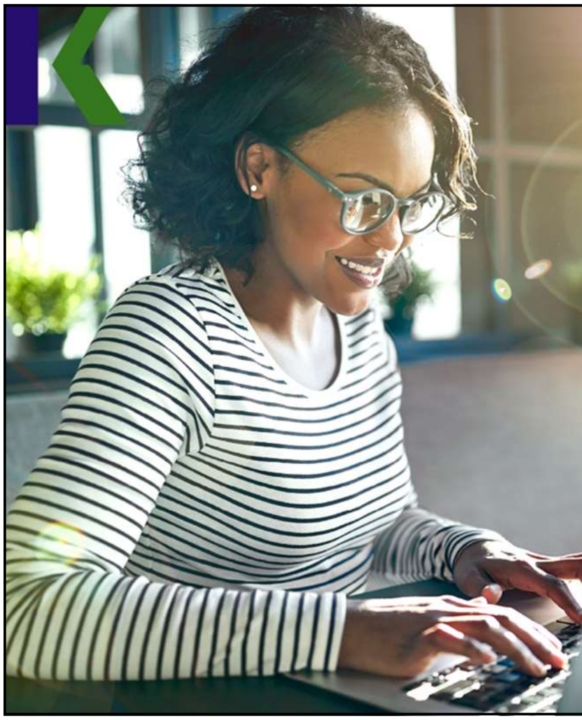


Leases- It's Almost Time

Best Practices and Lease Accounting Refresher

NCACPA Mountain Cluster October 2022

KAPLAN

Unit 1

Introduction & Recent Lease Amendments

KAPLAN

Learning Objectives

At the end of this unit, participants will be able to:

- Describe the significant differences between ASC 840 and 842
- Implement the new amendments to ASC 842
- Identify the transition options practical expedients available for transition from ASC 840-ASC 842

Overview

- In February 2016, FASB issued ASU 2016-02, Leases,
  - Topic 840 is the old, now superseded, standard.
  - Topic 842 is the current standard.
- Delayed due to standards overload. Effective for nonpublic entities with December 31, 2022 year ends.

Overview

- The core principle of the new lease guidance is that a reporting entity should recognize assets and liabilities arising from a lease for both operating and capital leases.
- This belief arose from the FAC 6 definition of liabilities which was:

  "Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events"

- Leases may stand alone or may be embedded in other contracts

Embedded Leases

- Embedded leases have become one of the most unexpected complications in the standard
- Embedded leases are leases that are contained within larger arrangements and is based on the premise that not every lease says "lease" on the document.
- When looking at contracts, to identify leases one should look to see if the contract gives the entity:
  - An explicit or implicit identified asset in the contract and
  - The customer controls use of the identified asset

Embedded Leases

Examples of embedded lease are:

- A contractor hires a subcontractor because the subcontractor has an identified piece of equipment needed to complete the job
- An advertising billboard on the side of a road
- An easement paid for by an entity giving them the right to access property
- An outsourced customer call center where there is dedicated personal, phone lines, computers and other property used by the call center.
- A purchase contract where the manufacture has dedicated equipment and space for the production of the product and/or store of the product after sale in their warehouse

Scope of Standard

A reporting entity should apply ASC 842 to all leases, including subleases

ASC 842 does not apply to the following:

- Leases of intangible assets
- Leases to explore for or use minerals, oil, natural gas, and similar assets
- Leases of biological assets, including timber
- Leases of inventory
- Leases of assets under construction

Significant Differences Between ASC 840 and ASC 842

Differences

- Lessees- Recording operating leases on the balance sheet
- New name for capital leases- finance leases
- Principles based lease classification
- No deferred or prepaid lease expense for operating leases
- More stringent capitalization criteria for initial direct costs
- Enhanced footnote disclosure
- Inception vs. commencement

Similarities

- Very few changes for lessors
- Income statement treatment for lessees is unchanged
- Accounting for finance leases is unchanged
- Change in terminology- not significant (ASC 840- reasonably assured vs ASC 842- reasonably certain). Used for adding options to renew leases
- Lease modification and remeasurement accounting

Lease Transition- Overview

Transition Method 1: Adjust comparative periods

- Entities apply ASC 842 to each lease that existed at the beginning of the **earliest comparative period** presented and leases that commenced after that date.
- Prior comparative periods presented are adjusted.
- Cumulative effect adjustment is recognized at that date.

Transition Method 2: Do not adjust comparative periods

- Entities apply ASC 842 to each lease that commenced as of the **beginning of the current reporting period** with a cumulative effect adjustment as of that date.
- Prior comparative periods are not adjusted under this method and are under ASC 840.
- An entity that applies this method must provide the required disclosures under ASC 840 for all periods to which ASC 840 is applied.

Lease Transition- Overview

Transition- Lessee

- If a lease was classified as an operating lease under the guidance in ASC 840 and will continue to be classified as an operating lease under ASC 840, the lessee should recognize a right-of-use asset and lease liability at the application date.
- The application date for companies that choose to adjust comparatives periods is the later of: (1) the beginning of the earliest comparative period presented and (2) the commencement date of the lease.
- The application date for companies that choose to not adjust comparative periods is the effective date.

Lease Transition- Overview

- **Deloitte Review of 50 Fortune 125 Companies- Lease Transition Disclosures**
- 100% used the alternative method and did not restate the prior year
- Of those 50 entities, **18** disclosed a quantitative cumulative catch-up adjustment to retained earnings. 61% of those explained that it was from recognizing previously deferred gains on sale-leaseback transactions. The other entities were silent.

Lease Transition- Possible Elections

Package of practical expedients: These are a package and must be elected together. Entity is required to disclose the practical expedients elected.

1. The entity does not have to determine whether leases are included in existing or expired contracts at the transition date.
2. Entities will not need to reevaluate existing lease classifications.
3. Entities will not need to reevaluate and possibly exclude certain outlays classified as initial direct costs under ASC 840.

   ASC 842 is more restrictive in costs that can be capitalized. It defines initial direct costs as those that could have been avoided had the entity not entered into a lease agreement.

Lease Transition- Possible Elections

- **Hindsight-** Entities may elect a practical expedient to use hindsight in determining the lease term and assessing the entity's ROU asset.
- **Land Easements -** Entities can elect not to reassess existing or expired land easements under the definition of a lease under ASC 842.
- **Deloitte Review of Practical Expedients Adopted**
  - 46 out of the 50 companies adopted all of the practical expedients
  - 2 out of the 50 took the hindsight practical expedient.
  - 13 out of the 50 elected to take the option related to land easements

Lease Transition- Example

A Company enters into a five-year lease of equipment on January 1, 20X1. The annual lease payments of $45,000 are payable at the end of each year. The lease was originally accounted for as an operating lease and as such it was not recorded under ASC 840. On January 1, 20X2 before transition adjustments, the lessee has accrued rent on the lease of $25,000 reflecting the amount that has been expensed but not paid. At the time of transition there were 4 years left on the lease. The ROU asset is equal to the lease liability before adjustment for accrued rent. The adjustment removes the accrued rent, adjusting the ROU asset.

