

# Different types of contracts

## Explanation of contract types

Screenshot

**Financial leasing** - There is an agreed residual value in the contract. At the end of the rental period, you as a customer are obliged to appoint a buyer for the equipment, or alternatively redeem the equipment yourself.

For accounting according to IFRS, the residual value is included in the asset calculation only if the assessment is that the contract will be bought out at the end of the contract period. For example, for cars where it is common to change the car at the end of the lease, it is therefore most correct to only count the rental cost in the asset calculation.

**Operational leasing** - Means that the advantage of owning the equipment accrues to the supplier or finance company and that the customer only pays a rent to use the object for an agreed period of time. There is a residual value position guaranteed by the finance company/supplier. Since the rents mostly consist of amortization, the residual value position is far more important than the interest rate in the contract. This means that even contracts with a very low interest rate can be very disadvantageous if the finance company/supplier has taken a residual value position that is too low.

Also to consider for operational leasing is that there is a requirement that the equipment be returned in a certain condition (for cars condition + #km driven).

**Rent** - Lease contracts have no residual value, but just as it sounds, you rent the equipment from the lessor. If the contract applies to the rental of equipment, for example IT, copiers, coffee machines, etc., it is important to know that the contract is a financing contract that usually goes through a finance company and not through the supplier. It is important to terminate the rental contract in good time before the end of the contract period, otherwise the contract will be extended, often with the same rent as during the contract period, this despite the fact that the equipment is usually fully amortized. The notice period for the contract is stated in the general terms and conditions and is usually between 6-9 months.

After the end of the contract period, ownership of the equipment formally passes back to the supplier. In some cases, however, you can buy out the equipment if you want. It is therefore good to agree with the supplier on the amount even before the start of the contract. Don't forget that you have already paid for the equipment during the actual contract period.

Renting premises normally means that they are rented by a property owner without any connected financial company, so the rent does not include "repayment". However, it is important to keep track of the notice period (usually between 9-12 months), as missed notice often means an entire contract period is extended, which is expensive and unnecessary if you might have wanted to move or renegotiated the contract.

**Functional rent** – Is a rental contract but where the equipment in the contract usually requires some form of service (eg printers or coffee machines). In the contract, the service fee is usually included in the rental cost, and without further specification it can then be difficult to determine the reasonableness of the rental cost.

### **Other agreements - not for reporting**

In Leasify, "other contracts" means contracts that should not be the basis for accounting or analysis of interest. Here you can enter all other contracts you want to control so you don't miss renegotiations, terminations and control of conditions.

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