July 2, 2015

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: Lease Accounting Project

Dear Sue:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to provide its views to the Financial Accounting Standards Board (FASB or Board) on its tentative decisions to date on the lease accounting project.

The IMA is a global association representing more than 75,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. Information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

We continue to support the Board's decision to reconsider the accounting for leases and believe that lessees should reflect an asset and a liability for substantially all leases. We also continue to support convergence with the International Accounting Standards Board (IASB), but recognize it is unlikely that convergence is achievable at this point given the IASB's decisions on lessee accounting. We do not agree with the IASB's decision to require the same accounting for leases and in-substance purchases of assets, nor do we agree with the IASB's subsequent decision to exclude a potentially material population of leases – namely, small-ticket leases – from the scope of the final standard. We believe the latter decision is fundamentally inconsistent with the objective of the project.

While we generally support the FASB's conclusions on the leases project, we have comments on the following topics:

- Definition of a lease
- Lease classification criteria
- Initial direct costs
- Executory costs
- Lease modifications/extensions
- Foreign currency transactions
- Business combinations
- Sale-leaseback transactions
- Sublease arrangements

- Disclosures
- Transition

In addition, we reiterate the issues regarding lessor accounting identified in our April 18, 2014 letter. We note that the Board did not address those issues in its redeliberations. We remain concerned with the potential for lessor accounting that is inconsistent with the accounting under ASC 606.

Definition of a Lease

The Board has decided that a lease exists when the use of an asset is explicitly or implicitly specified and the customer controls the use of the identified asset. The Board has decided that a customer controls the use of the identified asset if it has the right to direct the use of the asset and obtain substantially all of the economic benefits from directing the use of the asset.

Identification of an asset
The Board has indicated that an agreement that provides a customer with control over a portion of an asset's capacity would not be a lease unless the asset over which the customer has control is physically distinct from the remaining capacity of the asset. The Board's tentative conclusion would result in arrangements in which one party has control over 50% of a power plant with a single turbine not qualifying as a lease. We disagree with the decision that an undivided interest in a larger asset cannot qualify as a leased asset. We note that it is not uncommon for companies (in particular, utilities) to acquire ownership in an undivided interest in an asset. When those joint ownership arrangements are not subject to joint control, the holder of the joint interest accounts for the investment as part of its property, plant and equipment. If a company can purchase an undivided interest in an asset, we see no conceptual basis to conclude that the use of the same undivided interest cannot be acquired through a lease. If the Board retains this arbitrary conclusion, it will only encourage companies to structure transactions that give them control over undivided interests in assets but allow them to avoid recognizing a liability for the obligation to pay for those assets.

Right to control the use of the identified asset
We are concerned with the Board's decision to change the criteria for qualifying as a lease from ASC 840 and believe the approach taken by the Board will result in significant implementation issues that, if not addressed, could lead to diversity in practice. The Board has decided that a customer has the right to control the use of an identified asset if it has the right to direct the use of the asset. A customer has the right to control the use of an asset when it has the right to direct how and for what purpose the asset is used, including the right to change how and for what purpose the asset is used. If neither the customer nor the supplier controls how and for what purpose the asset is used, the customer has the right to direct the use of the asset if it has the right to operate the asset or direct others to operate the asset in a manner that it determines or the customer designed the asset, or caused the asset to be designed, in a way that predetermines how and for what purpose the asset will be used or how the asset will be operated. We have the following questions regarding the proposed guidance.

- Lease agreements generally prohibit lessees from making significant modifications to the leased asset. Further, the nature of assets often determines for what purpose the asset is used. How important is the right to change how and for what purpose the asset is used in reaching a conclusion that an agreement is a lease? If that right is considered significant, wouldn't a provision restricting the

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customer from changing the form or function of an asset automatically result in a situation where the agreement would not qualify as a lease? We hope not as that would allow parties to insert a non-substantive provision in an agreement that would otherwise qualify as a lease to avoid accounting for the arrangement as a lease.

- What does it mean to "operate the asset or direct others to operate the asset"? We understood that the Board is attempting to avoid a situation where the decision on whether an agreement qualifies as a lease rests on identifying which party has the right to "turn the knobs and flip the switches" on an identified asset. Paragraph 32 of FASB Memo 299 states:

> "The staff think that the decisions about how and for what purpose an asset is used are more important than other decisions to be made about use, including decisions about operations and maintenance."