Yearly payment	45,000
Discount rate 6%	3.4651
PV of 4 payments	155,930

Yearly payment	45,000	
Discount rate 6%	3.4651	
PV of 4 payments	155,930	
ROU Asset	155,930	
Lease liability		155,930
Accrued rent	25,000	
ROU asset		25,000
To record the ROU asset, lease liability and to remove the previously accrued rent.		

Lessor Transition

- FASB requires a lessor to apply a modified retrospective transition approach for sales-type, direct financing and operating leases existing at or entered into after the date of initial application.
- Given that the practical expedients allow reporting entities to avoid reconsidering lease classification, most will retain their original classification
- **Sales Type- Direct Financing- Do not** reassess whether the sales type lease would have qualified for upfront profit recognition
- Initially recognized a net investment in the lease at the earlier of date of application or commencement. Measure at the CV of the net investment of the lease under ASC 840 including capitalized IDC.
- Beginning on effective date the lessor subsequently measures the net investment in the lease in accordance with subsequent measurement guidance

Lessor Transition

- If a lease was classified as a direct financing or sales-type lease for ASC 840 the lessor should continue to recognize its net investment in the lease at the later of the earliest period presented or lease commencement.
- The net investment amount is the same as the carrying amount measured using the guidance in ASC 840 immediately before that date.
- For a direct financing lease, the net investment in the lease should include any unamortized initial direct costs capitalized in accordance with ASC 840.
- The transition guidance in the leases standard does not require lessors to write off initial direct costs that do not meet the definition of initial direct costs under the new guidance even if the entity does not elect the package of practical expedients.
- For lessors that choose to adjust comparative periods presented before the effective date, a lessor should account for the lease in accordance with the subsequent measurement guidance in ASC 840 during the comparative periods

Lessor Transition

- **Operating lease-** If a lease was classified as an operating lease under ASC 840 the lessor should continue to recognize the carrying amount of the underlying asset and any lease assets or liabilities as before.
- If the entity elects the package of practical expedients, it does not reassess unamortized initial direct costs.
- If a reporting entity does not elect the package of practical expedients, unamortized initial direct costs that do not qualify for capitalization under the leases standard should be written off with an offsetting entry to opening equity unless the entity chooses to adjust comparative periods then they should be written off to earnings in the comparative period.
- Unamortized initial direct costs that qualify for capitalization under the leases standard should remain capitalized and continue to be expensed over the lease term.

Lease Refresher- Possible Elections

Practical Expedients- Recognition

- **Use of the Risk-free Rate -** Election only applies to private entities. Use a risk-free rate, for example, a U.S. Treasury obligation, to discount the lease liability and avoid the more complicated calculation of its incremental borrowing rate.
  - Entities should be aware that the lower the discount rate the higher the liability.
  - Entities may now elect by class of asset.

Lease Refresher- Practical Expedients

Practical Expedients- Recognition

Short Term Lease Exemption - lease with a term of 12 months or less as of the commencement date, without a purchase option, the lessee is reasonably likely to exercise.

- Entities are not required to capitalize and record those leases
- There are disclosure requirements related to this election. This election can be made by class of assets.

Deloitte Review of Fortune 125 Companies

- 41 of the 50 elected the short-term lease recognition exemption
- Only 21 of the 50 entities disclosed short term lease costs. The most common reason is materiality.

Lease Refresher- Practical Expedients

Practical Expedients- Recognition

Separation of Lease and Nonlease Components

- A lessee can elect **not** to separate the consideration into lease and nonlease components. There is a similar provision for lessors but for lessors there are two provisions that must be met.
  - The timing and pattern of transfer of the nonlease component and the associated lease component are the same.
  - The standalone lease component would be classified as an operating lease if accounted for separately.

Deloitte Review of Fortune 125 Companies

- 37 of the 50 elected not to separate the lease and non lease components

Lessor Practical Expedient

A lessor may, as an accounting policy election, by class of underlying asset, choose to not separate non-lease components from lease components if the non-lease components otherwise would be accounted for under ASC 606, and both of the following are met:

- The timing and pattern of revenue recognition for the lease component and non-lease components associated with that lease component are the same
- The lease component would be classified as an operating lease
- Deloitte review- 12 lessors in the population of 50 entities- 2 elected the practical expedient **not** to separate lease and non lease components

Lease Refresher – Practical expedients

Embedded Leases- Most entities will elect the practical expedient not to assess leases that are already recorded. However, the guidance reminds accountants that if an inappropriate assessment was made originally then it should be corrected.

Operating Leases with Big Impacts - Smaller leases of equipment and vehicles vs. leases of real estate. May seriously impact covenants.

Inputs into Calculations- first consider rate implicit in the lease.

- Incremental borrowing rate - ASC 842 requires use of secured rate.
- Nonpublic entities can elect to use a risk-free rate to discount the lease liability.

Lease Refresher - Considerations

Materiality- The FASB's basis for conclusions (BC421) discuss how IFRS allows for the establishment of a materiality threshold of $5,000 or less for leases that would not be recognized.

- The FASB included no such threshold. FASB observed that, in addition to accounting for some leases at a portfolio level, entities will likely be able to adopt reasonable capitalization thresholds

Related Party Leases- leases between related parties should be classified in accordance with the lease criteria applicable to all other leases on the basis of the legally enforceable terms and conditions of the lease.

- Entities should assess the need for disclosures

Lease Refresher - Considerations

Pandemic Related Issues

- COVID-19 had a very serious effect on many entities. Although this is less so now, the packages of relief have dwindled.
- FASB guidance on lease concessions arising from temporary property closures
- Another ongoing issue is impairment

Lease Refresher - Considerations

Pandemic Related Issues

- Lease concessions- FASB allowed accounting for lease concessions as variable rent instead of modifications.
- Some entities had 85% of workforce in offices, now for many it may be more like 15%. Some entities are renegotiating with their lessors about space reductions or deferrals of payments or change in lease terms.
- Review these changes against the modification guidance.
- Some companies are considering selling their space and leasing back a smaller portion. Consider impact of leases now on financial statements. Sometimes it is hard to tell when control transfers.

Lease Refresher - Considerations

Impairment

- ROU assets could be impaired if asset groups to which they belong are impaired.
- Triggering event – COVID-19 pandemic
- Both lessors and lessees may find assets are impaired.
- Fair values

Abandonment

- Company may abandon ROU asset if cannot use it and are not able to sublease it.
- Could have happened pre-COVID and the entity thought they could sublease it and when COVID hit they couldn't
- Accelerate amortization of the ROU asset

Lease Refresher - Considerations

Lessee Discount Rates

- Incremental borrowing rate may be affected by interest rates changing.

