

## Illustrative Example 2- New Lease

Specialty contractor enters into a three-year contract effective January 1, 2022 for the use of four bulldozers and agrees to make the following escalating annual payments.

**Year one:       \$ 80,000**

**Year two:       \$ 140,000**

**Year three:     \$ 180,000**

The initial amount of the right-of-use (ROU) asset and liability to make lease payments is \$360,188 at a discount rate of 4.8%.

### **Journal Entry Year One:**

	Dr.	Cr.
Operating right-of-use asset	\$ 360,188	
Operating current liability		\$ 62,711
Operating long term liability		\$ 297,477
<i>Setup of operating lease</i>		
Operating current liability	\$ 62,711	
Operating lease cost	\$ 133,333	
Operating accumulated depreciation		\$ 116,044
Cash operating rent payment		\$ 80,000
<i>Operating expense accrual and payment</i>		
Operating long term liability	\$ 125,721	
Operating current liability		\$ 125,721
<i>Reclassification of operating liability from long term to current</i>		

### **Journal Entry Year Two:**

Operating current liability	\$ 125,721	
Operating lease cost	\$ 133,333	
Operating accumulated depreciation		\$ 119,054
Cash operating rent payment		\$ 140,000
<i>Operating expense accrual and payment</i>		
Operating long term liability	\$ 171,756	
Operating current liability		\$ 171,756
<i>Reclassification of operating liability from long term to current</i>		

### **Journal Entry Year Three:**

Operating current liability	\$ 171,756	
Operating lease cost	\$ 133,333	
Operating accumulated depreciation		\$ 125,089
Cash operating rent payment		\$ 180,000
<i>Operating expense accrual and payment</i>		
Operating accumulated depreciation	\$ 360,188	
Operating right-of-use asset		\$ 360,188
<i>Normal termination of operating lease.</i>		