We agree with the staff view, but think the Board needs to provide examples that allow preparers and auditors to distinguish between situations where an owner/operator is effectively making decisions only about operations and maintenance and where the owner/operator is making decisions about how and for what purpose the asset is used. How should the parties assess an agreement that requires the owner/operator to operate an asset in accordance with prudent operating practices but prevents the owner/operator from operating the asset unless the customer has requested it and stipulates the times when maintenance can be performed? Is it important to the determination that the owner/operator could operate the asset in multiple ways and can change how it operates the asset to increase efficiencies? We do not believe the examples in FASB Memo 299 are sufficient to explain the differences between making decisions about how and for what purpose the asset is used and making decisions that are presumably not important to the operation of the asset. For the most part, the conclusions to those examples were straight-forward and would not have been different had the guidance in ASC 840 been applied. If the Board decides to retain the examples from FASB Memo 299 in the final standard, we have the following suggested changes.

- Example 1 – Retail Unit – It is unlikely Supplier would allow Customer to decide how much of Retail Unit A could be used for storage and how much could be used for sales, particularly if, like most retail agreements, Supplier is entitled to a percentage of sales. We do not believe that should change the answer that the agreement is a lease.
- Example 4 – Specialized Equipment – If the equipment is specialized, it likely only produces a single product. Accordingly, we are confused by the comment that Customer has the right to decide what it produces. If the identified asset in an arrangement is only capable of producing a single product and the agreement prohibits the customer from making any substantive modifications to the form or function of the asset, how would that affect the conclusion that the contract contains a lease? We do not believe either factor should change the conclusion because Customer has the right to decide when the asset will operate, similar to the conclusion on Example 6.

We would also encourage the Board to add examples for arrangements such as power purchase agreements (of which there are many variations, from agreements where the purchaser makes a fixed monthly payment for capacity and determines when the facility will operate to agreements where the purchaser pays for electricity if the facility is operating but has no fixed obligation).

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- Should an arrangement in which a supplier agrees to construct a new asset to supply a particular customer lead to a conclusion that the "customer designed the asset, or caused the asset to be designed, in a way that predetermines how and for what purpose the asset will be used or how the asset will be operated"? An example of a common arrangement that likely qualifies as a lease under ASC 840 is one in which a supplier of industrial gases constructs a facility to supply gases to a manufacturing customer. Since it is unlikely that the facility could economically supply any other customer, it would appear that the customer "caused the asset to be designed … in a way that predetermines how and for what purpose the asset will be used", even though the design of the asset may be the same as facilities the supplier operates in other locations. If that is not the case, we believe the Board should clarify how that condition should be applied.

We understand the Board developed its revised definition of a lease to exclude arrangements where the customer controls the output from an asset from qualifying as leases. We note that the conclusions to all of the examples, including Example 7, in FASB Memo 299 would be the same under ASC 840 as under the proposed criteria. We question what agreements the Board would expect to be treated differently under the new standard. While there are aspects to the existing guidance that could be improved (particularly the conditions relating to pricing), we believe such guidance identified arrangements where the customer controlled an asset through control of the asset's output, which provided the customer with the right to the asset's economic benefits. We are concerned that arrangements where the right to operate an asset is not substantive (because there are not that many possible ways of operating the asset or because the customer has specified when the asset needs to be available to supply the output) will override the fact that the customer has the substantive risks and rewards associated with the operation of the asset (i.e., because it takes the output of the asset and either sells that output at a profit or loss or incorporates the output into another asset that it sells at a profit or loss).

Lease Classification Criteria

The Board has tentatively decided to replace the lease classification criteria in ASC 840 with the criteria from IAS 17 *Leases*. We recommend that the Board retain, but supplement, the criteria in ASC 840.

We believe retaining the present criteria in ASC 840 is necessary to protect companies from the second-guessing over lease classification decisions that will inevitably arise if the final standard includes the classification criteria from IAS 17. While the criteria in IAS 17 are principles-based, companies applying US GAAP operate in an environment where second-guessing by auditors, regulators and plaintiffs is common. Further, we understand that many companies following IFRS have elected to interpret the economic life and present value criteria in IAS 17 in a manner consistent with ASC 840 to make those criteria operational.

