Tab > FASB Treatment section when FASB Lease Type selected as Partial Building then “ Is Cost or Fair Market Value Determinable?” should default to “Yes”.

FASB Treatment	
FASB Lease Type	Partial Building
* Is Cost or Fair Value Determinable?	No
* Incremental Borrowing Rate	3 percent

2. If “Is Cost or Fair Market Value Determinable?” = Yes and user does not enter a FMV 0 then an attention message should display. - See PMR #119 Note. Note. User should have the ability to enter FMV as zero.

FASB Treatment			
FASB Lease Type	Partial Building		
* Is Cost or Fair Value Determinable?	Yes		
* Is Lessor Implicit Interest Known?	No		
* Incremental Borrowing Rate	3	percent	
Is Lease Term 75% >= Asset's Economic Life?	No		
Is NPV of Rent >= 90% of Asset's FMV?	No		
* Total Rent	GBP500,000.00	Pound Sterling	
* NPV of Rent Obligation as % of FMV	0	percent	
* NPV of Rent	GBP426,670.19	Pound Sterling	
* Land Portion of Rent	GBP.00	Pound Sterling	
* Lease Term (in years)	10		
			* Lease Treatment OPERATING
			* Lease Rate Used (Calculated) 3 percent
			* Est. Economic Life of Asset (Yrs) 0
			Fair Market Value GBP.00 Pound Sterling
			* Land Percentage 80 percent
			* Fair Value of Building GBP.00 Pound Sterling
			* Fair Value of Land GBP.00 Pound Sterling
			Land's Value > 25% of FV of Property? No