Lessee Reassessments

- COVID may require the lessee to not exercise options previously thought they would exercise
- May be clauses in the lease that trigger a contingency- minimum payment clause or termination right
- Expected residual value of the underlying asset may be affected by circumstances changing the amount it is probable the lessee will owe under a residual guarantee

Lease Refresher - Considerations

Lessor Revenue Recognition- Collectability

- Lessor may conclude that amounts are not probable of being collected by lessees.
- Collectability **not** probable at commencement
  - **Sales-type lease-** lessee does not recognize any lease revenue or derecognize the underlying asset until collectability becomes probable. Lessor accounts for amounts received as variable lease payments
  - **Direct financing lease-** Lease cannot be classified as DF if collectability is not probable. It becomes an operating lease.
  - **Operating lease-** recognize revenue on the cash basis

Lease Refresher - Considerations

Lessor Revenue Recognition- Collectability

- Collectability probable at commencement
  - **Sales-type and direct financing lease-** Collectability is not reassessed after the commencement date even for events such as the pandemic. Subsequent changes are accounted for as impairments
  - **Operating lease-** Ongoing assessment that can change.

Lease Refresher - Lessons Learned

Implementation Mistakes to Avoid

- Well thought out process with good software is critical. Make thoughtful decisions on policy elections and understand the lease payment processes.
- Internal controls should be developed to address the accuracy and completeness of the information as well as how it is gathered and monitored.
- Use of spreadsheets may be unwise as they are prone to error.
- The lease maturity schedule will include not just office space and real estate but smaller equipment, vehicles and other items. Take inventory.
- Debt covenants may be significantly impacted with the new leases. Work with the bank early.

Lease Refresher - Lessons Learned

Business Considerations

- In determining the lease term management will consider lease term criteria. **Reasonably certain** is a high threshold of probability.
- **Lease does not have an explicit end -** Lessee and lessor should evaluate the enforceable rights and obligations of the contract
- Any period that may not be cancelled by the lessee should be included in the lease evaluation.

Lease Refresher - Lessons Learned

A chain of urgent care clinics was evaluating its arrangement for leasing office space. The lease called for a 5-year noncancellable lease term with an option to renew for another 5 years based on the same escalation index used for the first 5-year term. Entity had a substantial investment in leasehold improvements. Therefore, the economic incentive made it reasonably certain that the entity would renew and the lease term was set at 10 years.

ASU 2021-09 Leases, amendment

- ASC 842, *Leases,* provides for lessees to use a discount rate as follows:
  - Rate implicit in the lease
  - Incremental borrowing rate of implicit rate is not determinable
  - Nonpublic entities may elect to use a risk free rate and disclose this as an accounting policy election
- Risk free rate was an **entity wide** election until this amendment.
- FASB decided to provide more flexibility – risk free rate will result in a higher liability since rates are low. Sometimes it is challenging to determine an incremental borrowing rate.
- Amendment has made this an election by **class of assets**

Example

A not-for-profit social service organization had several leases classified under ASC 842 as operating leases. The entity leased a significant amount of space for its corporate offices along with clinic space in the same building. It also leased copiers and some minor medical equipment. The CFO performed an analysis of the difference in the ROU asset and the lease liability using the risk- free rate and his estimate of the entity's incremental borrowing rate. Based on the analysis he decided it was better to elect the expedient for the equipment and estimate the incremental borrowing rate for the leased space.

ASU 2021-05, Lessor Accounting

- July 19, 2021, the FASB issued ASU 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*
- Requires a lessor to classify a lease with variable lease payments (that do not depend on a rate or index) as an operating lease on commencement date if classifying the lease as a sales-type or direct financing lease would result in a selling loss.
- Effective for fiscal years beginning after December 15, 2021, for all entities, and interim periods within fiscal years beginning after December 15, 2022, for all nonpublic business entities.

Unit 2

Lease Refresher- Basics

Learning Objectives

At the end of this unit, participants will be able to:

- Identify the applicable components of ASC 842 and implement them
- Test a lessor or lessee's implementation of applicable components of ASC 842 depending on the client situation

Lease Refresher- Basics

- The standard defines a lease as:

  A contract or part of a contract that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

- Key to this definition is an understanding of the terms:
  - Control
  - Identified asset

Lease Refresher- Basics

1. **Lease-** the contract needs to convey the right to **control** the use of an **identified** asset. Customer must have **both**:
   – right to obtain substantially all of the economic benefits from use of identified asset
   – right to direct the use of the identified asset

Lease Refresher- Basics

- A customer does not have the right to use an identified asset if the supplier has the substantive right to substitute the asset throughout the period of use.
- A supplier's right to substitute an asset is substantive only if both of the following conditions exist:
  - The supplier has the practical ability to substitute alternative assets throughout the period of use
  - The supplier would benefit economically from the exercise of its right to substitute the asset

Example – Manufacturing Lines

Widget Mfg. Co. enters into an arrangement with a Noran Supply to use the Noran's manufacturing lines for a 5-year period. Widget notifies Noran when the lines are to be used based on Widgets production needs. Noran does not have substantive substitution rights and cannot use the manufacturing lines for any other purpose. Is this a lease?

- If the manufacturing lines are only used to produce Widget's product based on the Widget's decision making (e.g. when they issue purchase orders during the contract period) this is a lease. Widget makes the decisions on how and for what purpose the manufacturing lines are used.
- In this case Widget would receive substantially all of the economic benefit from the exclusive use of the identified manufacturing lines, and has the ability to determine when, whether, and how often the lines would be used based on its purchase orders.
- If Noran has flexibility to determine the capacity at which to run the manufacturing lines when purchase orders are received, Widget may merely be ordering product, and the arrangement would not contain a lease. Widget would not be making relevant decisions that impact how and for what purpose the asset is used.

Example – Copy Machines

A multi-specialty law firm entered into a contract for copy machines and printers for 3 years. The contract required the law firm to purchase consumable supplies (toner cartridges and ink) from the supplier even though the law firm could purchase them elsewhere. The contract also included maintenance of the copiers and repair of the printers for the duration of the contract. Depending on what is needed the machines could be replaced without the approval of the law firm. The law firm decides how to use the equipment. Is this a lease?

