



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CLASSIFICATION OF FINANCE AND OPERATING LEASE PAYMENTS IN THE STANDARD CHART OF ACCOUNT

PURPOSE

The purpose of this classification circular is to provide guidance to all government financial practitioners on the economic classification of lease payments in BAS using the new SCOA accounts.

Leases should not be confused with rental and hiring as used in SCOA context. Rental and hiring agreements involve a once-off payment for the temporary use of an item which is owned (and will continue to be owned) by an external party.

DISCUSSION

The classification of a lease, that is whether it is an operating or a finance lease, must be made at the inception of the lease agreement. The economic classification of the lease payments made over the period of the lease will depend on this determination.

It is therefore important from a budgeting, recording and reporting perspective to correctly classify the lease arrangement at the outset and throughout the lease period to avoid any reclassifications at a later stage. Practitioners should refer to the *Departmental Financial Reporting Framework* for guidance on how to distinguish between these two forms of lease agreements.

The tables below illustrate the economic and reporting classification of lease payments in the “old” SCOA (i.e. pre 1 April 2013) and the “new” SCOA (i.e. post 1 April 2013).

Leased asset used on a capital and or current project

1. The following applies to the classification of payments made in connection with a leased asset(s) used on an infrastructure or non-infrastructure projects:
 - a) Operating lease payments may be allocated to any type of infrastructure / non-infrastructure project, thus implication operating lease payments can be “**capitalized to the cost**” of a capital project or allocated to the cost of a current project;
 - b) Finance lease payments can only be allocated to the cost of capital infrastructure / non-infrastructure project if the asset is **specifically leased** for the project and for the duration of the project;
 - c) Assets leased under a finance lease and used on a current infrastructure / non-infrastructure project (exclusively or otherwise) must be treated as a “**stand-alone**” lease arrangements i.e. the payments are not allocated to the cost of the project. This is in line with the principles in the *Reference Guide to the Economic Reporting Format (September 2009)*.

Classification of lease payments prior to 1 April 2013:

2. The changes to the SCOA in relation to leases were as follows:
 - a) Operating and finance lease accounts were created with a “PRJ” prefix for the allocation of such payments to a specific project as part of the introduction of the OWN Account and Outsourced Project accounts.
 - b) Separate accounts were also created in the item segment for the allocation of finance lease payments per major category of assets. These accounts were created under the *payments/construction of capital assets* section of the item segment.
3. The classification of operating and finance lease payments in the item, asset and project segments of the **SCOA** is illustrated in the table below:

Operating lease payments

ITEM	ASSETS SEGMENT	PROJECT SEGMENT
PAYMENTS PAYMENTS GOODS AND SERVICES OPERATING LEASES PRJ OPERATING LEASES	Relevant category of Leased Assets	NO PROJ S/ALONE CURRENT Relevant category under Projects Infrastructure or Project Non-Infrastructure

CLASSIFICATION OF FINANCE AND OPERATING LEASE PAYMENTS IN THE SCOA

Finance lease payments (including interest)

ITEM	ASSETS SEGMENT	PROJECT SEGMENT
PAYMENTS PUR/CONST CAPITAL ASSETS BUILDINGS & OTHER FIX STRUCT BUILDINGS & OTHER FIX STRUCT FINANCE LEASES BUIL&OT FIX STR FINANCE LEASES BUIL&OT FIX S PRJ FINANCE LEASES BUIL&OT FIX S MACHINERY AND EQUIPMENT TRANSPORT EQUIPMENT FINANCE LEASES TRNSP EQP FINANCE LEASES TRNSP EQP PRJ FINANCE LEASES TRNSP EQP OTHER MACHINERY & EQUIPMENT FINANCE LEASES OTH MACH&EQUIP FINANCE LEASES OTH MACH PRJ FINANCE LEASES OTH MACH HERITAGE ASSETS FINANCE LEASES HERITAGE ASSETS FINANCE LEASES HERI ASS PRJ FINANCE LEASES HERI ASS SPECIALISED MILITARY ASSETS FINANCE LEASES SPEC MIL ASS FINANCE LEASES SPE MIL ASS PRJ FINANCE LEASES SPE MIL ASS BIOLOGICAL ASSETS FINANCE LEASES BIOLOGICAL ASSETS FINANCE LEASES BIO ASS PRJ FINANCE LEASES BIO ASS LAND&SUBSOIL ASSETS FINANCE LEASES LAND&SUB ASS FINANCE LEASES LAND&SUB ASS PRJ FINANCE LEASES LAND&SUB ASS SOFTWARE & INTANGIBLE ASSETS FINANCE LEASES SOFT&INT ASS FINANCE LEASES SOFT&INT ASS PRJ FINANCE LEASES SOFT&INT ASS	Relevant category of Leased Assets	NO PROJ S/ALONE CAPITAL Relevant category under Projects Infrastructure or Project Non- Infrastructure

Classification of lease payments from 1 April 2013:

