

LEASE ACCOUNTING
COMPARISON OF GUARANTEED VS UNGUARANTEED RESIDUAL VALUES

ASSUMPTIONS:		
<	Sales type lease:	
<	Normal sales price	\$35,114
<	Lease term	4 years
<	Implicit interest rate	10%
<	residual value	\$ 5,000
<	Cost to manufacture	\$32,000

Step one: Compute the necessary payment for the lease. (hint: How many payments will the lessor receive?)

Residual value Unguaranteed _____

entry at inception of lease

1st lease payment: (12/31/X1)

Residual value Unguaranteed _____

entry at inception of lease

1st lease payment: (12/31/X1)

Lease Amortization Schedule

Year	Payment	interest	Recovery	net investment
	at inception of lease			\$ 35,114

Lessee's Accounting

Unguaranteed residual value

Guaranteed residual value

_____ at inception of lease:

_____ at inception of lease:

first payment

first payment

Lease Amortization Schedule
Unguaranteed residual value--Lessee

Year	Payment	Interest expense	obligation reduction	net investment
at inception of lease				\$31,699