

**Solution:**

BGN mode

FV = 0 *machinery will be returned*  
 PMT = 61,980 *annual fixed payments*  
 N = 5 *lease term*  
 I/Y = 6%  
 CPT PV = **\$276,747**

Journal entries:

Dec 31, 2019

DR	Right-of-use (ROU) asset	276,747	(above)
CR	Lease liability	214,767	(plug)
CR	Cash	61,980	(payments)

Dec 31, 2020

DR	Interest expense	12,886	(6% x lease liability balance)
DR	Lease Liability	49,094	(plug)
CR	Cash	61,980	(payments)

DR	Depreciation expense - ROU asset	55,349	
CR	Accumulated depreciation - ROU asset	55,349	(ROU asset / lease term)

(Hint: use lease term because no BPO)