

**Basic Illustration:
Accounting for Leases: Lessee**

The Megahurtz Company leased equipment from Smith Leasing Company on January 1, 20X6. The basic facts of the lease are as follows:

<	Lease payments	\$12,500
<	Lease term	4 years
<	economic life of equipment	10 years
<	Lease transfers title to lessee at the end of the lease term	
<	Lease payments made at the end of each year	

Is the lease a capital lease? Explain

What entry should the lessee make at the inception of the lease?

What entry should the lessee make at December 31, 20X6?

Prepare a lease amortization table for the Lessee

end of year	cash	interest expense	lease obligation	lease obligation balance
at inception of lease (January 1, 20X6)				
20X6				
20X7				
20X8				
20X9				