4. The changes to the SCOA in relation to leases are as follows:
 - a) The prefix “PRJ” items have been renamed to “OWN” items in order to differentiate the project items in the item segment from the items in the project segment.
 - b) The “Leased Assets” category under the asset segment was removed; departments are advised to use the **Tangible/Intangible** capital assets category.
 - c) With the introduction of the new segment (i.e. the infrastructure segment) the economic classification has not been removed from project segment to infrastructure segment.
5. The classification of operating and finance lease payments using the newly created Infrastructure segment is illustrated in the table below:

OLD PROJECT SEGMENT	NEW INFRASTRUCTURE SEGMENT
STAND ALONE ITEM (NO PROJECTS) NO PROJ S/ALONE CAPITAL NO PROJ S/ALONE CURRENT	DEPARTMENTAL EXPENDITURE INFRASTRUCTURE ASSETS INFRASTRUCTURE: LEASES INFRASTRUCTURE: FINANCE LEASES (CAP) INFRASTRUCTURE: OPERATING LEAS (CUR) NON INFRASTRUCTURE NON INFRA: LEASES NON INFRA: FINANCE LEASES (CAP) NON INFRA: OPERATING LEASES (CUR)

6. The classification of operating and finance lease payments in the item, asset and project segments of the SCOA is illustrated in the table below:

Operating lease payments

ITEM	ASSETS SEGMENT	INFRASTRUCTURE SEGMENT
PAYMENTS PAYMENTS GOODS AND SERVICES OPERATING LEASES OWN OPERATING LEASES	Relevant category of MAJOR Assets (tangible or intangible capital assets)	DEPARTMENTAL EXPENDITURE INFRASTRUCTURE ASSETS INFRASTRUCTURE: LEASES INFRASTRUCTURE: OPERATING LEAS (CUR) NON INFRASTRUCTURE NON INFRA: LEASES NON INFRA: OPERATING LEASES (CUR) Relevant category under Infrastructure or Non-Infrastructure

CLASSIFICATION OF FINANCE AND OPERATING LEASE PAYMENTS IN THE SCOA

Finance lease payments (including interest)

ITEM	ASSETS SEGMENT	INFRASTRUCTURE SEGMENT
PAYMENTS		DEPARTMENTAL EXPENDITURE
PUR/CONST CAPITAL ASSETS		INFRASTRUCTURE ASSETS
BUILDINGS & OTHER FIX STRUCT		INFRASTRUCTURE:LEASES
BUILDINGS & OTHER FIX STRUCT		INFRASTRUCTU:FINANCE LEASES (CAP)
FINANCE LEASES BUIL&OT FIX STR		NON INFRASTRUCTURE
FINANCE LEASES BUIL&OT FIX S		NON INFRA:LEASES
OWN FINANCE LEASES BUIL&OT FIX S		NON INFRA:FINANCE LEASES (CAP)
MACHINERY AND EQUIPMENT		Relevant category under Infrastructure or Non-Infrastructure
TRANSPORT EQUIPMENT		
FINANCE LEASES TRNSP EQP		
FINANCE LEASES TRNSP EQP		
OWN FINANCE LEASES TRNSP EQP		
OTHER MACHINERY & EQUIPMENT		
FINANCE LEASES OTH MACH&EQUIP		
FINANCE LEASES OTH MACH		
OWN FINANCE LEASES OTH MACH		
HERITAGE ASSETS	Relevant category of MAJOR Assets (tangible or intangible capital assets)	
FINANCE LEASES HERITAGE ASSETS		
FINANCE LEASES HERI ASS		
OWN FINANCE LEASES HERI ASS		
SPECIALISED MILITARY ASSETS		
FINANCE LEASES SPEC MIL ASS		
FINANCE LEASES SPE MIL ASS		
OWN FINANCE LEASES SPE MIL ASS		
BIOLOGICAL ASSETS		
FINANCE LEASES BIOLOGICAL ASSETS		
FINANCE LEASES BIO ASS		
OWN FINANCE LEASES BIO ASS		
LAND&SUBSOIL ASSETS		
FINANCE LEASES LAND&SUB ASS		
FINANCE LEASES LAND&SUB ASS		
OWN FINANCE LEASES LAND&SUB ASS		
SOFTWARE & INTANGIBLE ASSETS		
FINANCE LEASES SOFT&INT ASS		
FINANCE LEASES SOFT&INT ASS		
OWN FINANCE LEASES SOFT&INT ASS		

Maintenance performed on a leased asset

- The classification of maintenance performed on a leased asset, is the same as maintenance on departmental asset. Maintenance of all assets will be discussed in great detail in the Maintenance and Repairs, Upgrades and Additions and Refurbishments and Rehabilitations circular.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

The allocation of expenditure should be made in accordance with this circular for 2013/14 financial year. The adjustments budget process should be used to amend the budget of the department if the funds were classified using the old SCOA chart.

Please contact the SCOA Technical Committee via the SCOA call center at (012) 315 5311 or by sending a concise mail to scoa@treasury.gov.za if further clarity or discussion is required regarding the changes highlighted above.

SCOA Technical Committee

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