

ILLUSTRATIONS OF REAL ESTATE LEASES

EXAMPLE (1)

<u>Fair value</u>	
Land	\$ 40,000
Building	<u>60,000</u>
	<u>\$100,000</u>

*Minimum lease payment \$ 26,380
 *lease term 5 yrs
 *implicit rate 12%
 *useful life 10 yrs
 *lease transfers title to lessee

EXAMPLE (3):

(same as (2) except interest rate is 15%)

<u>Fair value</u>	
Land	\$ 20,000
Building	<u>80,000</u>
	<u>\$100,000</u>

*Minimum lease payment \$ 26,380
 *lease term 5 yrs
 *implicit rate 15%
 *useful life 10 yrs
 *Criterion (a) or (b) is not met

EXAMPLE (2)

<u>Fair value</u>	
Land	\$ 20,000
Building	<u>80,000</u>
	<u>\$100,000</u>

*Minimum lease payment \$ 26,380
 *lease term 5 yrs
 *implicit rate 12%
 *useful life 10 yrs
 *Criterion (a) or (b) is not met

EXAMPLE (4)

<u>Fair value</u>	
Land	\$ 30,000
Building	<u>70,000</u>
	<u>\$100,000</u>

*Minimum lease payment \$ 26,380
 *lease term 5 yrs
 *implicit rate 12%
 *useful life 10 yrs
 *Criterion (a) or (b) is not met