# UNDERSTANDING THE POLICY AND PROCESSING OF LEASE PURCHASE ORDERS

**Monthly Lunch & Learn Series** presented by the **FAST Team**

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UNIVERSITY OF TORONTO | Financial Services

# PRESENTER

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## AGENDA

- What is a Lease Purchase Order (PO)?

- How is a Lease PO different from a Standard PO?

- How to create a Lease PO that spans multiple fiscal years?

- Common errors related to Lease POs

- Reporting on Lease POs

# LEARNING OBJECTIVE

The objective of the session is to understand the policy regarding Lease Purchase Orders and how to process them in the AMS system.

For more information on the University's Procurement Policy that governs Lease Purchase Orders, please visit the Procurement Services site.

For resources to assist with processing Lease Purchase Orders, please see these Documentation & Support pages on the Financial Services site.

# ADVANTAGES OF LEASING

When evaluating whether to purchase or lease, consider the following advantages of leasing:

| | |
|---|---|
| **Conserve Cash** | Leasing provides 100% financing. Capital can be conserved and used to finance other projects or activities. |
| **Access to Capital** | Leasing does not impact existing credit lines – e.g., an existing bank operating line, thereby providing another source of capital. |
| **Budgeting** | With fixed (monthly, quarterly, annual) payments, cash flow is more predictable making budgeting easier. |
| **Certainty of payment** | The interest rate and payments are known for the term of the lease regardless of fluctuations in market interest rate. |
| **Protects against obsolescence** | Equipment can be returned at the end of the lease and replaced with updated equipment. |
| **Flexibility** | There are numerous ways to structure lease payments to meet the particular requirements of the lessee. |

[Visit Procurement Services' website to learn more on the advantages of leasing.](#)

# LEASE PURCHASE ORDERS

**Leasing is a flexible form of financing that allows the use of a product without having to pay for the full-face value.**

At the end of the lease, you may either return the product, purchase the product at Fair Market Value or you may choose to re-lease the item based on the current value and interest rates. These different options for the end of lease terms are structured before the lease is signed.

**Characteristics**:

- Typically spans 18 – 60 months
- Has a unique Purchase Order Type (WLS) in AMS
- If **Equipment Acquisition Value or the sum of the Lease Value** (i.e., all the payments over the life of the lease) is $50,000 or greater, the Lease PO will be routed in AMS to Procurement Services for review. Leases under $50,000 will be automatically released.

Visit Procurement Services' website to learn more on leasing.

# OVERVIEW OF BUSINESS PROCESS LEASE ORDERS

**Lease PO follows the same business workflow process as Standard PO.**

- **St. George and UTM create Purchase Orders** for all orders over $10,000. Any orders $50,000 or greater, will be reviewed by the respective Procurement Services department (i.e., UTM or Central).

- **UTSC creates Purchase Requisitions** for orders over $25,000.

📖🔍 [Learn more about how to purchase goods/services.](#)



- Request/requirement for goods or services over $10,000
- Generate FIS reports to determine if there is funds available and expense is allowable
- Obtains required bids/quotes
- Select Vendor
- Create Purchase Order (UTSG & UTM) or Purchase Requisition (UTSC)
- Process Goods Receipt when goods/services are received/rendered
- Process Invoice Receipt
- Payment is issued

# PURCHASE/LEASE ORDER WORKFLOW ($50,000 OR GREATER – BEFORE TAX)

**To enable Procurement Services to conduct their review, they require departments to attach relevant supporting documentation to the Purchase/Lease Order in AMS.**

**This includes**:

- Quotations/Contracts
- Procurement Policy Exemption Justification (PPEJ) form
- Invoices
- Lease Agreements

Once the PO is saved with the attachments, it will be automatically sent to Procurement.

- **If the PO is released**, the processor will receive an email with the PDF of the PO.
- **If it is rejected**, the processor will be notified of the reason and MUST resolve the issue prior to it being released.

