Twitter Thread by Abnormal Accrual

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$TSLAQ Instead of having an accrual palooza, I will dribble these out as I have time and available information. The first account to be reviewed: Automotive Leasing Revenues. The remainder of the planet calls this Sales-Type Leasing (ASC 842.) (1/n)

GAAP allows revenue recognition if a manufacture or dealer leases the preponderance of useful life and economic value of inventory. Computer manufactures are significant users of this accounting treatment. The journal entries for this type of leasing are: (2/n)

Accounts:	Dr	Cr
Operating Lease Vehicle	xxx	
Sales		xxx
COGS	xxx	
Finished Goods Inv		xxx
Operating Lease Vehicle	xxx	
Finished Goods Inv		xxx

The sales are the present value of the payments plus down payment. COGS is the cost of the equipment less the present value of the residual payment. (3/n)

The final receivable entry is the residual value added to the lease payment receivable to remove inventory from the financial statements. $TSLA classifies the lease receivable as an Operating Lease Vehicles, net on the balance sheet and they are subject to depreciation. (4/n)

The assumptions in the calculation that can be subject to manipulation: the implicit interest rate of the lease and the residual payments. Lower rates increase capitalization of the lease which gives higher revenues. Larger residual decreases cost of goods sold. (5/n)

I have done this calculation every quarter since 12/31/19 and posted on twitter. To simplify the understanding of the problem, I calculated the implicit rate of the leases. (6/n)

$TSLA Sales Type Leasing					
	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2021
Sales	225,000	239,000	268,000	265,000	280,000
COGS	119,000	122,000	148,000	145,000	148,000
Gross	106,000	117,000	120,000	120,000	132,000
S/X Leasing	2,807	1,940	1,486	1,976	2,081
3/Y	6,041	4,164	3,320	8,687	11,316
Total	8,848	6,104	4,806	10,663	13,397
ASP	25,429	39,155	55,764	24,852	20,900
ACOGS	13,449	19,987	30,795	13,598	11,047
Agross	11,980	19,168	24,969	11,254	9,853
Residual Estimates:					
3 Ave PYMT	515	515	515	371	371
S Ave PYMT	1,114	1,114	1,114	1,114	899
X Ave PYMT	1,249	1,249	1,249	1,249	1,019
Y Ave PYMT				499	499
3 Down Payment	4,500	4,500	4,500	4,500	4,500
S/X Down Payment	7,500	7,500	7,500	7,500	7,500
Y Down Payment				4,500	4,500
Term	36	36	36	36	36
Rate	**1.29%**	**-2.68%**	**-5.00%**	**1.93%**	**3.20%**
PV Per 3/Y	($10,192)	($11,906)	($13,261)	($15,713)	($13,720)
PV Per S/X	($41,353)	($80,640)	($133,636)	($37,956)	($27,826)
Gross PV	(177,645)	(206,018)	(242,611)	(211,503)	(213,160)
Estimated Downpayment	(48,237)	(33,288)	(26,085)	(53,912)	(66,530)
Total Estimated Revenues	(225,882)	(239,306)	(268,696)	(265,415)	(279,689)

The down payments do not have a time value of money issue (I.E. – there is no time.) The future payments are TVM. Remember the revenue calculation? Present value of the lease payments plus down payment. (7/n)

Look at Q1 & Q2 2020. We can debate if a lease implicit rate of 1.29%, 1.93% or 3.20% are realistic (Q4 19, Q3 20 & Q4 20). But negative rates in Q1 & Q2? (8/n)

If you want a common sense validation, look at the number of units leased for those two quarters (6,104 & 4,806) compared to revenues (239m & 268m.) Yep, revenues increased in a period where the units leased fell. (9/n)

Which brings the most important point: someone went to the principles' office in Q3. Equally important, I have no idea who the principle might be (SEC, Board or External Audit). (10/n)