Yes, the right to control is there. There are 3 components (lease and nonlease)

- Lease of equipment (ROU)
- Supply of consumable supplies
- Maintenance of machinery

Lease Refresher- Basics

- An entity should combine two or more contracts, at least one of which is or contains a lease, entered into at or near the same time with the same counterparty (or related parties) and consider the contracts as a single transaction if any of the following criteria are met:
  - The contracts are negotiated as a package with the same commercial objective(s).
  - The amount of consideration to be paid in one contract depends on the price or performance of the other contract.
  - The rights to use underlying assets conveyed in the contracts (or some of the rights of use conveyed in the contracts) are a single lease component

Lease Refresher- Basics

- **Lessees.** Services should be separated from the leased space and recognized separately.
    - ASC 842 allows an entity to choose **not** to separate the lease and nonlease components.
    - The guidance states provides specifically for new leases but does not say whether the lessee may elect the accounting policy not to separate for the existing leases in calculating the lease liability at transition.
- **Lessors.** Lessors have the opportunity to make a similar election. The distinction is that for lessors:
    - The timing and pattern of transfer for the nonlease component and the associated lease component are the same
    - The stand-alone lease component would be classified as an operating lease if accounted for separately

Lease Refresher- Basics

Allocating amounts to lease and nonlease components (if election not made)

- Allocate the consideration in the contract to the separate lease components by determining the relative standalone price of the separate lease components and the nonlease components on the basis of their observable standalone prices.
- If observable standalone prices are not readily available, the lessee should estimate the standalone prices, maximizing the use of observable information.
- A residual estimation approach may be appropriate if the standalone price for a component is highly variable or uncertain.
- Initial direct costs should be allocated to the separate lease components on the same basis as the lease payments.

Lease Refresher- Basics

Taxes and Insurance

- Lease payments for taxes and insurance are not a lease component. They may be included in a lease liability and ROU asset.
- Who pays the bill does not matter (reimburse lessor or paying a third party of the lessor's behalf).
- Deciding factor is whether the payments are fixed or variable
  - Payments are fixed- should be included in contract consideration as a fixed lease payments. Allocate to the lease and nonlease components.
  - Payments are actual amounts – considered variable lease payments not tied to a rate or index and they are **excluded** from the ROU asset and liability. Expense as incurred.

Lease Refresher- Basics

Lease Components- Example

- Retail space is leased with surrounding land which is used for parking. The lessee would not lease the building without this additional land because of the lack of available parking in the area.
  - The interdependency makes this **one** lease component.
- A manufacturer leases a building and also leases certain equipment. The equipment is such that it is installed in the plant. The lessor does not lease the equipment separately. It is part of bundled contract. However, the equipment could be purchased elsewhere.
  - The two components are not interdependent. One could be used without the other.

Lease Refresher- Basics

Lease Components, Allocation of Consideration- Example

- Building in an office suite complex is leased for 5 years
- Common area maintenance is provided.
- Contract for $50,000 **a year** does not specify how much is for each component.
- No stand-alone inputs are available however, the lessee obtains a standalone comparable price from other information available that the CAM represents $5,000 of the contract.
- Lessee allocates $1,000 a month to the CAM and $9,000 to the leased property

Lease Refresher- Basics

Lease Term

- Begins at commencement and includes rent free periods. Includes:
  - Noncancellable period
  - Periods under an option to extend the lease if the lessee is reasonably certain to exercise that option
  - Periods under an option to terminate the lease if the lessee is reasonably certain not to exercise that option
  - Periods under an option to extend (or not to terminate) controlled by the lessor.

Lease Refresher- Basics

- Reasonably certain- FASB describes as a high threshold, such as a probability exceeding 75-80 percent.
- Consider all contractual provisions, including renewal and termination options that are reasonably certain of exercise by the lessee
- If a renewal option is controlled by the lessor, include that renewal period in determining the lease term.
- Entity must use judgment to determine whether an option controlled or effectively controlled by a third party should be reflected in the lease term.

Lease Refresher- Basics

- Assessment to exercise/ not exercise option should **not** be based solely on the lessee's intentions, past practices, or estimates.
- Management should focus on the factors that create economic incentive for the lessee, including contract, asset, entity, or market-based factors.
- When assessing the length of the noncancellable period of a lease, an entity should apply the definition of a contract to determine whether a contract (lease) is enforceable.
- Lease is no longer enforceable when both the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Example

A bakery enters into an agreement with a lessor for 60 months. At the end of the period of time the lessor can unilaterally terminate the lease. If the lessor does not terminate the lease it continues for another 24 months. The entity will record an 84-month lease since the optional period is controlled by the lessor.

Lease Refresher- Basics

Fiscal funding clause

- Provides for the cancellation of the lease if the legislature or other funding authority does not appropriate the funds necessary for the government to fulfill its obligations
- Evaluate whether it is more than remote that a lessee will exercise the clause.

Lease Refresher- Basics

Fiscal funding clause

- If exercise is more than remote, only the periods for which exercise is remote should be included in the lease term. Consider:
  - a lessor's experience relative to other similar leases with the same lessee and/or with similar lessees and governmental agencies
  - technological obsolescence
  - If asset is essential to normal operations of the government

Lease Refresher- Basics

Short-Term Leases

- A short-term lease is a lease that, at the commencement date, has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise
- Elect by class of asset
- The lessee has an accounting policy option to recognize payments on a short-term lease on a straight-line basis over the lease term
- If the accounting policy option is elected, short-term leases would not be reflected on the lessee's statement of financial position
    - Policy note disclosure is required

Lease Refresher- Basics

Small Ticket Leases

- Entities may purchase large quantities of certain assets such as computers or mobile phones
- Guidance can be applied at the portfolio level by grouping contracts together

Lease Refresher- Basics

Sale/Leasebacks

- Used mainly for larger capital items or real estate
- Generate cash flows
- Effectively refinance at a lower rate due to the transfer of tax ownership and benefits
- Reduce exposure to the risks of owning assets
- Provide temporary transition space to a seller-lessee relocating to a new property

Lease Refresher- Basics

Sale/Leasebacks

- A sale/leaseback occurs when a seller-lessee enters into a sale and leaseback of an underlying asset that is
  - subject to an existing operating lease
  - or is subleased by the seller-lessee to another party under an operating lease.

Lease Refresher- Basics

Sale/Leasebacks

- First look to ASC 606 to determine whether a sale has occurred
- If the leaseback is not an operating lease, then control did not pass and there is no sale.
- If the transfer is a sale then the seller accounts for it as such and derecognizes the asset and accounts for the lease back under ASC 842
- If the transfer is **not** a sale then no asset derecognition and the seller/lessee accounts for it as a financial liability and the buyer/lessor accounts for it as a receivable.

Lease Refresher- Basics

Sale/Leasebacks

- First look to ASC 606 to determine whether a sale has occurred
- If the leaseback is not an operating lease, then control did not pass and there is no sale.
- If the transfer is a sale then the seller accounts for it as such and derecognizes the asset and accounts for the lease back under ASC 842
- If at FV then compare sales price to FV of asset or PV of lease payments to PV of rentals.
- If transaction is not at FV then adjust the selling price of the asset- increase is accounted for as prepaid rent. Decrease is accounted for as additional financing.

