2017 Lessee Accounting CPE

Scott and Company

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Scope of the New Lease Standard

Applies to leases of property, plant, & equipment

- **Companies can elect to "expense" leases with terms less than 12 months**
  - **Might also want to consider a normal "capitalization" policy to omit small leases**

Does *not* apply to:

- ❑ **Leases of intangible assets**
- ❑ **Leases to explore for or use nonregenerative resources**
- ❑ **Leases of biological assets**
- ❑ **Leases of inventory**
- ❑ **Leases of assets under construction**

Effective date and transition

Effective date

- **<u>Public</u>** <u>business entities</u> — effective for calendar periods beginning on January 1, 2019 and interim periods therein
- <u>All other entities</u> — effective for calendar periods beginning on January 1, 2020, and interim periods thereafter
- Early adoption permitted

Transition

- Lessees and lessors are required to use a **<u>modified retrospective transition method</u>** for all existing leases
    - Would apply the new model for the earliest year presented in the financial statements
- Application of approach linked to current lease classification and new lease classification
- An entity can use hindsight when evaluating lease term

<u>TRANSITION RELIEF PACKAGE</u>

Lessees and lessors are not required to reassess the following upon transition:

- ✓ Whether any expired or existing contracts are leases or contain leases
- ✓ The lease classification for any expired or existing leases
- ✓ Initial direct costs for any existing leases

Transition

An entity electing the "practical expedients" will continue to account for leases that commenced prior to the effective date in accordance with current US GAAP, unless the lease is modified or remeasured on or after the effective date, <u>except that lessees are required to</u>:

1. **Recognize a Right of Use Asset and Lease Liability for all operating leases at each reporting date based on the present value of the remaining minimum lease payments**
2. **Apply new requirements with respect to changes in estimates that affect lease accounting during the lease term (i.e., "reassessments").**

Real Life Transition Discussion

The new lease standard impacts nearly every single company, and with the modified retrospective application, it is time to begin planning the implementation.

2 individuals who have started implementation efforts, will give us a snippet of some observations and learnings from their initial looks at implementation of the new lease standard:

William Turner, Denny's

Jason Lipscomb, Centerplate

Recording “Right of Use Asset” and “Lease Obligation”

Substantially All Leases Recorded on the Balance Sheet

From the Lessee’s perspective, substantially all leases of PP&E with terms greater than 12 months will be recorded at lease commencement on the Balance Sheet as:

Dr. Right of Use Asset

Cr. Lease Obligation

Timing of Recording Leases

This is a substantial difference when leases are recorded; now at Lease Commencement Date rather than the date that the leases are entered into (i.e., Lease Inception Date)

Determination of Lease Liability as Present Value of Lease Payments

Lease Liability Recorded As:

Present value of the unpaid lease payments, discounted at rate implicit in lease if known, or lessee’s incremental borrowing rate.

Lease payments include:

(1) Fixed payments, and in-substance fixed payments (i.e., variable payment that includes a floor/minimum amount)

(2) Variable payments if based on an index or rate (variable payments excluded if based or usage or asset performance)

(3) Amount that is probable will be owed under residual value guarantee

(4) Payments related to renewal or termination options that the lessee is reasonably certain to exercise

Recording "Right of Use Asset"

Right of Use Asset Recorded As:

Lease Liability (computed as per previous slide)

+ Initial Direct Costs

+ Prepaid Lease Payments

- Lease Incentives Received

Right of Use Asset

Importance of “Finance Lease” or “Operating Lease” Classification

<u>New Classifications of Leases</u>

Based on 5 criteria, leases are classified as either:

- **Finance Leases**
- **Operating Leases**

<u>Importance of Classification as “Finance” or “Operating Lease”</u>

Importance of the classification as “Finance Lease” or “Operating Lease” is that it yields different Income Statement and Cash Flow Statement results (Balance Sheet treatment is the same)

- **Finance Lease = Interest Expense and Amortization Expense charged to Income Statement (like old Capital Lease treatment)**
- **Operating Lease = Lease Expense charged to Income Statement (like old Operating Lease treatment)**

Meeting ANY of these 5 Criteria Will Result in the Lease Classified as a <u>Finance Lease</u>

(1) Lease transfers ownership of the asset to the lessee by the end of the lease term.

(2) Lease grants the lessee an option to purchase the asset that the lessee is “reasonably certain” to exercise.

(3) Lease term is for the major part (e.g., 75%) of the remaining economic life of the asset.

(4) Present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all (e.g., 90%) of the fair value of the asset.