The only change we recommend making to the ASC 840 criteria is the addition of the indicators in paragraph 11 of IAS 17. With those indicators, a lessee would be required to classify a lease under which it has provided a residual value guarantee and has a fixed price purchase option (i.e., a synthetic or TRAC lease) as a Type A lease, regardless of whether the present value of the minimum lease payments is 90% or more of the fair value of the leased asset. We believe that is the appropriate outcome.

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Initial Direct Costs

We understand that the Board has decided that a lessor should apply the guidance in ASC 340-40 to determine what costs it should defer. We believe that decision will result in inconsistent accounting for loans and financing (Type A) leases where the carrying amount of the leased asset is equal to its fair value at the inception of the lease. From the perspective of a lessor, financing leases are loans. We do not understand the concept behind requiring a lessor to expense the costs (which can be significant, particularly with large synthetic leases that are equivalent to commercial real estate loans) incurred in negotiating a financing lease, but requiring a lender to defer and amortize those costs as an adjustment to the yield on the loan. The two arrangements are economically the same, but the costs deferrable in the arrangements will differ simply because one arrangement is called a lease and the other is called a loan. We believe the Board should require lessors to apply the guidance in ASC 310 and ASC 320 for financing leases that do not involve any selling profit (or loss) to avoid this inconsistency.

Executory Costs

The Board has concluded that lessees and lessors should apply the guidance in ASC 606 on identifying distinct goods or services to determine if the lease payment should be allocated between the right to use the leased asset and lessor costs that the lessee has agreed to reimburse (for example, property taxes, insurance and maintenance). We are concerned that certain costs (such as property taxes) that lessees agree to reimburse lessors for will not meet the ASC 606 criteria and will therefore have to be recognized as part of the lease liability and right of use asset. A requirement to recognize such costs as part of the lease liability and right of use asset because the lessee cannot benefit from the good or service on its own or together with other resources that are readily available to the lessee will lead to an inconsistent result between the accounting for a lease and the accounting for a purchase of an asset. Even in a Type A lease, which arguably transfers control over the asset to the lessee, the lessee would be required to recognize a liability that includes the future payments that it will make to reimburse the lessor. In contrast, if the lessee were to purchase the property, it would be prohibited from recognizing a liability for those costs. We do not believe accounting for such operational costs should be different just because an arrangement qualifies as a lease.

We understand that some accountants believe the measurement of the lease liability and right of use asset would differ based on the type of lease. If the lessee was obligated to make the payments directly (i.e., a net lease) as opposed to reimbursing the lessor (i.e., a gross lease), the lease liability and right of use asset would exclude those payments. We do not believe the type of lease (gross or net) provides a sufficient conceptual basis for a difference in the lessee's measurement of the lease liability and right of use asset. We understand that, even with a net lease, the lessee may be required to make its payment for costs such as property taxes to the lessor so the lessor knows that the payment has been made. It would be helpful if the Board would clarify the matter.

Lease Modifications/Extensions

The Board decided that a lessee would account for lease modifications as a new lease if (a) the lease grants it an additional right-of-use not included in the original lease and (b) that additional right is priced commensurate with its stand-alone price. If both criteria are met, the lessee would not adjust the liability for the original lease and would not recognize a liability for its legal obligation for the "new lease" until

the commencement of that lease. We do not agree with that outcome, particularly when the lessee is only extending its right to use the asset it currently has the right to use. We understand that the Board's decision on lease extensions may be intended to provide the same accounting that would be achieved if the lessee entered into a lease for a similar asset with a different lessor that begins after the lessee's existing lease terminates. We see a distinction between an extension of the right to use the existing asset that the lessee is already using and a new lease of a different asset. A lessee and a lessor both have economic incentives to continue an existing lease that may not be present in a lease with a new lessor. By extending the lease of the existing asset, the lessee avoids the cost to return a leased asset and the inconvenience of lost access and replacement of the leased asset, while the lessor avoids the need to remarket or sell the returned asset.