Lease Refresher- Basics

Example- Company wants to lease vehicle for 5 years.

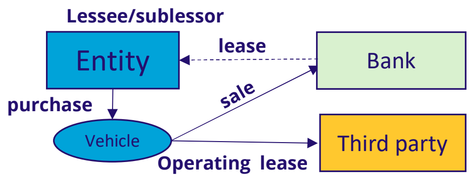
- Vehicle manufacturer is not willing to lease so Company identifies a bank that is willing to purchase and enter into an operating lease.
- Company purchases the vehicle, takes possession and obtains legal title.
- Company sells the vehicle to the bank. Bank has legal title to the vehicle.
- Concurrent with the sale, Company and the bank enter into a five-year lease
- Since Company purchased the vehicle from the manufacturer, obtained legal title, accepted the asset, had physical possession of the asset, and had the significant risks and rewards of ownership, it obtained control of the asset prior to selling the asset to the bank.

Lease Refresher- Basics

Sale/Leasebacks

- A sale/leaseback occurs when a seller-lessee enters into a sale and leaseback of an underlying asset that is subleased by the seller-lessee to another party under an operating lease.

Example- entity purchases a vehicle and leases it to a third party. If the entity then sells the vehicle to a bank and leases it back under an operating lease, the entity is now a lessee-sublessor and subject to sale and leaseback accounting



Example- Gain on Sale, Sale at FV

- A seller/lessee enters into a sale and leaseback transaction of a building with a buyer/lessor for a market value **sales price of $20 million**. The seller/lessee leases back the asset for ten years in exchange for $200,000 per year in rental payments. The seller/lessee's net **carrying** amount of the asset at the date of sale is **$15 million**. Leaseback is classified as an operating lease.
- The seller/lessee derecognizes the underlying asset and recognize a gain on sale of $5 million
- If the transaction is at market terms, the presence of the leaseback does not affect the recognition of a gain on sale.
- Gain is recognized in the period in which the sale is recognized.

Example- Loss on Sale, Sale at FV

- A seller/lessee enters into a sale and leaseback transaction of a building with a buyer/lessor for a market value **sales price of $20 million**. The seller/lessee leases back the asset for ten years in exchange for $200,000 per year in rental payments. The seller/lessee's net **carrying** amount of the asset at the date of sale is **$25 million**. Leaseback is classified as an operating lease.
- The seller/lessee derecognizes the underlying asset and recognize a loss on sale of $5 million
- If the transaction is at market terms, the presence of the leaseback does not affect the recognition of a loss on sale.
- Seller/lessee should recognize the loss on sale of $5 million in the period in which the sale is recognized.

Example- Sale at less than FV

- A seller/lessee purchases equipment at **$5.5 million** which is FV. Shortly thereafter, the seller/lessee sells it to a buyer/lessor for **$5 million**. The seller/lessee leases it back for 10 years in exchange for rent payments of **$400,000** payable at the beginning of each year. The incremental borrowing rate is **6%**.
- The seller/lessee accounts for the difference of **$500,000** by adjusting the initial leaseback ROU asset (like prepayment of rent). The adjustment increases the sales price to $5.5 million.
- ROU asset is initially equal to the lease liability. The lease liability is **$3,120,676** (PV of payments at 6%). Since the **$500,000** is treated as a day 1 payment it is not discounted.

Cash		5,000,000	
ROU Asset		3,620,676	
Equipment			5,500,000
Lease liability			3,120,676

Example- Sale at more than than FV

- A seller/lessee sells a building with a remaining economic life of 40 years to an unrelated buyer/lessor for **$30 million.** The CV of the building is **$20 million**. Simultaneously the seller/lessee enters into a contract with the buyer/lessor for the ROU asset for **10 years**. Rental payments are **$1 million** payable at the end of the year.
- Comparable sales figures of recent transactions for similar properties are available. Estimated FV of asset is **$28 million.** Since sales price is not at FV, both the seller/lessee and buyer/lessor make adjustments to recognize the sale leaseback transaction at FV.
- Lease liability is discounted at 6% ($7,360,087-$2 million off market adjustment). The **$2 million** is recorded as a financial liability. An $8 million is recorded as a gain on sale.
- Each payment is allocated pro rata between the lease liability and the financial liability.

Cash		30,000,000	
ROU Asset		5,360,087	
Equipment			20,000,000
Lease liability			5,360,087
Financial liability			2,000,000
Gain on sale			8,000,000

Lease Refresher- Basics

Subleases

- A lessee may sublease assets or part of assets
- Two separate contracts- head lease and sublease
- Head lease- use lessee guidance
- Sublease- use lessor guidance
- Classification of sublease could be different
- Lease assets and liabilities cannot be offset
- Impairment could occur on the ROU asset for the sublease

Unit 3

Calculating the Leased Asset and Lease Liability

Learning Objectives

At the end of this unit, participants will be able to:

- Calculate the initial ROU asset and lease liability for lessees for finance and operating leases
- Classify leases as sales-type, direct financing and operating for lessors

Calculating the Leased Asset and Liability- Lessee

Finance or Operating Lease -If any are met it is a finance lease

1. Lease transfers ownership of the asset to the lessee by end of the lease term.
2. Lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise
3. Lease term is for the major part of the remaining economic life of the underlying asset.
   - If the date falls within the last 25% of the total economic life of the asset this is not used.
4. PV of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset.
5. Underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

Calculating the Leased Asset and Liability- Lessee

Example analysis

1. Lessee enters into a 10-year lease for equipment. The equipment has an economic life of 12 years. The lease payments are $9,000. The controller calculated the PV of the payments at $69,500. The fair value of the equipment was $75,000 at commencement. Should the controller classify this lease as an operating or finance lease.
   - Lease term is for 83% of the economic useful life of the asset
   - PV of lease payments is 92% of the fair value of the underlying asset.
2. Lease of a building where the lease is 10-years but the useful life of the asset is 30-years and the PV of the lease payments are approximately 30% of the fair value of the asset.

Calculating the Lease Liability- Lessee

Initial Measurement of Lease liability is sum of:

- Fixed payments, including in substance fixed payments, less any lease incentives paid or payable to the lessee
- Variable lease payments that depend on an index or rate such as the consumer price index or a market interest rate. This is measured using the index or rate at the commencement date.
- Fees paid to the owners of a special-purpose entity for structuring the transaction.
- Amounts probable of being owed by the lessee under a residual value guarantee.
- Exercise price of a purchase option -reasonably certain that the lessee will exercise
- Payments for penalties for terminating the lease if the lase term reflects the lessee exercising an option to terminate the lease.