# UNDERSTANDING THE ME21N - PO CREATE SCREEN

Within the ME21N – Create Purchase Order screen, you can enter a Lease PO by selecting the order type, **WLS: Lease WF Order.**



PO screen is separated into the following sections:

2. **Header** (i.e., information relevant to the entire order)
3. **Item Overview** (line-item breakdown)
4. **Item Details** (enter account codes)
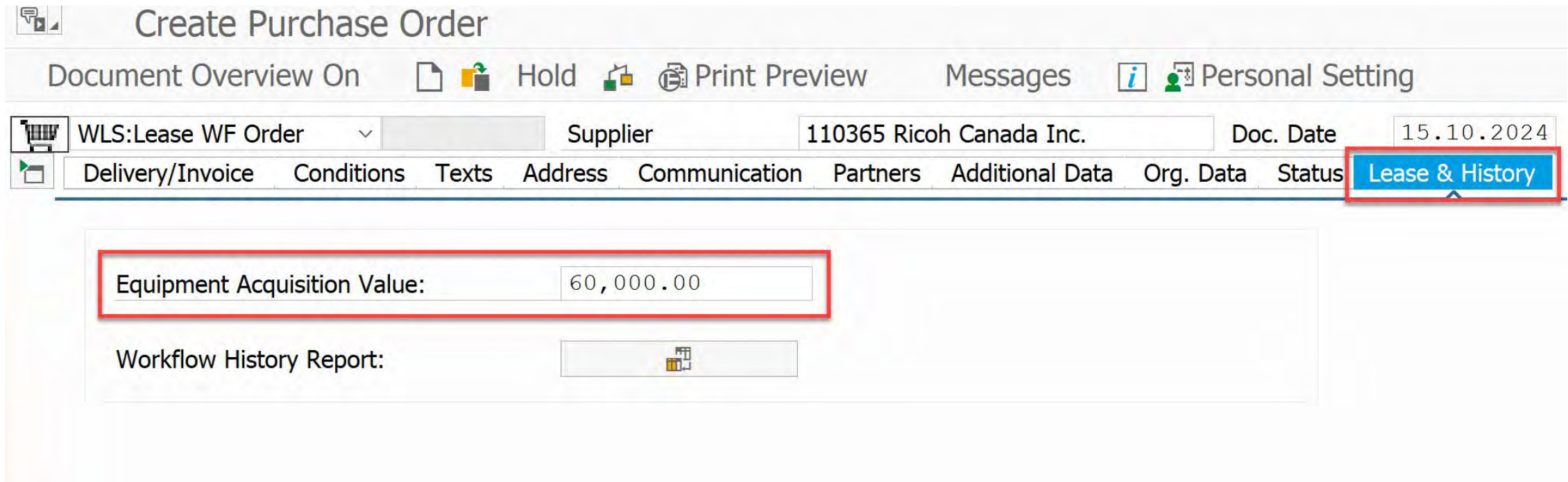
Visit the [Purchase Order Documentation & Support page](#) for guides and simulations.

Understanding the Policy and Processing of Lease Purchase Orders

# LEASE ACQUISITION VALUE

Enter the **Equipment Acquisition Value** located within the **PO Header** ⟹ **Lease & History tab.** This amount (and the sum of the Lease Value) is used to determine if a Lease PO gets routed to Procurement Services for review.

**TIP!** Look for the Equipment Acquisition Value in either the **Lease Agreement** OR **Lease Schedule.**

Create Purchase Order

Document Overview On     Hold    Print Preview    Messages    Personal Setting

WLS:Lease WF Order          Supplier    110365 Ricoh Canada Inc.    Doc. Date    15.10.2024

Delivery/Invoice  Conditions  Texts  Address  Communication  Partners  Additional Data  Org. Data  Status  Lease & History

Equipment Acquisition Value:    60,000.00

Workflow History Report:

# LEASE HEADER TEXT

In the **Header Text** field located within the PO Header **Texts** tab, enter the:

- Vendor name
- Vendor contact information
- Schedule or lease agreement number
- Lease terms and payment frequency
- Lease start and end date
- End of lease agreement for the product

# CALCULATING THE LEASE AMOUNT FOR EACH FISCAL YEAR

Leases often span multiple fiscal years. **In order to conserve funds in a given fiscal year, and budget effectively, ensure each fiscal year is a separate line in the Item Overview section.**

**Important Notes:**
- U of T fiscal year is from May – April.
- **PO Quantity field =** The **number of payments per fiscal year**
- **Net Price field =** The **amount per payment period before tax**

**Example:** For a 3-year lease with monthly payment frequency of $1,000 per month, starting in January 2025 and ending in December 2027, you will need to create four (4) Item lines in your PO:
- FY2025 (January – April: 4 payments, $1,000/month, total $4,000 value)
- FY2026 (May – April: 12 payments, $1,000/month, total $12,000 value)
- FY2027 (May – April: 12 payments, $1,000/month, total $12,000 value)
- FY2028 (May – December: 8 payments, $1,000/month, total $8,000 value)

# USING A PLACEHOLDER AMOUNT FOR FUTURE FISCAL YEARS & UPDATING THE COMMITMENT FOR THE CURRENT YEAR

**To conserve budget, you only want to reserve enough funds to cover payments for the current fiscal year.** If you enter the actual payment amounts in the Item lines for all future years, the system will reserve the total amounts in the current year in which you entered the PO into the system.

