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速成教育
SPEED UP EDUCATION

BUS 321

Intermediate accounting

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SFU Week 5 Class | 2022/6/10

SPEED UP EDUCATION

Lessor

Type of Lessor

1. Manufacturer finance companies (captive leasing companies)—subsidiaries who perform leasing operations for the parent company
2. Independent finance companies—intermediary providing financing for transactions for manufacturers, vendors, or distributors
3. Traditional financial institutions—subsidiaries of domestic and foreign banks

Classification

- I F R S uses a classification approach to differentiate between a finance lease and an operating lease when lease accounting for lessors

  one or more of the following indicate risks and rewards have transferred; classified as a finance or manufacturer/dealer lease; if not, operating lease
    - Reasonably certain lessee takes ownership: purchase option
    - Lease term major part of economic life of the asset
    - Lessor recovers almost all of investment and earn a return
    - Leased assets are customized; of use only to the lessee
- Other indicators
    - Lessee absorbs lessor's losses if lessee cancels
    - Lessee assumes risk over amount of residual value
    - There is a bargain renewal option

- A S P E: one or more of the following criteria
    - Reasonable assurance lessee will take ownership (ownership transfers or B P O)
    - Lease term is 75% or more of asset's economic life
    - P V of minimum lease payments = or > 90% of fair value
- And, both revenue recognition criteria
    - Credit risk associated with the lease is normal
    - Un-reimbursable costs incurred by the lessor can be reasonably estimated

- If criteria are met, classified as a direct financing or a sales-type lease; if not, operating lease

Sales-type (A S P E) and manufacturer/dealer leases (I F R S)

- Includes manufacturer's or dealer's profit in the recovery amount from the lessee
- Profit (or loss) is the difference between fair value at beginning of the lease and the lessor's carrying amount
- Arise when manufacturers/dealers are marketing the product

Direct financing (A S P E) and financing (I F R S) leases

- Lessors are engaged mostly in financing operations
- Acquire specific assets for the lessee
- Objective is to earn interest income

1. The lease has a **five-year term** that begins January 1,2020, is non-cancellable, and requires equal **rental payments of $25,981.62** at the beginning of each year. Payments include **$2,000 of executory costs** (maintenance fee).
2. The equipment has a **cost and fair value of $100,000** to Lessor Corporation, an estimated **economic life of five years**, and **no residual value**. No initial direct costs are incurred in negotiating and closing the lease contract.
3. The lease contains no renewal options and the **equipment reverts to Lessor Corporation** at the end of the lease.
4. **Collectibility is reasonably assured and no additional costs** (with the exception of the maintenance fees being reimbursed by the lessee) are to be incurred by Lessor Corporation.
5. The interest rate implicit in the lease is 10%. Lessor Corporation set the annual lease payments to ensure a **10% return** on its investment, shown previously in Example 20.1.

Gross investment

1. The lease has a **five-year term** that begins January 1,2020, is non-cancellable, and requires equal **rental payments of $25,981.62** at the beginning of each year. Payments include **$2,000 of executory costs** (maintenance fee).
2. The equipment has a **cost and fair value of $100,000** to Lessor Corporation, an estimated **economic life of five years**, and **no residual value**. No initial direct costs are incurred in negotiating and closing the lease contract.
3. The lease contains no renewal options and the **equipment reverts to Lessor Corporation** at the end of the lease.
4. **Collectibility is reasonably assured and no additional costs** (with the exception of the maintenance fees being reimbursed by the lessee) are to be incurred by Lessor Corporation.
5. The interest rate implicit in the lease is 10%. Lessor Corporation set the annual lease payments to ensure a **10% return** on its investment, shown previously in Example 20.1.

Assume the lessor manufactured the asset, and it is in their finished goods inventory at a cost of $85,000. Regular selling price is $100,000.

Lessor Accounting: Residual Values and Purchase Options

Operating Lease

Sale-leaseback transaction