

**FASB Statement 13 Accounting for Leases  
Tests Used in the Classification of a Lease for  
Capital or Operating Treatment**

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_  
Reviewed by: \_\_\_\_\_ Date: \_\_\_\_\_

**PURPOSE**

The purpose of this checklist and worksheet is to aid in determining if a lease agreement should be recorded as an operating or capital lease.

**BACKGROUND:**

The Financial Accounting Standards Board (FASB) established principles for lease accounting in its Statement 13, *Accounting for Leases*, and its numerous amendments. These statements specify the appropriate accounting for leases through their classification as either capital or operating.

To be an Operating Lease the transaction must pass all four criteria. A capital lease must meet one or more of the following criteria:

1. The lease transfers ownership of the property to the lessee by the end of the lease term
2. The lease contains a bargain purchase option
3. The lease term is equal to 75% or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
4. The present value of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90% of the excess of the fair value of the leased property to the lessor.

**CHECKLIST**

Obtain lease agreement for review, both Master Lease and Schedule	_____
Complete 'ownership' tab to test condition #1 and #2:	
Condition #1	<u>Possibly Operating</u>
Condition #2	<u>Possibly Operating</u>
IF RESULT IS 'POSSIBLY OPERATING', THEN:	
Complete 'Term' tab to test condition #3	<u>Possibly Operating</u>
IF RESULT IS 'POSSIBLY OPERATING', THEN:	
Complete 'PVMinimum' tab to test condition #4	<u>Capital</u>
IF CAPITAL AT ANY TIME, THEN:	
Record at the lower of the PV of the minimum lease payments or the fair value of the equipment.	_____
Calculate an offsetting obligation amortization schedule using the payments and value, solving for the implicit interest rate.	_____
Draft journal entries for the Corporate Controller to review	_____
IF OPERATING:	
Calculate total rent expense for the life of the contract	_____
Divide by number of months and book this amount as expense	_____
Differential between what was paid and expensed booked to deferred rental account	_____