

# Academy for Lease & Finance Professionals

## Accounting Example

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A lessor completed and funded the following Lease:

<b>Lease Term:</b>	48 months
<b>Number of Lease Payments:</b>	48 - made monthly in advance
<b>Amount of Monthly Payments:</b>	\$3,745
<b>Refundable Security Deposit:</b>	\$2,000
<b>Broker Fee paid by Lessor:</b>	None
<b>Other Initial Direct Costs (IDC):</b>	None
<b>Cost of Leased Assets:</b>	\$135,000
<b>Estimated Economic Life of Leased Assets:</b>	60 months
<b>Unguaranteed Residual Value:</b>	Fair Market Value (FMV), estimated to be 10% of the original cost of the leased assets
<b>Lessor's Yield:</b>	8% <i>(In addition to the lease payments, included in this yield calculation are the security deposit and unguaranteed residual)</i>

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- Create the Lessor's Balance Sheet at lease inception for an Operating Lease.
- Create the Lessor's Income Statement at the end of month one for an Operating Lease

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## *Accounting Example*

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- Create the Lessor's Balance Sheet at lease inception for a Sales-Type Lease.
- Create the Lessor's Income Statement at the end of month one for a Sales-Type Lease.

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### Lessor's Balance Sheet at lease inception (Operating Lease)

#### ASSETS:

Cash	\$5,745 ( <i>Advance payment of \$3,745 + \$2,000 security deposit</i> )
Leased Equipment	\$135,000
Less Depreciation	\$0
<b>TOTAL ASSETS</b>	<b>\$140,745</b>

#### LIABILITIES & EQUITY:

Security Deposit	\$2,000
Advance Payment	\$3,745
Equity	\$135,000
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$140,745</b>

### Lessor's Income Statement at the end of month one (Operating Lease)

#### INCOME:

Rental Income	\$3,745
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#### EXPENSES:

Depreciation	<u>\$2,531.25</u> ( <i>\$135,000 equipment cost - \$13,500 unguaranteed residual</i> ) / 48 month term
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<b>NET INCOME:</b>	<b>\$1,213.75</b> ( <i>Income - depreciation</i> )
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### Lessor's Balance Sheet at lease inception (Sales-Type Lease)

#### ASSETS:

Cash	\$5,745 (Advance payment of \$3,745 + \$2,000 security deposit)
Minimum Lease Payments Receivable	\$176,015 (Sum of 47 remaining lease payments)
Unguaranteed Residual	\$13,500
Unearned Income	(\$58,260) $((\$3,745 \times 48) + \$13,500 - \$135,000)$
Net Investment in the Lease	\$131,255 (Total of the above, <b><u>not including cash</u></b> )
<b>TOTAL ASSETS</b>	<b>\$137,000</b>

#### LIABILITIES & EQUITY:

Security Deposit	\$2,000
Equity	\$135,000
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$137,000</b>

### Lessor's Income Statement at the end of month one (Sales-Type Lease)

#### INCOME:

Lease Income	\$1,213.75* (Unearned income of \$58,260 / 48)
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#### NET INCOME:

**\$1,213.75**

*\*\*If not using TValue or a calculator, this is the number that is calculated straight line over the term*

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