(5) The asset is of such as specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

Otherwise, the lease is classified as an <u>Operating Lease</u>

Handling of Former "Executory Costs"

Former "executory costs" for property taxes and insurance:

(1) If added to the lease cost based on lessor's actual costs, they are variable costs and are expensed as incurred

(2) If fixed and included in the lease cost, even if stated separately such that the Rent is $A, the Property Taxes are $B, and the Insurance is $C, the total of the 3 items are considered to be part of the lease payment and are included in measurement of Right of Use Asset / Lease Obligation.

Handling of “Common Area Maintenance”

Common Area Maintenance or other maintenance services transfer a service to the lessee other than the right to use the underlying asset and are therefore a “non-lease” component of the contract.

- **Therefore consideration in the lease is allocated to such items and they are excluded from lease payments by lessees that elect to separately account for lease and non-lease components (i.e., these costs would be expensed as incurred).**

- **However, lessees can make an accounting election to include non-lease components as part of lease payments (i.e., costs considered to be part of the lease payment and are included in measurement of Right of Use Asset / Lease Obligation).**

Handling of "Initial Direct Costs" and More Footnote Disclosures

Fewer Initial Direct Costs

More narrow definition of initial direct costs resulting in lessees and lessors recognizing more lease origination costs as expenses when incurred. ONLY incremental costs (e.g., commissions) incurred as a result of the lease being executed can be capitalized in the lease cost. Costs such as legal fees, the internal cost of the leasing department, etc. are no longer "initial direct costs".

Expanded Disclosures

Substantially more quantitative and qualitative disclosures.

“Sale-Leasebacks” and “Build-to-Suit” Leases

Sale-Leaseback Accounting

Significantly reduces sale-leaseback accounting because seller-lessees will recognize a Right of Use Asset and Lease Obligation.

Entire gain from sale of underlying asset will be recognized at time of sale (rather than deferral of the gain and amortization over the lease term which was the treatment under old lease accounting).

Build-to-Suit Lease Guidance Replaced

New guidance to determine when lessee controls an underlying asset before lease commencement will result in fewer transactions where the lessee is considered the accounting owner, which means that fewer build-to-suit lease arrangements will become subject to sale-leaseback accounting.

Definition of a Lease

Definition of a Lease

For a contract to be, or contain, a lease it must

- Depend on the use of an identified asset, <u>and</u>
- Convey the right to control the use
  - Right to obtain substantially all of the economic benefits from asset use

    and

  - Right to direct the use of the asset over lease term

Identified Asset — Overview

Contract must depend on use of identified asset

- Asset must be explicitly or implicitly identified
- Physically distinct portion of a larger asset may be an identified asset
- Capacity portion of a larger asset is generally not an identified asset

Right of substitution

- Would result in the asset not being deemed a specified asset
- Substitution would be considered substantive if . . .
    - Lessor has the practical ability to substitute the asset
    - Lessor would benefit from exercising its right of substitution

Warranty or upgrade considerations

- Supplier's right or obligation to substitute an alternative asset due to operational failure does not mean the asset is not an identified asset
- Supplier's right or obligation to upgrade the asset similarly does not mean the asset is not an identified asset

Separating Components of a Contract

Separating Components of a Contract

Step 1
- **Identify the separate lease components**

Step 2
- **Identify any non-lease components**

Step 3
- **Measure the consideration in the contract**

Step 4
- **Separate and allocate the consideration in the contract between the lease and non-lease components**

Step 1 – Identify the Separate Lease Components

- A right to use an underlying asset (i.e., a lease), or a bundle of leases, is a separate lease component if both of the following criteria are met:
  - The lessee can benefit from the lease (or bundle of leases) on its own or together with other resources that are readily available to the lessee, and
  - The lease (or bundle of leases) is neither highly dependent on, nor highly interrelated with, the other leases in the contract.

Separately account for land elements (even if above criteria are not met) unless accounting effect of doing so is insignificant

Step 2 – Identify Any Non-Lease Components

- **Components of a Contract = items or activities that transfer a good or service to the lessee**

Example Non-Lease Components	Not a Component
Providing utilities (e.g. water or electricity) to the lessee	Delivering the leased asset
Common area maintenance	Reimbursement of lessor costs for property taxes or insurance
Equipment maintenance	Residual value guarantees

Step 3 – Lessee Measurement of Consideration in the Contract

Payments relating to the use of the underlying asset

+

Other fixed or in-substance fixed payments

+

Other variable payments that depend on an index or rate

−

Incentives paid or payable to the lessee

=

Lessee's consideration in the contract

Step 4 – Separate Lease and Non-Lease Components and Allocate Consideration

	Lessee	Lessor
When there is an observable stand-alone price for each component:	Unless accounting policy elected (see below), separate and allocate based on the relative stand-alone price of components	Always separate and allocate following the Topic 606 transaction price allocation guidance (i.e., generally on a relative stand-alone selling price basis)
When there is not an observable stand-alone price for some or all components:	Estimate the stand-alone price, maximizing the use of observable information	
Taxes and insurance on the property	Activities (or costs of the lessor) that do not transfer a good or service to the lessee are not components of a contract and do not receive an allocation of the consideration in the contract	
Accounting policy election by class of underlying asset	Account for lease and nonlease components together as a single lease component	

