



FINANCING LEASE EXAMPLE

Parameters:

Type of Lease: Finance Lease because the lease term is for a major part of the remaining useful life
 Lease Term: 3 Years
 Payments: \$ 15,000 Year 1
 \$ 17,500 Year 2
 \$ 20,000 Year 3
 Discount Rate: 4.40%

Example Entries

<1>
 Right-of-use asset 48,000
 Lease liability 48,000

To initially recognize the lease asset and liability.
 This is the discounted cash payments.

<2>
 Amortization expense 16,000
 Right-of-use asset 16,000

To record amortization expense on the right-of-use asset
 calculated as the capitalized asset divided by the term of the lease
 in this case 48000 / 3
 The same entry is made each year

<3>
 Interest expense 2,112
 Lease liability 2,112

To record interest expense and accrete the lease liability using
 the interest method in this case 48000 X 0.044

<4>
 Lease liability 15,000
 Cash 15,000

To record lease payment to lessor

| Year | Year | Year | Year | Total |
|------|---------------|---------------|---------------|------------------|
| 0 | 1 | 2 | 3 | |
| | \$ 15,000 | \$ 17,500 | \$ 20,000 | \$ 52,500 |
| | <u>14,368</u> | <u>16,056</u> | <u>17,576</u> | <u>\$ 48,000</u> |

Balance Sheet Values:

| | | | | |
|--------------------|--------|--------|--------|---|
| Right-of-use asset | 48,000 | 32,000 | 16,000 | - |
| Lease liability | 48,000 | 35,112 | 19,157 | - |

Statement of Operations:

| | | | | |
|----------------------|------------------|------------------|------------------|------------------|
| Interest Expense | 2,112 | 1,545 | 843 | 4,500 |
| Amortization Expense | 16,000 | 16,000 | 16,000 | 48,000 |
| Total expense | <u>\$ 18,112</u> | <u>\$ 17,545</u> | <u>\$ 16,843</u> | <u>\$ 52,500</u> |



OPERATING LEASE EXAMPLE

Parameters:

Type of Lease: Operating Lease
 Lease Term: 3 Years
 Payments: \$ 15,000 Year 1
 \$ 17,500 Year 2
 \$ 20,000 Year 3
 Discount Rate: 4.40%

Example Entries

| | | | |
|--------------------|-----|--------|--------|
| | <1> | | |
| Right-of-use asset | | 48,000 | |
| Lease liability | | | 48,000 |

To initially recognize the lease asset and liability.
 This is the discounted cash payments.

| | | | |
|--------------------------------------|-----|--------|--------|
| | <2> | | |
| Lease expense | | 17,500 | |
| Asset/Liability (Balance Sheet Item) | | | 2,500 |
| Cash | | | 15,000 |

To record lease expense for the difference between cash paid
 and straight-line lease expense

| | | | |
|-----------------|-----|--------|--------|
| | <3> | | |
| Lease liability | | 12,888 | |
| Asset | | | 12,888 |

The adjustment of \$12888 is calculated as the initially recognized lease liability
 of 48000 less the present value of remaining lease payments 35112 at the end of Year 1.
 This is a "squeeze" calculation or "plug" value.

Cash Payments
 Discounted Cash Pymts
 Discounted Cash Pymts After Yr 1
 Discounted Cash Pymts After Yr 2

| Year | Year | Year | Year | Total |
|------|---------------|---------------|---------------|------------------|
| 0 | 1 | 2 | 3 | |
| | \$ 15,000 | \$ 17,500 | \$ 20,000 | \$ 52,500 |
| | <i>14,368</i> | <i>16,056</i> | <i>17,576</i> | \$ 48,000 |
| | | <u>16,762</u> | <u>18,350</u> | <u>35,112</u> |
| | | | <u>19,157</u> | <u>19,157</u> |

Statement of Operations:

| | | | | |
|---------------|-----------|-----------|-----------|-----------|
| Lease Expense | \$ 17,500 | \$ 17,500 | \$ 17,500 | \$ 52,500 |
|---------------|-----------|-----------|-----------|-----------|

Calculations:

| | | | | |
|---|------------|--------|----------|------|
| Prepaid (Accrued) Lease Expense | \$ (2,500) | \$ - | \$ 2,500 | \$ - |
| Present value of remaining lease pymts | 35,112 | 19,157 | | |
| Lease liability amortization (calc diff between prior period and required ending balance) | 12,888 | 15,955 | 19,157 | |

Balance Sheet:

| | | | | |
|------------------------|--------|---------|---------|---|
| Lease liability | 48,000 | 35,112 | 19,157 | - |
| Right-of-use asset | 48,000 | 35,112 | 19,157 | - |
| Prepaid (Accrued) Rent | | (2,500) | (2,500) | - |
| Total Assets | 48,000 | 32,612 | 16,657 | - |