Lease Accounting Decision Tree for Lessees

For assets leased from a non-state agency.

Does the contract extend past 6/30/2021?

YES

Is the lease for an asset excluded from the scope of GASB 87? (see scope guide)

YES

Follow applicable accounting treatment.

NO

Is the lease for an asset excluded from the scope of GASB 87? (see scope guide)

NO

No further analysis is needed. Record an expense as payments are made.

Will the state own the asset at the end of the lease term?

YES

Does the lessee have control of the right to use the asset?

YES

Record as a Financed Purchase.

NO

Does the lessee have control of the right to use the asset?

NO

Record an expense as payments are made.

Does the maximum lease term greater than 12 months?

YES

Does the lease have any fixed or fixed in-substance lease payments?

YES

Do the lease payments meet the criteria for an exchange or exchange-like transaction?

YES

Record as a Financed Purchase.

NO

Record an expense as payments are made.

NO

This is a short-term lease. Record an expense as payments are made.

NO

Record an expense as payments are made.

NO

Record an expense as payments are made.

NO

Input lease contract information into the GASB 87 Lessee Template on the SCO webpage: https://sco.ca.gov/ard_reporting.htm.

No

Input lease contract information into the FI$Cal Lease Administration module.

Does the lease have total future payments of $100,000 or more?

YES

This qualifies for GASB 87 accounting treatment. Does your department use the FI$Cal accounting system?

NO

Record as an expense as payments are made.

NO

Record as an expense as payments are made.

NO

Record as an expense as payments are made.

NO

Input lease contract information into the FI$Cal Lease Administration module.

Prepared by: SCO – SARD

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1 A contract conveys control of the right to use the asset when the lessee is provided both
   1. The right to determine the nature and manner of use of the asset, and
   2. The right to obtain service level capacity from use of the asset

2 Maximum lease term is the period a lessee has a non-cancelable right to use the asset from July 1, 2021, plus a lessee or lessor’s option to:
   - Extend the lease if it is reasonably certain the option will be exercised or
   - Terminate the lease if it is reasonable certain that the option will not be exercised.
   
   Caution: Periods where BOTH lessee and lessor have option to terminate or extend without permission of other party are excluded from lease term.

3 Fixed payments are established as specific dollar amounts in the lease contract, and the lessee is obligated to make them. Fixed in substance payments are minimum guarantee amounts or portions of variable payments that can be reliably measured because they are not dependent upon events or transactions that have not occurred. For example, if an equipment lease requires a payment of $100 per hour with a monthly minimum payment of $10,000, the fixed monthly minimum payment of $10,000 is considered as a fixed in-substance payment.
   - Include both fixed payments and fixed in-substance payments in calculating the liability (lessee) or receivable (lessor) arising from the lease. Other factors that may be part of a fixed or fixed in substance payment stream, may include, but not limited to:
     - Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term,
     - Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
     - The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option

4 Calculate using the total future lease payments from July 1, 2021 or the date the lease begins if after July 1, 2021, to the end of the lease term described in footnote 2 above.

5 Non-FI$Cal Departments that did not procure third-party software for GASB 87 accounting, may use the “GASB 87 Lessee Template” Excel Workbook at the SCO website: https://sco.ca.gov/ard_reporting.html.

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6 Financed Purchases are contracts that transfer ownership of the underlying asset to the purchaser by the end of the contract and does not contain termination options. The presence of any purchase option does not constitute a transfer of ownership regardless of the likelihood it will be exercised. Please refer to the GASB 87 Departmental Implementation and Business Process for further guidance and SAM sections 8602 and 8632 for capital asset reporting.

7 In an exchange transaction the lessee receives and gives up essentially equal values. In a nonexchange transaction, a government receives value (leased asset) without directly giving equal value in return (e.g., nominal rent payment).