Key Lease Definitions & Concepts

Lease Identification

Identified Asset + Control over Use = Lease

- Asset explicitly or implicitly specified in a contract;
- Asset is physically distinct
  - Applies to distinct portions but not generic capacity; and
- Supplier does not have a substantive substitution right

- Customer has the right (throughout the period of use) to:
  - Obtain substantially all of the economic benefits from use of the asset; and
  - Direct (including the right to *change*) how and for what purpose the asset is used

Converged FASB/IASB Definition

Lease Term

Noncancellable period

+

Optional renewal periods if lessee ***reasonably certain*** to exercise

+

Periods after optional termination date if lessee ***reasonably certain not*** to exercise (i.e., not terminate)

+

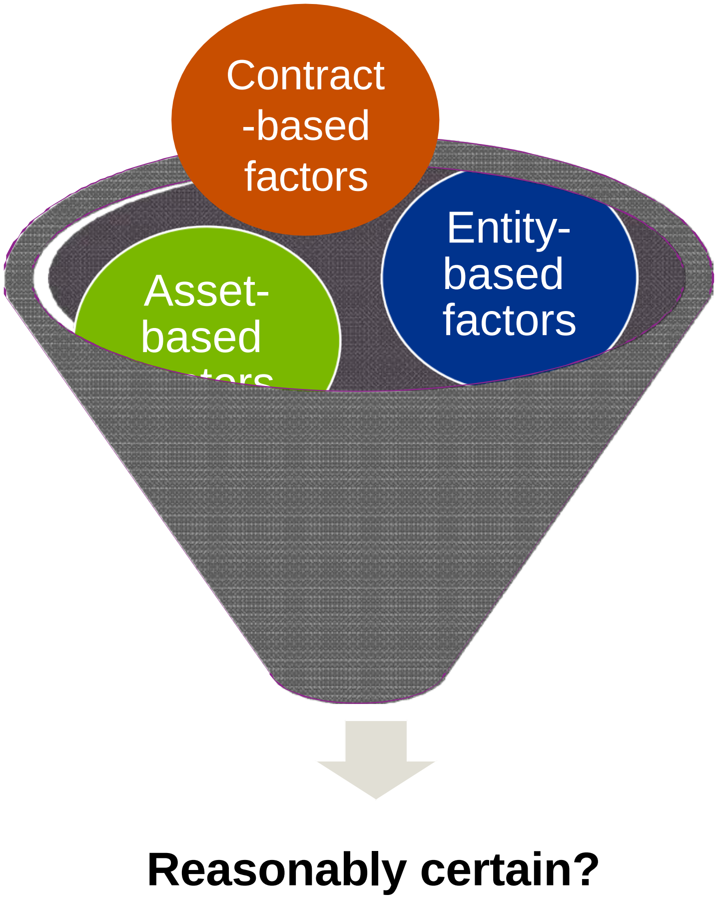
Optional periods to extend (or not to terminate) the lease in which exercise of option is controlled by the ***lessor***

=

Lease Term

Reasonably Certain

- *Reasonably certain* is a high threshold of probability that must be met to include optional lessee payments in the measurement of lease assets and lease liabilities.
- Lessee has a compelling *economic* reason to exercise the renewal or purchase option (or not to exercise a termination option).
- Consider all economic factors relevant to the assessment.



Lease Term Reassessment Requirements

The Lease Term Must be Reassessed When Any of These Occur

- ✓ **A significant event or change in circumstances occurs that is in the control of the lessee**
- ✓ **A contract term obliges the lessee to exercise (or not exercise) a renewal or termination option**
- ✓ **Lessee elects to exercise or not exercise a renewal or termination option that was not previously deemed reasonably certain of being or not being exercised**
- ✓ **Would reassess when there is a modification that does not result in a separate contract**

Lessors would not be required to reassess lease term, unless there is a modification that does not result in a separate contract

Lease Payments

Present value (PV) of future lease payments over the *lease term* – includes:

Fixed payments[1]

Residual value guarantees (RVGs)[4]

Termination penalties[2]

Purchase options[3]

Variable lease payments (VLPs)[5]

Discount rate[6, 7]

1. Fixed payments include in-substance fixed payments, less lease incentives paid or payable to the lessee
2. Only include the termination penalty if the lease term reflects the lessee exercising an option to terminate the lease
3. Include the exercise price of a purchase option if lessee is ***reasonably certain*** to exercise it
4. For RVGs lessee includes the amount probable of being owed
5. Include VLPs based on an index or rate (e.g., CPI) using the index/rate at lease commencement; and if in-substance fixed
6. A lessor is required to use the rate implicit in the lease. A lessee uses its incremental borrowing rate if the lessor's implicit rate is not readily determinable.
7. Nonpublic business entities may make an accounting policy election to use a risk-free discount rate

Discount rate

What discount rate should be used?

