

Bookkeeping Tips

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When to Depreciate a Leased Asset

Here are the three criteria that determine when to record depreciation on a leased asset:

1. **Terms.** The lessor owns the property; the lessee uses the property.
2. **Kind of lease.** An *operating lease* provides that the property be returned to the lessor. A *capital lease* is actually a purchase in which the lease is a means of financing (rather than a bank loan). Therefore, a capital lease has payments that include principal and interest.
3. **Conditions.** A lease that meets one or more of the following criteria is a capital lease, and the lessee should depreciate the leased asset:
 - Ownership is transferred when the lease terminates.
 - There is a bargain purchase option (B.P.O.) allowing the asset to be purchased at a price far below its fair market value.
 - The lease is for 75% or more of the expected life of the asset—e.g., the life of the asset is 10 years and the lease term runs for at least 7.5 years.

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The American Institute of Professional Bookkeepers (AIPB), is the national association for bookkeepers, currently with 30,000 active members

AIPB was founded in 1987 for the following purposes:

- To recognize bookkeepers as accounting professionals
- To make sure that each member has the latest bookkeeping, accounting and tax information
- To answer members' everyday bookkeeping and accounting questions on the telephone at no charge.
- To provide bookkeepers with low-cost continuing professional education.
- To return the membership fees of any bookkeeper who is dissatisfied with the benefits of membership