

Chapter 15 Group Project

Note: This project uses the Chapter 15 Appendix.

Alcenon Corporation leases the majority of the assets that it uses in operations. Alcenon prefers operating leases (versus capital leases) in order to keep the lease liability off its balance sheet and maintain a low debt ratio.

Alcenon is negotiating a ten-year lease on an asset with an expected useful life of 15 years. The lease requires Alcenon to make ten annual lease payments of \$20,000 each, due at the end of the period, plus a down payment that is due at the beginning of the lease term. The interest rate in the lease agreement is 10 percent. The leased asset has a market value of \$135,800. The lease agreement specifies no transfer of title to the lessee and includes no bargain purchase option.

Write a report for Alcenon's management to explain how much the down payment must be for Alcenon to be able to account for this lease as an operating lease. Use the following format for your report.

Date:

To: Alcenon Management

From: Student Name

Subject: Required amount of the down payment on a lease in order to account for the lease as an operating lease