- Lessee must use the rate the lessor charges in the lease if readily determinable or, alternatively, its incremental borrowing rate
- Lessor would use the rate it charges the lessee, which is known as the rate implicit in the lease

REASSESSMENT REQUIREMENTS	
<u>Lessee</u>	***<u>Lessor</u>***
• Would generally be updated when there is a remeasurement of the lease obligation • Would reassess when there is a modification that *<u>does not</u>* result in a separate contract	• Would reassess, in certain instances, when there is a modification that *<u>does not</u>* result in a separate contract

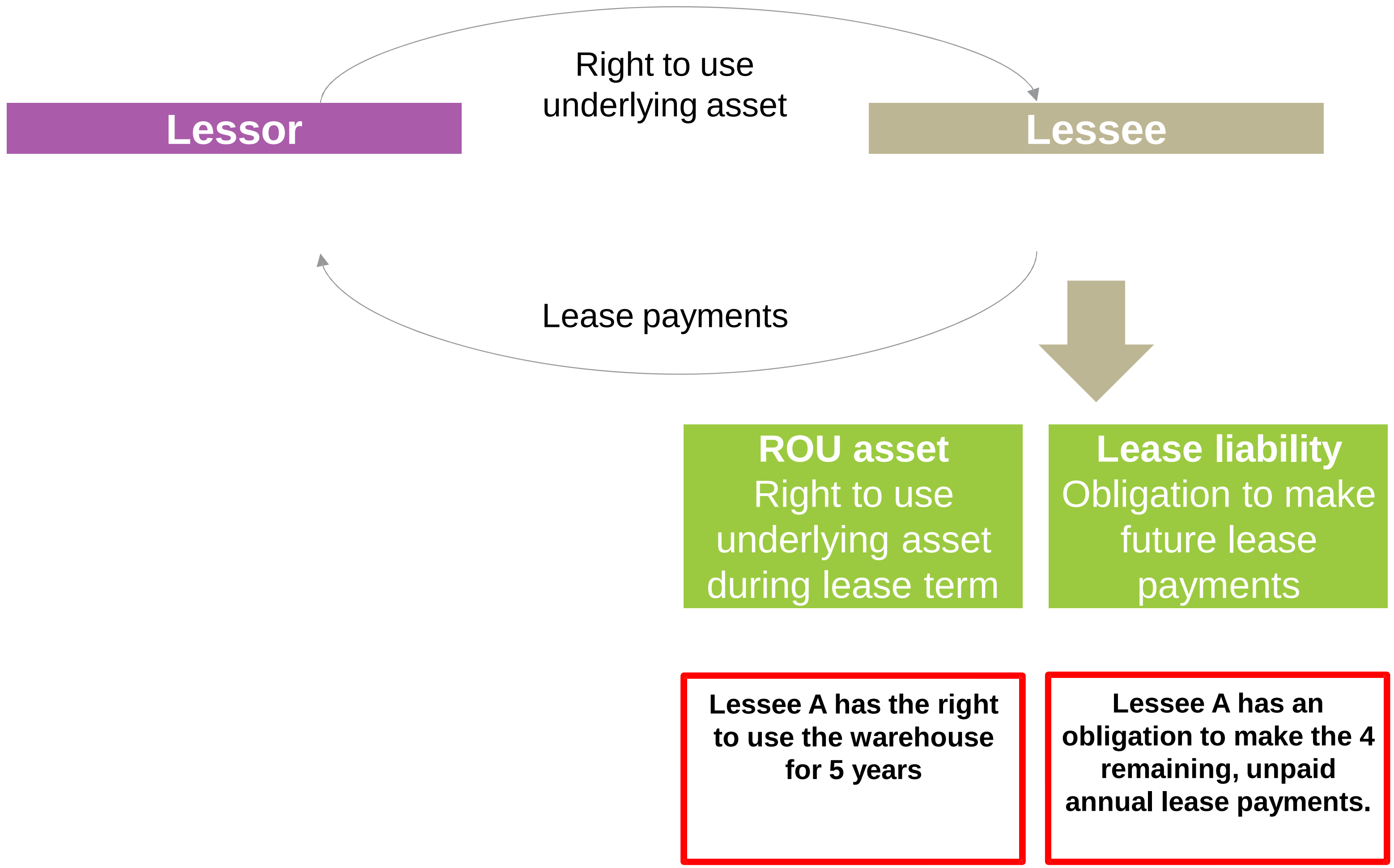
Nonpublic business entities are permitted to make an accounting policy election to use the risk-free rate when measuring their lease obligations