Calculating the Lease Liability- Lessee

Fixed Lease payments

- Payments required by the terms of the contract. Can be fixed, in-substance fixed or variable.
- If a lease includes a payment of taxes and insurance along with the lease payment, it is fixed. And it is not a separate component of the lease. Therefore, it's included.
- Leasehold improvement payments may also be included. The lessee will determine whether the leasehold improvements belong to the lessor.
    - If they do not, then they would not be included.
    - Diversity in practice. Generally excluded. The lessee should consider whether they are required to be paid under the lease. If not, then excluded.
    - If they could be used by future tenants and are a required part of the lease payment then include

Calculating the Lease Liability- Lessee

Variable Lease payments

- If payments are tied to a rate or index then they are included in the liability
- Often variable lease payments are tied to performance such as a percentage of revenue
- Sometimes they are based on the usage of an asset. Car loans have features like this where if milage is too high an additional payment results

Calculating the Lease Liability- Lessee

Variable Lease payments- Example

- A lessee enters into an agreement to lease space in a building. The contract calls for an escalation rate equal to the 5-year US Treasury at the date of the lease commencement. The initial rent was $13,000. The controller calculated the following.

Year 1	13,000
Year 2	13,455
Year 3	13,926
Year 4	14,413
Year 5	14,918

- The leased liability equals the sum of the payments (including escalation) over the period.
- A remeasurement does **not** occur, even if the Treasury rate changes.

Calculating the Lease Liability- Lessee

Variable Lease payments- Examples

Change in the CPI

A lessee enters into an agreement to lease space in a building. The contract calls for an escalation rate equal to the increase in the CPI at the date of the lease commencement. The initial rent was $13,000. The controller had no calculation to make because the change in the CPI is not known at the commencement of the lease.

In-substance fixed payments

Lessee enters into an agreement that calls for increase each year of the greater of 1.5% of revenue or 2% of the previous year's lease payments. Since there is a floor of 2% of the previous year's lease payments that would be calculated and used in the calculation of the liability.

Calculating the Lease Liability- Lessee

Residual Value Guarantee

- Guarantee to the lessor that the value of the asset will be at least a certain amount at the end of the lease.
- Guarantees may be made the lessor or by a 3rd party.
- Only the amount probable of being paid under the guarantee is included in the lease liability and ROU asset.
- Important consideration determining lease classification- in that analysis use the full amount, not just the probable amount.

Calculating the Lease Liability- Lessee

Discount Rate

The discount rate used to determine the present value of the lease payments is determined with the following priority:

- **Lessor's Implicit Rate** – rate of interest that causes the aggregate present value of the lase payments and the amount that the lessor expects to derive from the underlying asset following the end of the lease term to equal:
  - FV of the underlying asset less any related investment tax credit retained
  - Any deferred initial direct costs of the lessor
- Not likely that the implicit rate will be readily available

Calculating the Lease Liability- Lessee

Discount Rate

The discount rate -priority (con't):

- **Lessee's Incremental Borrowing Rate** – rate of interest lessee would have to pay to borrow on a **collateralized** basis over a similar term in similar economic conditions.
- Determine either lease by lease or on a portfolio basis (should not yield materially different results)
- **Risk Free Discount Rate**
  - This election can be made by asset classification.
  - FASB compares this to US Treasury Rate, others may look to the Applicable Federal Rate used by the IRS.

Calculating the Leased Asset- Lessee

Initial Measurement of the Right of Use Asset

- Amount of the initial measurement of the lease liability
- Any lease payments made to the lessor at or before the commencement date less any lease incentives received
- Any initial direct costs incurred by the lessee as defined by ASC 842. These are much more restrictive than those under ASC 840

Calculating the Leased Asset- Lessee

Initial direct lease costs - costs related to the acquisition of the lease. They are:

- Incremental, in that they would not have been incurred if it were not for the lease contract. Examples:
  - Certain substantive incentive-based commissions (including payments to employees acting as selling agents)
  - Lease documentation preparation costs incurred after the execution of the lease (e.g., regulatory and other filing fees)
  - Legal fees that are contingent on successful execution of the lease
  - Certain payments to existing tenants to move out
  - Consideration paid for a guarantee of a residual asset by an unrelated third party

Calculating the Leased Asset- Lessee

- Lessee includes IDC these in the measurement of the initial ROU asset and amortizes them over the term of the lease
- Lessor accounts for them based on type of lease
  - Sales-type lease- expense at inception if the lessor recognizes selling profit
  - Otherwise include in the lease receivable by considering them in the measurement of the net investment in the lease
  - Operating lease- expense over the term of the lease

Example- Operating Lease (Lessee)

A Company entered into a 5-year lease for office space that was classified as an operating lease. The Company used an incremental borrowing rate of 5% to discount the lease since the rate implicit in the lease was not readily determinable. There were no initial direct costs, no prepayments before the commencement, no lease incentives and no option to purchase. The payments illustrated below were at fixed escalating amounts each year. No variable payments. The ROU asset and lease liability were the same.

	Interest	Liability Amortization	Payment
December 31			
20X1	4,250	10,750	15,000
20X2	3,713	12,288	16,000
20X3	3,098	13,902	17,000
20X4	2,403	15,597	18,000
20X5	1,623	17,377	19,000
	15,087	69,913	85,000

Example- Operating Lease (Lessee)

- The ROU asset was amortized using the SL method. Straight line expense makes the amortization different than the lease liability. The "plug" is the difference between the cash outlay and SL lease expense.

December 31	Interest	Lease Expense	ROU Amortization
20X1	4,250	17,000	12,750
20X2	3,713	17,000	13,288
20X3	3,098	17,000	13,902
20X4	2,403	17,000	14,597
20X5	1,623	17,000	15,377
	15,087	85,000	69,913

Example- Operating Lease (Lessee)

- Journal entries for the first-year follow:

1/1/X1	Record the operating lease			
	ROU Asset		69,913	
	Lease liabiity			69,913
12/31/X1	Record the 1st year amortization and payment of cash to the lessor.			
	Lease expense		17,000	
	Lease liability		10,750	
	ROU asset			12,750
	Cash			15,000

Example- Finance Lease (Lessee)

A Company entered into a 5-year lease for equipment that was classified as a finance lease. The Company used an incremental borrowing rate of 5% to discount the lease since the rate implicit in the lease was not readily determinable. There were no initial direct costs, no prepayments before the commencement, no lease incentives and no option to purchase. The payments illustrated below were at fixed escalating amounts each year. No variable payments. The ROU asset and lease liability were the same.

	Interest	Liability Amortization	Payment
December 31			
20X1	4,250	10,750	15,000
20X2	3,713	12,288	16,000
20X3	3,098	13,902	17,000
20X4	2,403	15,597	18,000
20X5	1,623	17,377	19,000
	15,087	69,913	85,000

ROU Asset	**69,913**
December 31	
20X1	13,983
20X2	13,983
20X3	13,983
20X4	13,983
20X5	13,983
	69,913

Example- Finance Lease (Lessee)

- Journal entries for the first year. Note that the initial recording is the same whether it is a finance or operating lease. It is the subsequent entries that are different.