We believe a lessee should reflect its obligation under the modified lease at the date of the modification when the lessee is extending the right to use the particular asset that was the subject of the original lease. In that circumstance, we do not believe the lessee is obtaining anything new. Rather, the lessee has the right to continue to use the same asset. If the Board does not change the proposed guidance for modifications and extensions, the final standard will lead to the unusual result of a lessee recognizing an increased liability when it only has an option to extend the lease term (because the lessee becomes economically compelled to renew), but a lessee that has legally extended the lease term not recognizing the liability until a subsequent reporting period.

Foreign Currency Transactions

Under current US GAAP, a lessee under an operating lease denominated in a foreign currency is not required to account for an embedded foreign currency derivative as long as the currency in which the lease is denominated is either the local or functional currency of a substantial party to the transaction. It is not clear whether the new standard would require a lessee to recognize transaction gains and losses in periods subsequent to recognizing a liability for future lease payments that are denominated in a currency other than its functional currency. If so, that will complicate a lessee's accounting for Type B leases. We believe the Board should indicate in the final standard whether a lessee under a Type B lease is required to apply the guidance in ASC 830-20 subsequent to initial recognition of a lease on which payments are denominated in a foreign currency. If the Board concludes that a lessee should apply ASC 830-20 to any lease denominated in a foreign currency, we believe it should also address how that requirement would affect the carrying amount of the leased asset. Should the lessee determine the carrying amount of the right of use asset in the foreign currency and then remeasure that asset into the functional currency? If so, should the lessee use the exchange rate at the balance sheet date, or should it use the exchange rate on the date it entered into the lease agreement? The latter approach is consistent with the treatment of non-monetary assets, but the former approach seems more consistent with what the Board intended for Type B leases.

Business Combinations

We disagree with the Board's tentative decision regarding the initial measurement of a lease when the acquiree is a Type B lessor. We believe the acquirer should recognize an asset or liability separate from the acquired asset for the effects of lease terms that are favorable or unfavorable at the acquisition date. While IFRS does not require the recognition of a separate asset or liability for off-market lease terms, IFRS does require the componentization of property, plant and equipment. The portion of the fair value of

a leased asset that relates to off-market lease terms would, if significant, be treated as a separate component of the acquired asset and would be amortized over the remaining lease term, which yields a result similar to the accounting required under current US GAAP. Unless the Board intends to require the same accounting for an acquired asset as IFRS, we believe it should retain the existing US GAAP guidance on measuring an asset or liability for off-market lease terms.

Sale-Leaseback Transactions

We agree with the Board's decision that a fixed price purchase option embedded in a lease agreement should prevent a seller from recognizing a sale of an asset that it will lease back from the purchaser. We recommend that the Board broaden the prohibition to include arrangements that are economically similar. For example, if the lessee has a series of fixed price lease renewal options that extend over the asset's economic life, the lessee can effectively prevent the buyer-lessor from ever controlling substantially all of the asset's future economic benefits. Precluding sale-leaseback accounting for such transactions would be consistent with current practice under ASC 840.

Further, we disagree with the conclusion that a buyer-lessor should account for a transaction where sale accounting is prohibited under ASC 606 as a financing arrangement. While that accounting would be appropriate for arrangements where the lease would otherwise have been classified as a finance lease absent the prohibited form of continuing involvement, it will generally present a misleading picture to users of the financial statements of the risks to which the buyer-lessor is exposed. Rather than being exposed to the seller-lessee's credit risk, as it would be with a finance lease, a buyer-lessor under a lease that is not classified as a finance lease is exposed to the risk that the value of the leased asset will decline during the term of the lease. We note that ASC 606 does not address the customer's accounting for arrangements in which the seller is unable to recognize a sale upon the delivery of goods to the customer. If the Board believes that accounting is appropriate, it should amend ASC 606 to require that treatment more broadly than with sale-leaseback transactions. If the Board retains the proposed guidance on accounting by the buyer-lessor, we believe it should clarify the buyer-lessor's subsequent accounting for the financing transaction. For example, because the seller-lessee effectively has the right to settle the loan by delivering the asset, and not just as a result of defaulting on the obligation, should the buyer-lessor separately account for the embedded put option? It does not appear that the embedded provision would qualify for the exception in paragraph 59(b) of ASC 815-10-15, so the buyer-lessor would have to determine if the embedded put is clearly and closely related to the host contract. If the buyer-lessor is not required to separate the embedded put option, would it be required to account for the arrangement as a acquisition, development and construction (ADC) arrangement? If so, we believe a buyer-lessor would, in some circumstances, be required to account for the arrangement as an investment in the asset and not a loan based on the guidance in the Acquisition, Development, and Constructions Arrangements subsections of ASC 310. We would prefer the Board not address the accounting by a buyer-lessor, but if it does so, it should provide guidance on the issues raised above.