Initial recognition and measurement

Example Lease – Storage Warehouse

- 5-year non-cancellable lease of a storage warehouse, with one 5-year renewal option Lessee A is not reasonably certain to exercise at lease commencement.
- Annual payments (in advance) of $100,000 that increase by $5,000 per year.
- Annual payments during the renewal period are $125,000 (in advance), increasing by $5,000 per year.
- Lessor B provides Lessee A with a moving allowance (i.e., a lease incentive) of $15,000 which Lessor B pays to Lessee A at lease commencement in cash.

Lessees – Recognition



Lease liability – Initial measurement

Lease liability = PV of ***unpaid*** lease payments

A lessee initially measures a lease liability (and a right-of-use asset) at the ***lease commencement date***. That is, the date on which the lessor makes the underlying asset available for use by the lessee.

Comparison to current U.S. GAAP

- Under current U.S. GAAP, the date a company performs its lease classification test and initially measures a capital lease is at lease inception (i.e., the date an agreement is reached).

Example: Lease liability – Initial Measurement

- The rate implicit in the warehouse lease is not readily determinable. Accordingly, Lessee A uses its incremental borrowing rate (which is 6% for this lease).
- There are 5 annual payments (in advance) of $100,000 that increase by $5,000 each year
  - The 1st lease payment ($100,000) is made at lease commencement and therefore is excluded from the measurement of the lease liability.

Lease liability

$388,564

=

PV of the 4 ***unpaid*** lease payments

Payment Date	Amount
Beg. of Year 2	$ 105,000
Beg. of Year 3	$ 110,000
Beg. of Year 4	$ 115,000
Beg. of Year 5	$ 120,000

ROU asset – Initial Measurement

ROU asset is the sum of:

Lease liability + **Initial direct costs*** + **Prepaid lease payments** – **Lease incentives received**

* ***Reminder*** *- Only incremental costs to obtain the lease qualify – no allocation of internal fixed costs is permitted and costs that would have been incurred even if the lease was not obtained (e.g., legal fees to draft the lease contract) are not initial direct costs.*

Example: ROU asset – Initial measurement

- **Lessee A**
  - incurred $10,000 in initial direct costs (e.g., broker commission).
  - prepaid $100,000 at lease commencement.
  - received a lease incentive of $15,000 at lease commencement.

ROU asset is $483,564, which is the sum of:

Lease liability	+	Initial direct costs	+	Prepaid lease payments	–	Lease incentives received
$388,564		**$10,000**		**$100,000**		**($15,000)**

Initial Direct Costs

- **Incremental costs of a lease that would not have been incurred if the lease had not been obtained (i.e. not been executed).**

Include
Commissions
Payments made to existing tenant to incentivize that tenant to terminate the lease

Exclude
Legal fees
Costs of evaluating the prospective lessee's financial condition
Costs of negotiating lease terms and conditions
General overheads

Example – Initial Direct Costs

- Lessor enters into a lease with Lessee.
- In connection with the lease, the entity (Lessee or Lessor) incurs the following costs:

Description of cost	Amount	Include?
Employee costs – Leasing department	$27,000	✗
External legal fees	25,000	✗
Commission to listing agent	20,000	✓
Travel costs	5,700	✗

Lessee Accounting Model, including Subsequent Accounting

Lease classification test

Transfer of ownership test
Does the lease transfer ownership of the underlying asset to the lessee by the end of the lease term?
Yes → Finance lease (A)
No ↓

Lessee purchase option test
Does the lease grant the lessee a purchase option of the underlying asset that the lessee is reasonably certain to exercise?
Yes → Finance lease (A)
No ↓

Lease term test
Is the lease term (e.g., 75%) for a major part of the remaining economic life of the underlying asset?[1]
Yes → Finance lease (A)
No ↓

Present value test
Does the present value of the sum of (1) lease payments and (2) lessee residual value guarantee not reflected in lease payments, equal or exceed substantially all (e.g., 90%) of the underlying asset's fair value?
Yes → Finance lease (A)
No ↓

Alternative use test
Is the underlying asset of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term?
Yes → Finance lease (A)
No ↓

Operating lease (B)

(1) If the commencement date is at or near the end of the underlying asset's economic life, this test does not apply.