1/1/X1	Record the finance lease			
	ROU Asset		69,913	
	Lease liabiity			69,913
12/31/X1	Record the 1st year amortization and payment of cash to the lessor.			
	Interest expense		4,250	
	Lease liabiity		10,750	
	Cash			15,000
	Amortization of ROU asset		13,983	
	ROU asset			13,983

Accounting for a Purchase Option- Example

Lessee enters into 5-year lease of equipment. Annual payments are $59,000 at the end of the year. No initial direct costs. The lessee has an option to purchase the equipment for $5,000. The residual value of the equipment is $75,000. The lessee has a significant economic incentive to exercise the purchase option. Fair value at the commencement of the lease is $250,000. The estimated useful life is 7 years. The rate implicit in the lease is 6.33%. This lease is classified as a finance lease.

Payment Y 1	59,000			
Payment Y 2	59,000			
Payment Y 3	59,000			
Payment Y 4	59,000			
Payment Y 5	59,000			
Purchase option	5,000			
	300,000			
Discounted at 6.33%	(50,000)			
	250,000			
ROU Asset	250,000			
Lease liability		250,000		
Amortization over 7 years since there is an economic incentive to purchase.				
At the end of year 5 the lessee pays the lessor $5,000.				
Lessee can choose to present the ROU asset in property or separately.				

Impairment of Right of Use Asset

- Lessee evaluates ROU asset and recognizes impairment, if any.
- Classification of lease is not relevant
- Impairment loss recognized only if carrying amount of asset is not recoverable and exceeds fair value
- Carrying amount deemed not recoverable if it exceeds sum of undiscounted cash flows expected to result from use and disposition
- Assessment based on carrying value of the asset when it is tested for impairment.

Impairment of Right of Use Asset

- Consider:
  - Significant decrease in market price
  - Adverse change in how the asset is used or physical condition
  - Change in legal factors or business climate
  - Current period operating or cash flow loss combined with continuing losses associated with the asset
  - Current expectation that more likely than not (>50%) the asset will be sold or disposed of before the end of estimated useful life

Impairment of Right of Use Asset

- Considerations- operating leases are more likely to be impaired because amortization of ROU asset increases over time- NBV would be higher

Operating Lease

- If ROU asset is impaired lease expense is no longer SL. Interest is effective interest method, but amortization would be SL like a finance lease.
- Disclosure is still the same

Finance Lease

- Lessee revises the amortization expense prospectively. New SL amortization based on revised asset value.

Lessor Guidance

- Lessor guidance has not changed much
- Lessor applies an approach that is substantially equivalent to ASC 840 for sales type and direct financing leases. These are mostly equipment.
- Operating lease guidance is also substantially unchanged. Generally used for property.

Lessor - Sales Type, Direct Finance or Operating

Lessors use the same five criteria as lessees use.

1. Lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
2. Lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise
3. Lease term is for the major part of the remaining economic life of the underlying asset.
   - If the commencement date falls at or near the end of the economic life of the underlying asset this criterion is not used for purposes of classifying the lease
4. The present value (PV) of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset.
5. Underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

Lessor - Sales Type, Direct Finance or Operating

- If any **one** of the criteria are met the lessor classifies the lease as a **sales-type lease**.
- If none are met then the lease may be a direct financing or an operating lease.
- The lease will be an operating lease unless **both** of the following criteria are met.
  - The PV of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments and/or any other third party **unrelated to the lessor** equals or exceeds substantially all of the fair value of the fair value of the underlying asset
  - it is probable that the lessor will collect the lease payments and amount needed to satisfy the residual value guarantee.

Lessor - Sales Type, Direct Finance or Operating

Statement	Sales-Type Lease	Direct Financing Lease	Operating Lease
Statement of Financial Position	Underlying asset derecognized and net investment in lease (sum of PV of future lease payments and unguaranteed residual) is recorded. Net investment in lease is increased by interest income and decreased by payments collected.	Underlying asset derecognized and net investment in lease (sum of PV of future lease payments and unguaranteed residual) is recorded. Net investment in lease is increased by interest income and decreased by payments collected.	Underlying asset remains on the statement of financial position. Underlying asset continues to be depreciated over the useful life, which could extend beyond the lease term.

Lessor - Sales Type, Direct Finance or Operating

Statement	Sales-Type Lease	Direct Financing Lease	Operating Lease
Statement of Activities	Selling profit or loss is recorded at lease commencement	Selling profit is deferred and selling loss is recorded at lease commencement Interest income is recorded based on the effective rate of interest in the lease.	Lease revenue and depreciation expense are presented on a gross basis in the income statement.
Statement of Cash Flows	Operating activities	Operating activities	Operating activities

Lessor – Initial Measurement of Initial Direct Cost

- Sales type leases- if the FV of the underlying asset is different than carrying value, expense IDC.
    - If the FV and carrying value are the same at commencement date, defer the IDC and include in the measurement of the net investment in the lease.
- IDC and selling profit are deferred at lease commencement and included in net investment in the lease for direct financing leases
- Operating lease- recognize as an expense over the lease term in the same way as lease income.

Lessor – Accounting for Sales Type Lease

Lessor leases machinery for 3 years. Lease payments are $2,400 payable at the end of the year. Initial direct costs are $200. At commencement the CV and FV of the machinery is $10,000. The lessor expects the machinery will have a market value of $4,500. The lessee has the option to buy the machinery at the end of the initial lease term **or** extend the lease 2 years at the same rental rate. The economic life of the machinery is 7 years.

Lessor concludes that the lessee does not have a significant economic incentive to extend the lease or exercise the purchase option and considers the lease a 3-year lease. The lessor knows the rate implicit in the lease- 6.87%.

Lessor – Accounting for Sales Type Lease

Payments under the lease	2,400		
3 years			
Residual value	4,500		
Discount rate	6.87%		
Fair Value of Equipment (Commencement)	10,000		
PV of lease payments at 6.87% - lease receivable	6,513		
Residual asset + IDC $200	3,687		
No difference between the CV and the FV there is no profit on the lease.			
IDC will be included in the Net Investment in the Lease.			
Lease receivable	6513		
Residual asset	3687		
Vehicle (derecognize)		10000	
Cash or AP		200	

Subsequent entry			
Lease receivable	447		
Interest Income		447	
Cash	2400		
Lease receivable		2400	
To record the recognition of interest income and the payment from the lessee.			

