

Case study on codification for the bank

[Finance](#), [Investment](#)



The x-ray machine has a useful life of eight years and will be used for five years. In addition to that, the machine does not have a bargain purchase offer. In addition, the title of the equipment does not pass automatically to the lessee at the end of the lease term. The term of the lease is 62.5% of its useful life. The present value of the lease payments is 1.4% of the fair market value of the machine. In that case, it is not capital lease equipment (Epstein et al, 2009).

The IT network has a useful life of seven years, and it is in use for four years. The present value of the lease payments is 94.6% of the fair market value of the machine. This is more than the 90% required to make it a capital lease. Therefore, it is a capital lease.

The office building has a constant value, has no bargain purchase option, and is used for less than 12 years. 12 years constitute 75% of its useful life. In addition, the present value of the lease payments is 88.5% of the fair market value of the machine. This is less than the 90% required to make it a capital lease. In such a case, it is an operating lease.

The sublet lease lasts for three years, but the office building has a useful life of 16 years. This is less than the 75% requirement for capital leases. The term of the lease is 18.75% of its useful life. The present value of the lease payments is 3.3% of the fair market value of the machine. This is less than the 90% required making it a capital lease. It is an operating lease.

Effects of this lease plan on assets and liabilities:

The IT network will have a direct effect on the organization's assets and liabilities since it will be recorded as a capital assets. This would lead to a

decrease in the clinics working capital. On the other hand, the debt/equity ratio will increase putting the clinic at a better bargaining position.

Since the other leases are all operating leases, they have no effects on the assets and liabilities. This is mainly because it does not affect the balance sheet. This is many because no assets or liabilities are recorded in the balance sheet. The lease affects income statements and cash flow statements. Income statements will be recorded as operational expenses as well as lease payments will be included in the cash flow statements.

Conclusion and recommendation to reduce expenses:

The net lease expenses are far more than the projected 120000\$. The lessee should consider reducing the lease period for the office space because that will not affect the lease codification (Kieso et al, 2012). The reduction of the overall lease agreement to three years would save an amount of 423576\$. Executor costs lower the lease cost by 28800\$. This would lower the overall cost to 358992\$. If the lessee decided to revoke the IT network lease, he would save 240408\$ bringing the cost down to 211962\$.

Depreciation of X-ray machine for three years at the ruling rate: At 300000 – 15000 = 285000 for a life of 8 years, $285000/8 = 35625$. For three years operating lease: $35625 \times 3 = 106875$. The saving would reduce the net lease expense to 105087\$.

Works Cited:

Epstein, Barry J, Ralph Nach, and Steven M. Bragg. Wiley Gaap Codification Enhanced. Hoboken, NJ: John Wiley & Sons, 2009. Print.

Kieso, Donald E, Jerry J. Weygandt, and Terry D. Warfield. Intermediate Accounting: 0. Hoboken, N. J: John wiley & sons, 2012. Print.