(A) For Lessors, a Sales Type Lease

(B) For Lessors, a Direct Financing Lease or Operating Lease

Lease Classification Consideration for Leases Involving Land and Buildings

Guidance Requires that Land & Buildings be Separated for Evaluation

- If these conditions are met, both the Land and Buildings would be classified as Finance Leases:
  - Ownership transfer at end of lease term
  - Lessee purchase option reasonably certain of exercise

- For Land:
  - Improbable that lease term is greater than 75% of economic life (so classified as Operating)
  - Unless a very long lease, not likely that PV + Lease Residual Guarantee is greater than 90% of fair value of land (so classified as Operating)
  - Except in unique circumstances, not likely that land is specialized asset with no alternative use to lessor (so classified as Operating)

Lessee accounting model

What does the lessee model look like?

Most* leases are recorded on the Balance Sheet using a right-of-use asset approach:

Initial Measurement	• Lease obligation — PV of lease payments not yet paid • ROU asset — lease obligation + initial direct costs – lease incentives + prepaid lease payments
Subsequent Measurement	• Lease obligation — amortized using the effective interest method • ROU asset — depends upon lease classification • Expense recognition pattern: o Finance lease — front-loaded o Operating lease — generally straight-line

***Short-term leases**: *A lessee can elect, by asset class, not to record on its balance sheet a lease with a lease term of 12 months or less and which does not include a purchase option that the lessee is reasonably certain to exercise*

Presentation requirements

Lessee model

	Balance Sheet	Income Statement	Cash Flow Statement
Financing Lease	ROU asset Lease liability	Amortization expense Interest expense	Principal (Financing) Interest (Operating)
Operating Lease	ROU asset Lease liability	Lease expense (single line on straight-line basis)	Lease payments (Operating)

Lessee accounting model

Illustrative example

This table highlights the differences in accounting for the lease under the finance lease and operating lease models:

A lessee enters into a three-year lease and agrees to make the following annual payments at the end of each year: $10,000 in year 1, $15,000 in year 2, and $20,000 in year 3. The initial measurement of the right-of-use asset and liability to make lease payments is $38,000 at a discount rate of 8%.

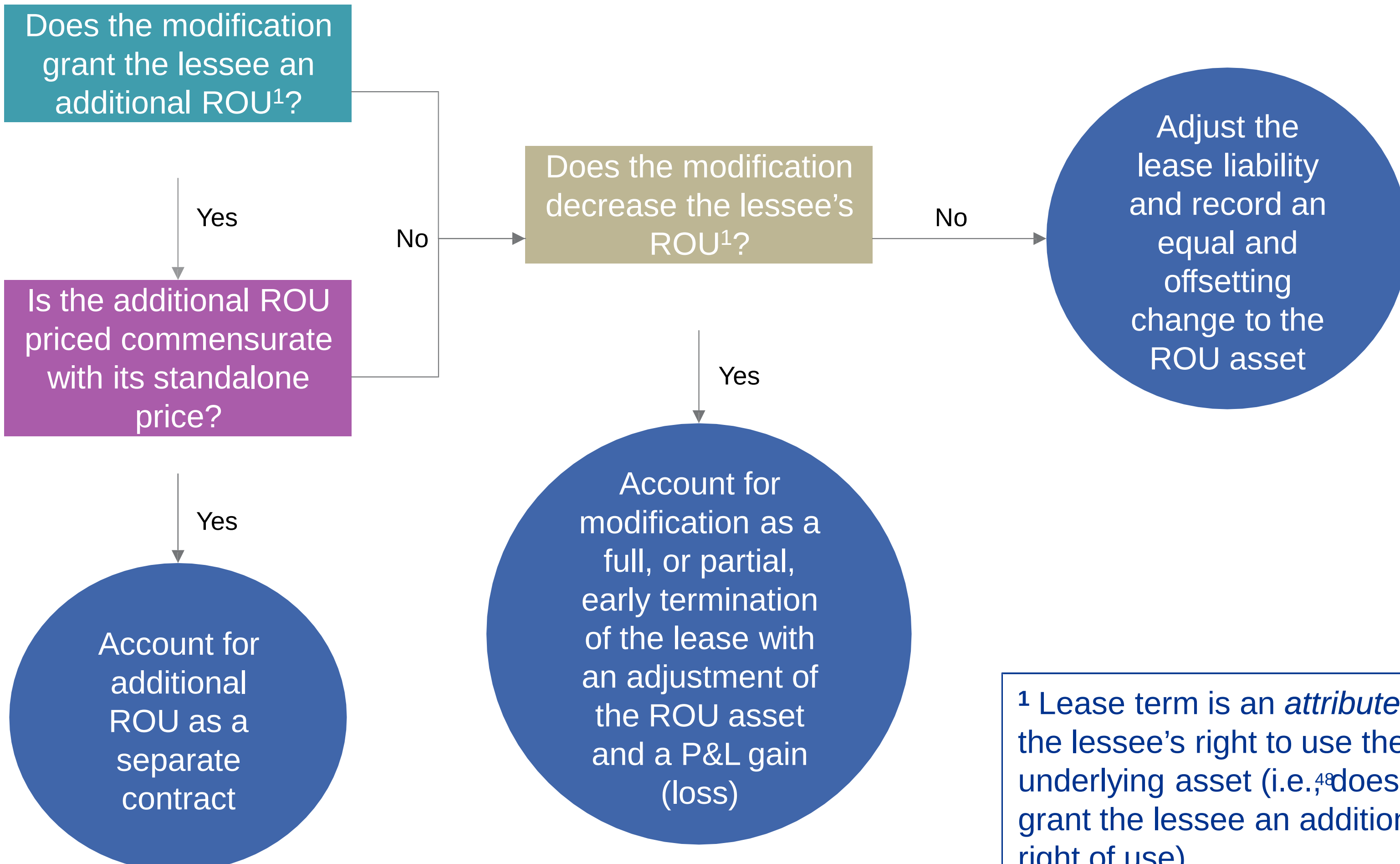
	Both Methods	Finance lease				Operating lease		
Year	Lease Liability	Interest Expense <X>	Amortization Expense <Y>	Total Lease Expense <X + Y>	Right-of-Use Asset	Lease Expense <Z>	Reduction in Right-of-Use Asset <Z – X>	Right-of-Use Asset
0	$ 38,000				$ 38,000			$ 38,000
1	31,038	$ 3,038	$ 12,666	$ 15,704	25,334	$ 15,000	$ 11,962	26,038
2	18,520	2,481	12,667	15,148	12,667	15,000	12,519	13,519
3	–	1,481	12,667	14,148	–	15,000	13,519	–
Total		$ 7,000	$ 38,000	$ 45,000		$ 45,000	$ 38,000	

