

GASB 87

Lessors lease
accounting
example



Let's take as an example an 8-year office building lease. The first 2 years are at \$10,000 per month, and the rent increases to \$12,000 per month for the last 6 years. No services are provided to the lessee with the lease.

Additional assumptions:

The market value of the building is \$1,500,000. These types of buildings typically have an economic life of 50 years. The unguaranteed residual value of the asset is \$1,000,000. The lease is initiated and booked on July 1, 2022.

Given the unguaranteed residual value, fair value and the payment stream is known the Implicit Rate will be computed.

Office building lease



Under GASB 87, if you're the lessor, you need to record a lease receivable and deferred inflow of resources at the start of the lease. The lease receivable is measured as the present value of lease payments expected to be received by the lessor during the lease term. Deferred inflow of resources is measured as the amount of the lease receivable, plus lease payments received from the lessee at or before commencement that relate to future periods, less any lease incentives.

As the lessor, you will need to calculate the amortization of the discount on the lease receivable. Any payments received should be allocated first to the accrued interest receivable and then to the lease receivable. Deferred inflow of resources will be reduced in a systematic and rational manner over the lease term.

Account	Debit	Credit
Initial booking		
Current receivable	74,750.34	
Long term receivable	800,848.07	
Deferred inflow of resources		875,598.41
Finance lease rent payments		
Cash finance rent payment	10,000.00	
Current receivable		10,000.00
Reclassification of finance receivable from long-term to current		
Current receivable	6,061.50	
Long-term receivable		6,061.50

Account	Debit	Credit
Interest accrual		
Accrued interest	4,256.93	
Interest income		4,256.93
Lease income		
Deferred inflow of resources	9,120.82	

For this office building lease, the journal entries for month two's rent payment would be:

Account	Debit	Credit
Finance lease rent payment(s)		
Cash finance rent payment	10,000.00	
Current receivable		5,743.07
Accrued Interest		4,256.93
Reclassification of finance receivable from long-term to current		
Current receivable	6,091.32	
Long-term receivable		6,091.32

Account	Debit	Credit
Interest accrual		
Accrued interest	4,228.69	
Interest income		4,228.69
Lease income		
Deferred inflow of resources	9,120.81	
Lease revenue		9,120.81

To enter this lease in EZLease, follow these steps*:

- ✓ Enter a Lease Number or name.
- ✓ Enter a Begin Date of July 1, 2022.
- ✓ Double-click on the Base Term; in the box that appears, enter 96.
- ✓ If not already, displayed, click on the Main data tab, in the Rent Steps grid, enter Gross Rent of 10,000.
- ✓ Enter 6/30/2024 for Step End.
- ✓ Click on the line below where 10,000 was entered and enter 12,000.
- ✓ Enter a Current Economic Life of 600.
- ✓ Click on the Inception tab.
- ✓ Enter Fair Value of Building/Equipment of 1,500,000.
- ✓ Enter an Unguaranteed Residual of 1,000,000.
- ✓ Click Save Lease. All accounting has been computed. This will result in a Finance lease. Note the implicit rate has been computed.
- ✓ Try running some reports and booking a Journal Entry. Please see the video guide on how to run reports for further information.

* System settings are 6/30 Year End with a GASB 87 Implementation date of 7/1/2022.

EZLease provides fast, simple lease accounting and compliance software for ASC 842, GASB 87, GASB 96, and IFRS 16. For over 15 years, private, government and public organizations have relied on EZLease to manage and automate lease accounting for lessees and lessors across real estate and equipment assets, delivering customer-first support and deep accounting expertise. Learn more at: www.ezlease.com