

CHAPTER 12

CAPITAL LEASES PAYABLE1201 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.

120202 Chapter 7 of this Volume provides guidance for determining whether a lease is a capital lease or an operating lease and for determining the amounts to be recorded as a capital lease liability.

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

ACCOUNT NO. 2940	
CAPITAL LEASE LIABILITY	
DESCRIPTION: Represents the liability for capital leases which have not expired.	
DEBIT	CREDIT
<p>1. Record lease payments.</p> <p>Contra: 1012</p>	<p>1. Record the value of leased property.</p> <p>Contra: 1730 1740 1762</p>
<p>NORMAL BALANCE: CREDIT</p>	
<p>FIGURE 12-1</p>	