Finance vs Operating Lease Classification

Description	Finance Lease	Operating Lease
Payment of annual obligation under the lease	Dr. Interest Expense $ 3,038 Dr. Lease Obligation $ 6,962 Cr. Cash ($10,000)	Dr. Lease Expense $ 3,038 Dr. Lease Obligation $ 6,962 Cr. Cash ($10,000)
		NOTE: Dr. is to "Lease Expense" (single line in P&L) rather than Interest
Amortization of the Right of Use Asset	Dr. Amort. Exp. $12,666 Cr. Accum. Amort. ($12,666)	Dr. Lease Expense $11,962 Cr. Accum. Amort. ($11,962)
		NOTE: Dr. is to "Lease Expense" (single line in P&L) rather than Amort. Exp.: Straight Line Lease Exp $15,000 Less Amt for Interest <u>($ 3,038)</u> PLUG = Amortization $11,962
So Total Lease Expense of…	Interest Expense $ 3,038 Amort. Exp. <u>$12,666</u> $15,704	Lease Exp (i.e., Interest) $ 3,038 Lease Exp (i.e., Amort) <u>$11,962</u> $15,000

Reassessments and Modifications

Lessee accounting for lease modifications



[1] Lease term is an *attribute* of the lessee's right to use the underlying asset (i.e., does not grant the lessee an additional right of use).

Lease liability – Subsequent measurement and reassessments

Subsequent measurement

- Measured at PV of unpaid *lease payments* throughout the lease term
- No fair value option

Lease liability remeasured when

- The lease is modified and that modification is not accounted for as a separate contract
- There is a change in:
  - The assessment of the lease term
  - The assessment of a purchase option exercise
  - The amount probable of being owed under a RVG
- A contingency is resolved resulting in some or all variable lease payments becoming fixed payments

Comparison to current U.S. GAAP

Under current U.S. GAAP, lease accounting is not revised after commencement unless the lease is modified.

Lease liability – Subsequent measurement and reassessments (continued)

Lease liability remeasurement – Changes in carrying amount of lease liability resulting from:

Remeasurement of the *lease payments* from *increase* to lessee's right-of-use	Remeasurement of the *lease payments* from *decrease* to lessee's right-of-use	
Adjust ROU asset	Adjust ROU asset	Recognize in P&L

- Discount rate is revised ***unless*** remeasurement is result of a change in:
  - Amounts probable of being owed under a residual value guarantee, or
  - Lease payments resulting from the resolution of a contingency upon which some/all of the variable lease payments (VLPs) are based
- VLPs that depend on an index or rate are remeasured using the index or rate at remeasurement date, when remeasurement is required

Accounting steps for reassessments

	Change in lease term	Change in assessment of lessee purchase option being exercised	Change in amount probable of being owed by lessee under RVG	VLPs become lease payments following contingency resolution
1.Remeasure and reallocate 'consideration in the contract'	✔	✔	✔	✔
2. Remeasure lease liability* using *updated* discount rate	✔	✔	✘	✘
3. Remeasure lease liability* using *original* discount rate	✘	✘	✔	✔
4.Adjust ROU asset. If ROU asset reduced to zero => P&L	✔	✔	✔	✔
5.Reassess lease classification based on reassessment date facts and circumstances	✔	✔	✘	✘
6.If lease classification changes, adjust recognition & presentation	✔	✔	✘	✘

