

Basic Illustration: Accounting for Leases: Lessor

The Smith Leasing Company leased equipment to Megahurtz Company on January 1, 20X6. The basic facts of the lease are as follows:

<	Equipment cost	\$37,968
<	Lease term	4 years
<	economic life of equipment	10 years
<	Lease transfers title to lessee at the end of the lease term	
<	Lease payments made at the end of each year	
<	Lessor desires a 12% return on the investment in the lease	

Is the lease a capital lease? Explain

What entry should the lessor make at the inception of the lease?

What entry should the lessor make at December 31, 20X6?

Prepare a lease amortization table for the Lessor

end of year	cash	lease payments receivable	unearned interest income	interest income	balance-unearned interest income	balance-lease payments receivable	net investment in lease
at inception of lease (January 1, 20X6)					\$ 12,032	\$ 50,000	\$ 37,968
20X6							
20X7							
20X8							
20X9							