When you create a Lease PO, for future fiscal years Item lines, **enter a nominal placeholder net price amount (e.g., $1).**

**In the beginning of each new fiscal year, you'll need to update the net price** for your existing Lease Purchase Orders to the actual payment amount to ensure reserves are accurately held for the current fiscal year.

Use the **ME22N – Change PO screen** to update the net price.

# CREATE A LINE ITEM FOR EACH FISCAL YEAR OF THE LEASE

# LINE-ITEM LEASE VALUE

For each line item, **enter the actual amount of Lease Value in the Item Details > Lease Tab.** As mentioned above, the sum of the Lease Value for all lease years (along with the Equipment Acquisition Value) is used to determine if the PO gets routed to Procurement Services for review.

# ATTACHING DOCUMENTS



To attach documents,
1. Click on **Purchase Order > Other Purchase Order** and enter your PO document number to display your PO.
2. Click on **Purchase Order > Display/Change** to activate the Services for Object icon.
3. Click on the **Services for Object icon > Create > Save Business Document.** Select your Document Type and file to upload.

# GOODS RECEIPTS FOR LEASE ORDERS

In a standard PO, a good receipts represents an acknowledgement that the goods have been accepted by the University, matches what was ordered and are in usable condition.  This typical definition may be counterintuitive with leases since the equipment has already been received.

With Leases, the goods receipt is a necessary step in the Purchasing Cycle in order to pay the periodic lease payment.

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# CHANGES TO PO AFTER **BOTH** GOODS RECEIPT AND INVOICE RECEIPT ARE POSTED
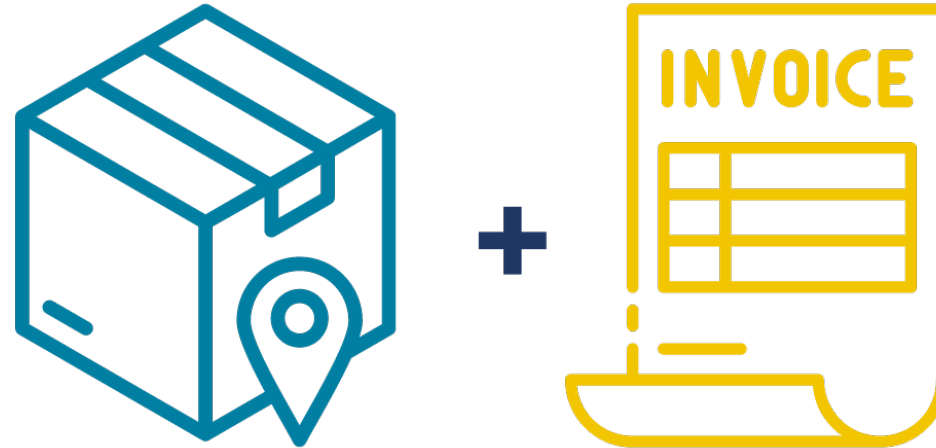
Once both a Goods Receipt and Invoice Receipt have been posted, the only changes that can be made to that particular line-item is to release any remaining reserve using one of the two methods indicated in this article.

**NOTE:** The status and changes that can be made will vary depending on the activity in each line item.

For more information, please see this simulation.

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# ACCOUNTING FOR ADDITIONAL EXPENSES NOT INCLUDED IN THE PO RESERVES

There may be expenses on the PO Invoice that could not have been known at the time of the quote.

For example, with lease agreements there may be a per copy (e.g., printer ink charge) on the invoice based on periodic usage.

To facilitate this, use the G/L Account tab in the MIRO – Create Invoice Receipt screen to enter the payment.



📖 To learn how to use the G/L Account tab, please see this simulation.

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# REPORTING ON LEASE PURCHASE ORDERS

**After you have created a PO,** you may want to run a report to ensure funds are accurately reserved. **You may also want to run a report at the beginning of each fiscal year** to review your commitments and identify if you need to update the payment reserves for the current fiscal year.

## ZFIR079A All Postings Line Items Report

- You can run this report to view actuals and commitments for your Lease POs. This can help you review that your PO commitment is accurate and whether you need to make changes to your PO and/or update your reserve for the current year.
- A guide for the report is available [here.](here.)

## ZFIR055: Open Commitment Carry Forward Report

- This report is most commonly used at the start of a new fiscal year to report on the commitments that are carried forward into the next fiscal year.
- A guide for the report is available [here](here).

