

15.514 SUMMER 2003

SESSION 15

LEASES

Objectives

1. Understand the rationale for leasing, and the distinction between operating and capital leases
2. Understand the Income Statement and Balance Sheet differences between operating and capital leases. (Note: we will focus on accounting from the lessee's perspective, not the lessor.)

Game Plan & Class Pedagogy

Lecture and directed discussion.

Reading Assignment

Pratt: Chapter 11, p. 484 to end, review Appendix B "The Time Value of Money" (p. 689+)

Class Preparation Questions

1. What are the operational and the financial advantages to a company to lease as oppose to purchase PP&E? What are some disadvantages?
2. What are the advantages and disadvantages of accounting for a lease as an operating lease versus a capital lease?
3. What are the accounting criteria for a capital lease?
4. Does Intel lease its PP&E under capital leases or operating leases? What was Intel's lease expense in 2001? What is Intel's minimum commitment under all its non-cancelable leases in 2002?

Optional Problems

E11-8, E11-5, P11-15, ID11-6