CHAPTER 12

CAPITAL LEASES PAYABLE

1201 GENERAL

120101 Purpose. This chapter prescribes the accounting principles and policy to be followed by DoD Components to account for liabilities associated with capital leases.

120102 Overview. Unless otherwise provided by legislation, DoD Components are not authorized to enter into capital leases. Accordingly, agreements to lease real estate and personal property are limited to current year operating requirements.

1202 ACCOUNTING POLICY FOR CAPITAL LEASE LIABILITIES

120201 DoD Components authorized to enter into capital lease agreements shall treat the transaction as the acquisition of an asset and the incurrence of a liability. The asset shall be recorded at its fair market value, with a like amount shown in the liabilities section of the general ledger.

1203 ACCOUNTING FOR CAPITAL LEASE LIABILITIES

120301 The following account shall be used to record the DoD Component’s liability for capital leases.

120302 Capital Lease Liability (Account 2940)

A. "Capital Lease Liability" is used to record the liability incurred for capital leases entered into pursuant to legislative authority.

B. Table 12-1 illustrates the most common entries used for this account.

C. Sources for entries to this account include lease agreements and disbursing vouchers.

ACCOUNTING ENTRIES FOR ACCOUNT 2940 - CAPITAL LEASE LIABILITY

1. Dr 1730 Buildings
   Dr 1740 Other Structures and Facilities
   Dr 1762 Equipment in Use
   Cr 2940 Capital Lease Liability

   To record the value of leased property.

2. Dr 2940 Capital Lease Liability
   Dr 6330 Other Interest Expenses
   Cr 1012 Funds Disbursed

   To record payments on capital leases.

TABLE 12-1
# Capital Lease Liability

**ACCOUNT NO. 2940**

**CAPITAL LEASE LIABILITY**

**DESCRIPTION:** Represents the liability for capital leases which have not expired.

<table>
<thead>
<tr>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Record lease payments.</td>
<td>1. Record the value of leased property.</td>
</tr>
<tr>
<td>Contra: 1012</td>
<td>Contra: 1730, 1740, 1762</td>
</tr>
</tbody>
</table>

**NORMAL BALANCE:** CREDIT

**FIGURE 12-1**