Lease Accounting Decision Tree for Lessors

For assets leased to 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**
      - Record revenue as payments are received.
    - **NO**
      - No further analysis is needed. Record revenue as payments are received.
  - **NO**
    - Will the lessee own the asset at the end of the lease term?
      - **YES**
        - Record as a Financed Sale
      - **NO**
        - Does the lessee have control of the right to use the asset?
          - **YES**
            - Is 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 receipts meet the criteria for an exchange or exchange-like transaction?
                      - **YES**
                        - Input lease contract information into the GASB 87 Lessor Template on the SCO webpage: https://sco.ca.gov/ard_reporting.htm.
                      - **NO**
                        - Record revenue as payments are received.
                  - **NO**
                    - Does the lease have total future receipt of $100,000 or more?
                      - **YES**
                        - Record revenue as payments are received.
                      - **NO**
                        - This is a short-term lease. Record revenue as payments are received.
          - **NO**
            - Record revenue as payments are received.

- **NO**
  - This is a short-term lease. Record revenue as payments are received.

Prepared by: SCO – SARD

Updated 12/17/2021
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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 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.

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.

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

6 Financed Sales 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.

7 In an exchange transaction the lessor receives and gives up essentially equal values. In a non-exchange transaction,
   a government gives value without directly receiving equal value in return.