

**LEASE ACCOUNTING**  
**COMPARISON OF GUARANTEED VS UNGUARANTEED RESIDUAL VALUES**

<b>ASSUMPTIONS:</b>	
▶ 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?)

<i>Residual value Unguaranteed</i>	<i>Residual value Unguaranteed</i>
entry at inception of lease	entry at inception of lease
Receipt of first lease payment: (12/31/X1)	Receipt of first lease payment: (12/31/X1)

**Lease amortization schedule**  
**Sales type lease**

Year	Cash	Receivable	unearned interest	Interest income	Balance- Receivable	balance- Unearned interest	net investment
inception of lease					\$ 45,000	\$ 9,886	\$ 35,114
1							
2							
3							
4							

Lessor's Accounting to Dispose of the Leased Asset:

Unguaranteed residual value:	Guaranteed residual value:
<i>Assume asset sold at end of lease for \$3,000:</i>	<i>Assume asset sold at end of lease for \$3,000:</i>
<i>Assume asset sold at end of lease for \$6,000:</i>	<i>Assume asset sold at end of lease for \$6,000:</i>

## Guaranteed vs. Unguaranteed Residual Values Lessee's Accounting

<i>Residual value Unguaranteed</i>	<i>Residual value Unguaranteed</i>
<i>entry at inception of lease</i>	<i>entry at inception of lease</i>
<i>1st lease payment: (12/31/X1)</i>	<i>1st lease payment: (12/31/X1)</i>

### Lease Amortization Schedule Unguaranteed residual value--Lessee

Year	Payment	Interest expense	obligation reduction	net obligation
at inception of lease				\$31,699
1				
2				
3				
4				

### Lease Amortization Schedule Guaranteed residual value--Lessee

Year	Payment	Interest expense	obligation reduction	net obligation
at inception of lease				\$35,114
1				
2				
3				
4				

Lessee's Accounting When the Leased Asset is Disposed:

Unguaranteed residual value:	Guaranteed residual value:
<i>Assume asset sold at end of lease for \$3,000:</i>	<i>Assume asset sold at end of lease for \$3,000:</i>
<i>Assume asset sold at end of lease for \$6,000:</i>	<i>Assume asset sold at end of lease for \$6,000:</i>