Sublease Arrangements

The Board has decided that an intermediate lessor should account for a head lease and a sublease as a single contract if the criteria for combining contracts in ASC 606 are met. We think the only arrangements that will qualify for combining are ones where the head lessor is also the sublessee. We believe the Board should also require that the terms of the head lease mirror the terms of the sublease to account for the head

lease and the sublease on a combined basis. We think it is likely the first condition in paragraph 9 of ASC 606-10-25 (the contracts are negotiated as a package with a single commercial objective) will be met in substantially all transactions. However, the timing of payments under many head lease/sublease arrangements is similar to sale-leaseback transactions. The head lessee makes a single lease payment to the head lessor (or makes a significant payment at inception and agrees to pay an amount on termination of the lease that, on a present value basis, results in the total payments made to the lessee equaling the asset's fair value at inception). The sublessee then makes lease payments to the sublessor over the term of the lease. In many agreements, the sublessee also has the right to acquire the sublessor's interest in the head lease at a future date. We believe the accounting for such transactions should be similar to a sale-leaseback transaction where the seller-lessee has the right to repurchase the transferred asset.

Disclosures

The Board is proposing significantly greater disclosures than required under ASC 840, even while it continues to work on its disclosure framework project. We continue to be concerned with the potential for disclosure overload given that seemingly every FASB project results in more and more required disclosures. We wonder whether an individual investor could possibly find all of the information required to be useful, much less be able to process and use all of the information.

With respect to the specific disclosure requirements, we are most concerned with the requirement that lessors disclose how they manage their exposure to residual risks. Such disclosures are more appropriate in Management's Discussion and Analysis (MD&A) where disclosures are forward-looking and the reporting entity has certain safe-harbor protections. We note that many public companies with significant leasing operations disclose their exposure to residual risks in MD&A. If investors in private companies would like that information, we understand that they are often able to obtain information they need from management of the private company.

Transition

We have identified the following transition issues that we believe the Board should address in the final standard.

- The Board has tentatively decided that a gain on a sale-leaseback transaction that is consummated after the date of initial application should be recorded in equity. We do not understand that conclusion. If a company applies the new standard to all leases entered into subsequent to the date of initial application from the commencement date of those leases, then it would seem that the accounting for a sale-leaseback occurring subsequent to the date of initial application would be subject to the revised guidance on sale-leaseback transactions. Accordingly, for transactions that qualify for sale-leaseback accounting, the gain should be recognized in income of the period the transaction occurred. We agree that a lessee should recognize in equity any gains deferred on sale-leaseback transactions consummated before the date of initial application.

- The Board has not addressed the exchange rate that a lessee should apply in accounting in transition for Type B leases denominated in a currency other than the lessee's functional currency. Should the lessee use the exchange rate at the date of initial application (or, if later, the lease commencement date)? Or should it use the exchange rate as of the date it entered into the lease? We

believe the Board should explicitly address this in the final standard, preferably including an example of the transition accounting.

Lessor Accounting

Finally, as noted in our letter dated April 18, 2014, we believe the Board's decisions regarding a lessor's accounting for Type A leases will lead to results that are inconsistent with the guidance in ASC 606 for certain transactions. First, the Board's tentative decision will permit a lessor to recognize selling profit on a lease that is classified as a Type A lease due to the involvement of a third party (i.e., a residual value insurer) as part of interest income over the term of the lease. However, the lessor has not transferred substantially all of the future economic benefits associated with the leased asset to either the lessee or the insurer. The lessor has a Type A lease only because the present value of the future minimum lease payments represents substantially all of the leased asset's fair value. We believe ASC 606 should be applied to determine whether any excess of fair value of the leased asset over its carrying amount at lease commencement should be recognized as revenue. If the transaction does not qualify as a sale under ASC 606, the excess of the leased asset's fair value over its carrying amount would be deferred until the lessor has transferred control over substantially all of the remaining economic benefits to a third party. If the transaction would have qualified as a sale under ASC 606, the excess of the leased asset's fair value over its carrying amount should be recognized at lease commencement, similar to the accounting for a sales-type lease under ASC 840.

