

Handout Problem No. F-280 (continued, p. 2)

Number 4(b)

On January 2, 1992, Elsee Co. leased equipment from Grant, Inc. Lease payments are \$100,000, payable annually every December 31, for twenty years. Title to the equipment passes to Elsee at the end of the lease term. The lease is noncancelable.

Additional facts:

1. The equipment has a \$750,000 carrying amount on Grant's books. Its estimated economic life was 25 years on January 2, 1992.
2. The rate implicit in the lease, which is known to Elsee, is 10%. Elsee's incremental borrowing rate is 12%.
3. Elsee uses the straight-line method of depreciation.

The rounded present value factors of an ordinary annuity for 20 years are as follows:

12%	7.5
10%	8.5

Required:

Prepare the necessary journal entries, without explanations, to be recorded by Elsee for:

1. entering into the lease on January 2, 1992.
2. making the lease payment on December 31, 1992.
3. expenses related to the lease for the year ended December 31, 1992.

Show supporting calculations for all entries.