GASB 87
Lessee lease accounting example

Copier lease

Let's take as an example a copier lease. The copier costs $8,000 to purchase new; the lessor is willing to lease it to you for 3 years at a price of $250 per month, paid at the beginning of each month, commencing on July 1, 2022. Of that, $41 is identified as the cost of maintenance. If you borrowed money for three years, you would have to pay 4% interest. If you bought the copier, you would normally depreciate it over 5 years. You have no initial direct costs; you also don't know if the lessor has any initial direct costs.

Buy copier

$8,000

to purchase new

If you bought the copier, you would normally depreciate it over 5 years

Lease copier

3 years

lease at a price of $250 per month

$41

maintenance cost per month

4%

interest

EZLease

The first month, there would be a right-of-use asset and a liability, a first rental payment, and accrual of interest and depreciation:

Sample finance lease journal entries, first month:

Account	Debit	Credit
Initial booking		
Right-of-use asset	7,102.59	
Current liability		2,289.69
Long-term liability		4,812.90
Monthly rent payment		
Current liability	209.00	
Non-lease component expense (maintenance)	41.00	
Cash finance rent payment		250.00

EZLease

Account	Debit	Credit
Interest accrual for first month		
Interest expense	22.98	
Accrued interest		22.98
Depreciation accrual for first month		
Depreciation expense	197.29	
Accumulated depreciation		197.29
Liability reclassification, long-term to current		
Long-term liability	192.95	
Current liability		192.95

Note: The first rental payment, since it is made on the first day of the lease, goes entirely into liability payment. The GASB 87 standard calls for setting up a different asset and liability, with the rent payment recognized as part of the initial setup of the lease, but the transactions above illustrate more clearly the activity involved. In following months, the interest accrued during the month is paid off by the rental payment, with the excess of rent over accrued interest going to principal (liability) reduction. In certain leases with scheduled rent increases, the rent paid may be less than the accrued interest. This results in an increase to the outstanding liability, known as negative principal amortization.

EZLease

For this copier lease, the journal entries for month two would be:

Account	Debit	Credit
Monthly rent payment		
Current liability	186.02	
Accrued interest	22.98	
Non-lease component expense (maintenance)	41.00	
Cash		250.00
Interest accrual for second month		
Interest expense	22.36	
Accrued interest		22.36
Depreciation accrual for second month		
Depreciation expense	197.29	
Accumulated depreciation		197.29
Liability reclassification, long-term to current		
Long-term liability	193.60	
Current liability		193.60

EZLease

Each month, the rent payment is booked in the manner shown above, depreciation and interest are accrued and expensed, and liability is reclassified from long-term to current. When the lease expires (or if it is terminated before its scheduled expiration date), the asset and liability are removed from the books, with a gain or loss recognized if the net asset and remaining liability are unequal. This is almost always the case if the lease is early terminated.

Under GASB 87, you have to disclose a maturity analysis of your future lease payments separately from other liabilities.

As of the end of year one, the disclosure would be:

The following is a schedule by years of minimum future payments on noncancelable finance leases as of June 30, 2023:

Account	
Year ending June 30	
2024	2,508
2025	2,508
Total lease payments required	5,016
Less amount representing interest	203
Present value of net minimum lease payments	4,813

Note: The table above only discloses payments associated with the lease component.

EZLease

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 36

- If not already, displayed, click on the Main data tab, in the Rent Steps grid, enter Gross Rent of 250

- Enter NL Comp #1 (nonlease component #1) of 41

- Enter a Current Economic Life of 60

- Click on the Inception tab

- Enter an Incremental Borrowing Rate of 4

- Enter Fair Value of Building/Equipment of 7000

- Click Save Lease. Note that the system automatically classified this as a Finance lease at a discount rate of 4%

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

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