

SAM – PROPERTY ACCOUNTING

INSTALLMENT PURCHASE/CAPITAL LEASE CONTRACTS

8632

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1. INSTALLMENT PURCHASE CONTRACTS

Installment purchase contracts are agreements with vendors to acquire property in exchange for a commitment to make specified future payments. The capitalized cost of these assets should exclude any interest, maintenance or other operating costs. To determine the amount to be capitalized see Capital Lease (Lease-Purchase) Contracts below.

2. CAPITAL LEASE (LEASE-PURCHASE) CONTRACTS

A capital lease (lease-purchase) results when the contractual agreement with the lessor results in a transaction which is in substance an installment purchase. If a lease meets any one of the four following conditions it is considered to be a capital lease:

1. Ownership of the leased asset is transferred to the lessee at the end of the lease period.
2. The lease gives the lessee the option of purchasing the leased asset at less than fair value (bargaining purchase option) at some point during or at the end of the lease period.
3. The period of the lease is 75% or more of the estimated useful life of the leased asset.
4. The present value of the minimum lease payments is 90% or more of the fair value of the leased asset.

A capital asset acquired by a capital lease is accounted for as if an asset was purchased at the inception of the lease. The capitalized amount of the capital asset should be the lesser of the fair value or the discounted present value of the lease payments excluding any maintenance or other operating costs. The appropriate discount rate to use to compute the present value of the lease payments is the prior fiscal year Pooled Money Investment Account rate.

For those funds required to compute depreciation expense on their funds' capital assets, the depreciation expense should be computed over the estimated useful life of the asset rather than the lease period.