# REPORTING ON LEASE PURCHASE ORDERS
## ZFIR079A – ALL POSTINGS LINE ITEMS REPORT

The ZFIR079A – All Postings Line Items report provides a list of all commitments/reserves tied to a Lease Order. It enables departments to see which line(s) needs to be updated in the new fiscal year.

### All Postings: Line Items by Document Number (w/ addnal flds)

28.10.2024 14:53:06

| Line Item Text | Reference Item | G/L | ε | Pymt Bdgt | G/L Acct Long Text | Cost ... | Funds Ctr | Fu... | Vendor Name | | Supplier | Posting Date | UserNm(FI) | Assig... |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | · · | 4,169.49 | | | | | | | | | | |
| Ref. document number 4700002181 | | | · | 4,169.49 | | | | | | | | | | |
| IM C400SRF Printer UT555-425 FY2025 | 1 | 821420 | | 4,136.40 | Equip:Copiers:Leased | 11040 | 100568 | | Ricoh Canada Inc. | 110365 | | 28.10.2024 | PARAMRAM | |
| IM C400SRF Printer UT555-425 FY2026 | 2 | 821420 | | 12.41 | Equip:Copiers:Leased | 11040 | 100568 | | Ricoh Canada Inc. | 110365 | | 28.10.2024 | PARAMRAM | |
| IM C400SRF Printer UT555-425 FY2027 | 3 | 821420 | | 12.41 | Equip:Copiers:Leased | 11040 | 100568 | | Ricoh Canada Inc. | 110365 | | 28.10.2024 | PARAMRAM | |
| IM C400SRF Printer UT555-425 FY2028 | 4 | 821420 | | 8.27 | Equip:Copiers:Leased | 11040 | 100568 | | Ricoh Canada Inc. | 110365 | | 28.10.2024 | PARAMRAM | |

# REPORTING ON LEASE PURCHASE ORDERS
# ME2N/ME2K – PO LIST REPORT

## Purchasing Documents For Cost Center

| Cost ... | G/L A.. | Funds ... | Fu.. | Supplier/Supplying Plant | P... | It.. | Doc. Date | Short Text | Quant.. | O... | Net Price | εNet Val.. | To be d.. | ε | To be del.. | To be i... | ε | To be inv. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | · · | 0.00 | | · · | 4,032.00 | | · · | | 4,032.00 |
| **Purchasing Document 4700002181** | | | | | | | | | | · | 0.00 | | · | 4,032.00 | | · | | 4,032.00 |
| 11040 | 821420 | 100568 | | 110365 | Ricoh Canada Inc. | | 1 | 28.10.2024 | IM C400SRF Printer UT555-425 FY2025 | 4 | EA | 1,000.00 | | 0.00 | 4 | 4,000.00 | 4 | | 4,000.00 |
| 11040 | 821420 | 100568 | | 110365 | Ricoh Canada Inc. | | 2 | 28.10.2024 | IM C400SRF Printer UT555-425 FY2026 | 12 | EA | 1.00 | | 0.00 | 12 | 12.00 | 12 | | 12.00 |
| 11040 | 821420 | 100568 | | 110365 | Ricoh Canada Inc. | | 3 | 28.10.2024 | IM C400SRF Printer UT555-425 FY2027 | 12 | EA | 1.00 | | 0.00 | 12 | 12.00 | 12 | | 12.00 |
| 11040 | 821420 | 100568 | | 110365 | Ricoh Canada Inc. | | 4 | 28.10.2024 | IM C400SRF Printer UT555-425 FY2028 | 8 | EA | 1.00 | | 0.00 | 8 | 8.00 | 8 | | 8.00 |

# REPORTING ON LEASE PURCHASE ORDERS
# ZFIR055 – OPEN COMMITMENT CARRYFORWARD REPORT

At the beginning of a fiscal year, departments can review all the Lease Purchase Orders that were carried forward from the prior fiscal year and can:

- update the Net Price associated with the line in the new fiscal year

- release any reserves that are no longer needed.



Lease PO Line Item

Lease PO Document #s

Carried forward reserve tied to each line in the Lease PO.

# COMMON ERRORS RELATED TO LEASE PO

- Lease Acquisition value not accurate in PO

- Lease paid via Accounts Payable invoice instead of PO regardless of value.