* If there are VLPs that depend on an index or rate, the lease liability is re-measured <u>using the index or rate as of the reassessment date</u>

Subleases, Sale-Leaseback Transactions, and Build-to-Suit Construction

Subleases

Head Lessor → **Apply lessor accounting requirements**

↓

Head lessee/Intermediate lessor → **Apply lessee accounting requirements for head lease and lessor accounting requirements for sublease – present gross***

↓

Sublessee → **Apply lessee accounting requirements**

** Sublease classification based on underlying asset for U.S. GAAP*

- Most *U.S. GAAP* subleases will be classified as *operating* leases by sublessor

Sale-and-leaseback transactions

- Seller-lessee should evaluate the transfer of the underlying asset under the requirements of ASC 606
- Existence of leaseback would not prevent a conclusion that underlying asset was sold
  - Arrangement in which leaseback is classified as a finance lease would preclude sale accounting
- Substantive repurchase options would preclude sale accounting

Gain recognition	• Entire gain resulting from the sale recognized immediately • Special considerations for off-market terms
Leaseback accounting	• Account for leaseback in a manner consistent with other leases • Seller-lessee applies lessee model; buyer-lessor applies lessor model
"Failed" sale-leaseback	• A "failed sale" will be accounted for as a financing arrangement by both parties

Lessee involvement in asset construction

Current "build-to-suit" guidance ***<u>is not</u>*** *carried forward in the new standard*

New accounting depends on whether the lessee controls the underlying asset during the construction period:

Lessee controls asset during construction	• Asset is effectively owned by the lessee during the construction period • Arrangement would be subject to sale-and-leaseback accounting upon completion of construction
Lessee *does not* control asset during construction	• Costs related to the construction or design of the underlying asset would be accounted for under other U.S. GAAP topics

Standard provides indicators a lessee should consider when evaluating whether it controls the asset being constructed

Disclosure Requirements

Disclosures – Lessees

Lessee Disclosure Objective: Enable financial statement users to assess the amount, timing and uncertainty of cash flows arising from leases. Lessees will exercise judgment to determine the appropriate level at which to aggregate, or disaggregate, disclosures.

Topic	Example Disclosures
***Qualitative* Disclosures**	■ Information about nature of leases (and subleases), such as basis, terms and conditions of (1) variable lease payments, (2) extension and termination options, (3) residual value guarantees, etc., ■ Leases not yet commenced that create significant rights and obligations.
Quantitative Disclosures	■ Finance lease cost, separating ROU amortization and interest on lease liability, ■ Operating lease cost, ■ Short-term lease cost, ■ Variable lease cost, ■ Weighted-average remaining lease term (separating finance and operating leases), ■ Weighted-average discount rate, ■ Maturity analysis of lease liabilities, reconciling undiscounted cash flows to the recognized lease liabilities, separately for finance leases and operating leases.
Significant Judgments / Assumptions	■ Determining whether a contract contains a lease, ■ Determining standalone prices for lease and nonlease components, ■ Determining the discount rate for the entity's leases.

Lessee Quantitative Disclosure Example

The table to the right is an example of how the FASB envisions a lessee might satisfy the quantitative disclosures requirements.

The FASB has not *mandated* use of the tabular presentation however.

	Year ending December 31,	
	20X2	20X1
Lease Cost		
Finance lease cost:	$XXX	$XXX
Amortization of right-of-use assets	XXX	XXX
Interest on lease liabilities	XXX	XXX
Operating lease cost	XXX	XXX
Short-term lease cost	XXX	XXX
Variable lease cost	XXX	XXX
Sublease income	(XXX)	(XXX)
Total lease cost	$XXX	$XXX
Other Information		
(Gains) and losses on sale and leaseback transactions, net	$(XXX)	$XXX
Cash paid for amounts included in the measurement of lease liabilities	XXX	XXX
Operating cash flows from finance leases	XXX	XXX
Operating cash flows from operating leases	XXX	XXX
Financing cash flows from finance leases	XXX	XXX
Right-of-use assets obtained in exchange for new finance lease liabilities	XXX	XXX
Right-of-use assets obtained in exchange for new operating lease liabilities	XXX	XXX
Weighted-average remaining lease term—finance leases	X.X Years	X.X Years
Weighted-average remaining lease term—operating leases	X.X Years	X.X Years
Weighted-average discount rate—finance leases	X.X%	X.X%
Weighted-average discount rate—operating leases	X.X%	X.X%