Second, an arrangement that requires a lessee to make payments equal to 100% of the leased asset's fair value at inception, but where the lessor provides a guarantee that the lessee will realize proceeds equal to at least 40% of the leased asset's fair value (which is expected to equal the leased asset's fair value) if the lessee sells the asset at a specified future date will be treated differently under the proposed lease standard than under ASC 606. Under the proposed lease standard, the lessee would classify the lease as an operating lease. However, under ASC 606, a seller who guarantees the future value of an asset to the buyer would recognize a sale, but would likely have to account for the guarantee as a separate performance obligation and allocate a portion of the arrangement consideration to that obligation.

The example in Appendix I, which was also attached to our April 18, 2014 letter, illustrates the results of our proposed approach to lessor accounting when there is a dealer profit. Our proposed approach will make the lease guidance consistent with the criteria in the revenue recognition standard and will eliminate structuring opportunities that would otherwise be available. Further, excluding involvement by third parties unrelated to the lessee in determining whether the lessor has transferred control over substantially all of the remaining economic benefits would be consistent with the proposed definition of "lease payments" that the Boards have previously exposed. We do not believe a change to our proposed approach would require re-exposure of the proposed approach for lessors, nor do we believe our proposed approach would be difficult for lessors to apply.

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We appreciate the Board's consideration of these comments. We are available to discuss these matters at your convenience.

Sincerely,

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com

cc: Mr. Harry Rees, IASB, Technical Director

Appendix I

Facts:

- Lessee and Lessor enter into a transaction to lease equipment for a non-cancelable four-year term;
- The lease does not contain renewal or purchase options;
- The equipment has an estimated remaining economic life of six years;
- The equipment has a fair value and a carrying amount of $50,000 and $45,000, respectively, at lease commencement;
- The equipment has an estimated residual value of $14,000;
- The lease payments are $11,000 per year (paid in arrears);
- Lessor's implicit rate is 5.392% using the fair value of $50,000;
- Lessor obtains a residual value guarantee from a third party with a net present value at lease commencement of $7,295; and
- At lease commencement, the present value of the lease payments, including the third-party residual value guarantee, is 92% of the initial fair value of the equipment. Excluding the third-party residual value guarantee, the present value of the lease payments totals 77% of the equipment's initial fair value.

Lease Classification:

The lease would be classified as a finance lease based on the criteria in IAS 17 because the present value of the minimum lease payments (including the residual value guarantee as required by IAS 17) amounts to at least substantially all of the fair value of the leased asset at the commencement of the lease.

Because the fair value of the asset exceeds its carrying amount, Lessor determines whether it can recognize the profit based solely on amounts due from Lessee (or parties related to Lessee). As the present value of the lease payments, excluding the third-party residual value guarantee, does not amount to substantially all of the fair value of the leased asset at commencement, Lessor is required to defer the profit until such time as it does transfer control over the asset's remaining future economic benefits.

Lessor Accounting:

Lessor would recognize its net investment in the lease and would derecognize the underlying asset. Lessor would measure the net investment in the lease at the present value of the lease payments plus the present value of the residual value less the deferred profit. Lessor would recognize interest income over the lease term on the recorded amounts of the lease receivable and residual value using the interest method.

The table below summarizes the amounts arising in Lessor's statement of financial position and income statement under the proposed approach:

	Statement of Financial Position				Income Statement			
End of year	Lease receivable[1]	Residual value[2]	Deferred profit	Net investment	Interest on receivable	Residual accretion	Earned profit	Total income
0	$38,653	$11,347	$(5,000)	$45,000	$ -	$ -	$-	$ -
1	29,737	11,959	(5,000)	36,696	2,084	612	-	2,696
2	20,340	12,604	(5,000)	27,944	1,603	645	-	2,248
3	10,437	13,284	(5,000)	18,721	1,097	680	-	1,777
4	-	14,000	(5,000)	9,000	563	716	-	1,279
Totals					$5,347	$2,653	$-	$8,000

[1] Represents the present value of lease payments that will be made by Lessee.
[2] Includes the portion of the residual value guaranteed that is by a third party.