- Putting the full lease payment for all fiscal year.
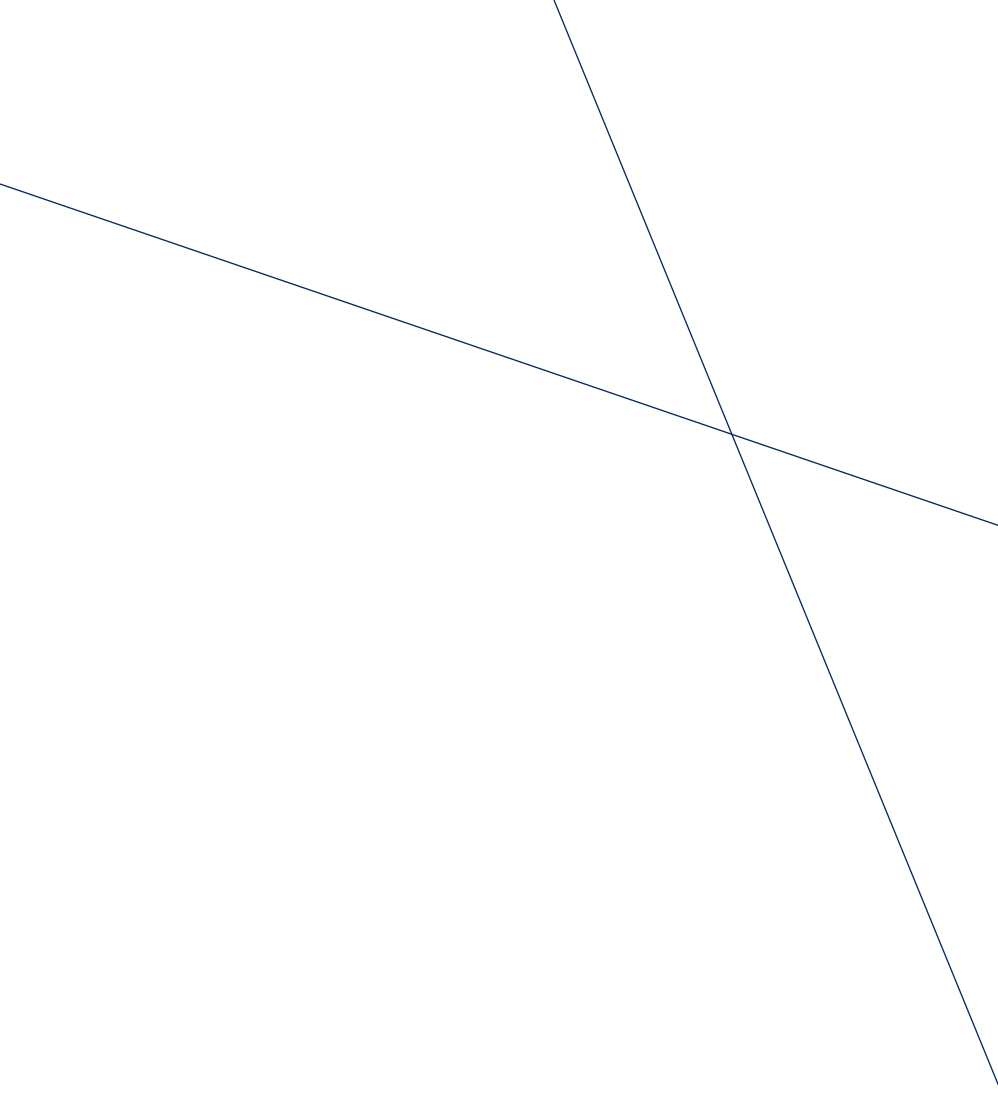
# Demonstration

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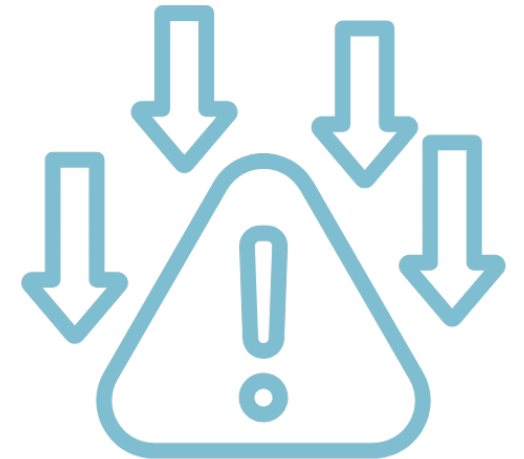
# WHO DO I CONTACT?

For questions/clarification on questions related to processing and troubleshooting Purchase Orders, Purchase Requisitions, Goods Receipts and Invoice Receipts, contact your [FAST Team representative](#).

For questions regarding Procurement Policy, and related Procurement form/templates, please contact [purchasing.help@utoronto.ca](mailto:purchasing.help@utoronto.ca).

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# THANK YOU!

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Purchase Orders