Week 3 Summary

Please post your Weekly Summary here. It needs to be a summary of what you learned, liked or disliked etc. Needs to be in your own words in order to earn points. Thanks

Response #1

I learned the definition and difference between a capital lease and an operating lease. A capital lease is an agreement that the lesse acquires an asset by the lessor financing. An operating lease is a lease that is more like a rental agreement between the lessor and lessee. There are four different criteria for a lease to be classified a capital lease, if a lease meets any one of the four it can be called a capital lease. If a lease does not match any four of the criteria then it is classified as an operrating lease. To be classified as a sales-type or direct financing lease it must meet one of the four criteria plus two more criteria. For operating leases, a lessee must provide disclosures which include the lease terms in excess of one year, rental expense for each period, and a general description of the lease arrangements. The disclosures requirements for lesser depend on which type of lease it is. Sales-type and direct financing leases require different disclosures.

Response #2

Week three was very informative! The first discussion question was: Describe how an operating lease would be accounted for by the lessee both at the inception of the lease and during the first year of the lease, assuming the lessee makes equal monthly payments at the beginning of each month of the lease. Describe the change in accounting, if any, when rental payments are not made on a straight-line basis. After research I under an operating lease, the lessee records rent expense (debit) over the lease term, and a credit to either cash or rent payable. If an operating lease has scheduled changes in rent, normally the rent must be expensed on a straight-line basis over its life, with a deferred liability or asset reported on the balance sheet for the difference between expense and cash outlay. Under an operating lease, the lessor records rent revenue (credit) and a corresponding debit to either cash/rent receivable. The asset remains on the lessor's books as an owned asset, and the lessor records

depreciation expense over the life of the asset (http://en.wikipedia.org/wiki/Accounting_for_leases_in_the_United_States).

The second discussion question was to determine the classification of two different situations with a bargain purchase. I concluded that both situations was capital leases because both meet the basic criteria for capital lease. We had one individual assignment and one learning team discussions.

Response #3

For week three was important identify the types of lease that exists in the businesses. The companies acquire properties by financial funds, A good recorder of the operations can help to the companies can know what really they have. Efficient financial information helps to determine the value of the business.

Operating lease is a rental agreement and obligates to make payments. The rent payments are an expense.

Capital lease transfers all the benefits and risk of the asset.

Under SFAS 13 requires a lessee enter in a capital lease agreement to record the asset and liability at lower of the sum of the present value of the minimum lease payments, and the fair value at the inception of the lease.

Response #4

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Response #5

I enjoyed this week, I really like the idea of our teams discussing certain areas, whether they like it or dislike it. For me it gives me a different view of a subject which I may not think of. Still working on Capital leases and Operating leases, which I have some experience with Capital leases in a company I worked for. The business is in agriculture so there is a lot of room for Capital leases, in this business never had the experience with Operating leases.