Lease Accounting Decision Tree for Lessees and Lessors

For assets leased from a non-state agency.

Does the contract extend past 6/30/2022?

YES

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

NO

No further analysis is needed.

YES

Record an expense as payments are made

NO

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

YES

Enter "Yes" in column D and complete columns I & K–V of the GASB 87 Pre-implementation Workbook.

NO

Record an expense as payments are made.

YES

Is the maximum lease term greater than 12 months?

NO

Record an expense as payments are made.

YES

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

NO

Record an expense as payments are made.

YES

Are the lease payments significantly lower than the ongoing fair market value of a similar lease?

NO

Record an expense as payments are made.

YES

This qualifies for GASB 87 accounting treatment. Be sure to complete all columns of the GASB 87 Pre-implementation Workbook.

NO

Record an expense as payments are made.

1A 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

2Period a lessee has a non-cancelable right to use the asset, plus a lessee or lessor’s option to extend, regardless of the probability of being exercised.

• Do not count towards the maximum lease term any months where either the lessee or lessor can cancel the contract.

3Fixed 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.