UNIVERSITY of ALASKA
Many Traditions One Alaska

Accounting and Administrative Manual

Section 100: Accounting and Finance

Leases | Date: 01/27/06
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General:

Leases are accounted for in accordance with the principles established by the Financial Accounting Standards Board (FASB) Statement No. 13 and subsequent interpretations. Leases with a potential capitalizable value under $5,000 are excluded. Further guidance can be obtained from Statewide Fund Accounting.

Operating leases are recorded the same as a rental of property. An operating lease does *not* represent the purchase of an asset.

Capital leases, in substance, represent the purchase of a capital asset and the incurrence of a liability. Capital leases are recorded with special journal entries as per the attachment to this procedure.

A lease is considered a capital lease if the lease agreement meets **any** of the following conditions. All other leases are recorded as operating leases.

A. **The lease transfers ownership of the property to the lessee by the end of the lease term.** When a lease contains a transfer of title clause, the lease is presumed to be a sale by the lessor and a purchase by the lessee. Such leases are clearly installment sales of assets.

B. **The lease contains a bargain purchase option.** A bargain purchase option is a lease provision that allows the lessee to purchase the property at a price substantially lower than the expected fair market value of the property at the time the option becomes exercisable.

C. **The lease term is equal to 75% or more of the remaining estimated economic life of the property at the beginning of the lease term.** When a lessee acquires the use of a leased asset for most of its useful life, then in substance, a sale has taken place.

D. **The present value of the minimum lease payments at the inception of the lease is 90% or more of the fair market value of the leased asset.**

E. Conditions C and D are not applicable if the lease term begins within the last 25% of the life of the property.

Operating leases:

Operating lease payments are budgeted and recorded in the contractual services account code group.

Capital leases for which the present value of the minimum lease payments and the fair market value of the leased property at the inception of the lease are less than $100,000 are recorded as operating leases.

Generally, routine lease finance arrangements for equipment and property, such as copiers, that include a purchase and maintenance component are recorded as an operating lease.

Capital leases:

Unrestricted funds:

Capital lease payments are budgeted and recorded under the account code for mandatory transfer (8451).

Plant funds:

Statewide Fund Accounting is responsible for recording all plant fund activity.

Capital leases are recorded as an asset and a liability at an amount equal to the lower of the present value of the minimum lease payments or the fair market value of the leased property.

Annually, the amount of the lease payments is allocated to principal and interest based on a constant interest rate calculation and recorded in the retirement of indebtedness fund.

Annually, the liability recorded in the investment in plant fund is reduced by an amount equal to the portion of the lease payments allocated to principal.

A-10: Attachment

	Accounting for Capital Leases:		Debit	Credit
1)	804010- -0910	Fund balance	100,000	
	804010- -0848	Lease liability		100,000

UAA enters into capital lease agreement to purchase equipment. $100,000 represents total principal to be paid under the lease agreement. (Entry done by SW Fund Accounting)

			Debit	Credit
2)	804010- -0504	Equipment	100,000	
	804010- -0910	Fund balance		100,000

To capitalize equipment. (Assume no down pmt) (Entry done by SW through year end capitalization process)

			Debit	Credit
3)	104110-xxxxx-8451	Mandatory transfer out	14,000	
	ACHK-0030	Cash		14,000

Entry done by campus to record lease payment.

			Debit	Credit
4)	6041xx-xxxxx-8341	Interest expense	8,000	
	6041xx-xxxxx-8342	Principal reduction	6,000	
	6041xx-xxxxx-8451	Mandatory transfer in		14,000
	804010- -0848	Lease liability	6,000	
	804010- -0910	Fund balance		6,000

Entries done by SW to record other side of 8451 and the reduction of liability.