Unit 4

Reassessment of the Lease Liability

Learning Objectives

At the end of this unit, participants will be able to:

- Identify circumstances where lease modifications are appropriate
- Implement ASC 842 related to lease modifications

Reassessment of the Lease Term

Lease Term

- Reassess the term only if there is a significant event or change in circumstances
  - Event in the contract that obligates the lessee to exercise (or not) an option
  - Change in circumstances of the entity
  - Election by the entity to exercise an option where they previously determined not to extend, and the entity did not have an economic incentive
  - Election by the entity to not exercise an option when they previously determined there was a significant economic incentive to extend.

Lease Modifications

Lease Modifications – A reporting entity must account for a modification to an existing lease contract as a separate new contract when both of the following conditions exist:

- The modification grants the lessee an additional right of use not included in the original lease contract, and
- The lease payments increase commensurate with the standalone price for the additional right of use, adjusted for the circumstances of the particular contract

Reassessment of the Lease Liability

Remeasure the liability to reflect changes to the lease payments for any of the following:

	Classification of the Lease	Remeasure liability and Asset and Update Discount Rate
Modification impacts lease term	Reassess	Yes
Modification impacts timing and amount of payments	Reassess	Yes
Event occurs to provide economic incentive to exercise or not exercise a renewal option	Reassess	Yes
Event occurs to provide economic incentive to exercise or not exercise a purchase option	Reassess	Yes
Contingency on which variable lease payments are based is met so payments become fixed	No Reassessment	No- Discount rate Yes- Remeasure
Amounts owed under residual guarantee become probable	No Reassessment	No- Discount rate Yes- Remeasure

Change in Lease Term- Example

A Company has a 5-year lease which was accounted for as an operating lease. At inception the lease was recorded without the renewal period because there was not an economic incentive to renew. Three years have passed, and circumstances have changed. The Company renews the lease. The Company's incremental borrowing rate at that time is 5. 0%.

Original lease			
Lease term	Originally 5 years with option to renew for 3 more		
Remaining life of property	35 years		
Purchase option	None		
Annual lease payments	$ 100,000		
Payment date	Beginning of the calendar year		
Lessee's incremental borrowing rate	5%		
Fair value of the property	$4 million		
After modification			
Annual lease payments	$ 110,000		
Payment date	6%		
Lessee's incremental borrowing rate	32 years		
Fair value of the property	$3.8 million		
ROU asset before modification	$ 199,238		
Lease liability before modification	$ 195,238		

Change in Lease Term- Example (con't)

Since there is no additional space, this would not be a separate contract. The contract meets the definition of an operating lease. It accounts for it at the modification date January 1.

	Year 4	Year 5	Year 6	Year 7	Year 8	Total
Lease Payment	$ 110,000	$ 110,000	$ 110,000	$ 110,000	$ 110,000	$ 550,000
Discount	$ -	$ 6,226	$ 12,100	$ 17,642	$ 22,870	$ 58,838
Present Value	$ 110,000	$ 103,774	$ 97,900	$ 92,358	$ 87,130	$ 491,162
Revised lease liability	$ 491,162					
Original lease liability	$ 195,238			ROU after measurement date		$ 295,924
Difference to record	$ 295,924					$ 199,238
						$ 495,162
DR Right of use asset	$ 295,924					
CR Lease liability		$ 295,924				
The single lease expense						
Sum of the lease payments				$ 550,000		
ROU after remeasurement less lease liability after remeasurement				$ 4,000		
Divide by the 5 remaining years to get single lease expense				$ 554,000	$ 110,800	

Lease Terminations- Lessee

- Termination of a lease before the expiration of the lease term
  - Remove the ROU asset and the lease payment liability from the accounting records and
  - Record any difference to profit or loss in the income statement.
  - Reducing the lease term is considered a lease modification.

Unit 5

Leases and Not-for-Profits

Learning Objectives

At the end of this unit, participants will be able to:

- Analyze situations where a not-for-profit has a contract with free or below market rent.
- Account for situations where a contract is both a lease and a contribution

Donated Rent

- ASU 842 defines a lease as a contract that provides the use of identified property and equipment for a period of time in exchange for consideration. No consideration- no lease.
- Use of space at below market value. Bifurcate into the lease and donation components
- The amount of the contract that represents consideration is considered the lease and is account for under ASC 842. Remainder is a donation.
- When the contract specifies a certain number of periods, record the fair value of the use of the property as a donor restricted (time) contribution and a receivable.
- With each period, the restriction is released, and the net assets are reclassified to the "without donor restriction" category.

Example

A social service agency (SSA) received the use of donated office space from a governmental entity. SSA is not required to pay rent, insurance, taxes or other consideration. Since there is no consideration, this is not considered a lease.

The undiscounted value for the free rent is $69,000 which is computed at $20,000 Y1, $23,000 Y2 and $26,000 Y3. This is because the location is growing in popularity and rents are increasing. The space is usable in future periods, so the contribution is donor restricted.

Example - 100% Donated Rent

Payments	$ 20,000	$ 23,000	$ 26,000
	Year 1	**Year 2**	**Year 3**
Contribution rec. beginning of year	$ 69,000	$ 45,490	$ 24,760
Beginning of year discount	(6,630)	NA	NA
Amortization of discount (5%)	3,120	2,270	1,240
Fair value of donated lease rental	(20,000)	(23,000)	(26,000)
Contribution rec. end of year	$ 45,490	$ 24,760	$ -

Initial Entry to record the donated asset		
Contribution receivable	62,370	
Contribution revenue - donor restricted ($69,000- $6,630)		62,370

Impact on net assets with donor restrictions	Year 1	Year 2	Year 3
Net assets with donor restrictions, beginning	62,370	45,490	24,760
Amortization of discount	3,120	2,270	1,240
Release from restriction	(20,000)	(23,000)	(26,000)
Net assets with donor restrictions, ending	$ 45,490	$ 24,760	$ -

Example - 100% Donated Rent (con't)

Annual Journal Entry 1	Year 1		Year 2		Year 3	
Occupancy expense	20,000		23,000		26,000	
Contributions receivable		20,000		23,000		26,000
To record the expense related to donated space						
Annual Journal Entry 2						
Net assets released from restriction - with donor restriction	20,000		23,000		26,000	
Net assets released from restriction - without donor restriction		20,000		23,000		26,000
To release amounts from restriction						
Annual Journal Entry 3						
Contribution receivable	3,120		2,270		1,240	
Amortization - contribution with donor restriction		3,120		2,270		1,240
To amortize the discount						

Example - Below Market Rent

A social service agency (SSA) received the use of space from a business entity. The undiscounted value for the annual rental is $69,000 which is computed at $20,000 Y1, $23,000 Y2 and $26,000 Y3. This is because the location is growing in popularity and rents are increasing. Consideration paid each year is $5,000 each year so there is a lease component. The remainder is considered an unconditional promise to give which has been assessed as fully collectible. The space is usable in future periods, so the contribution is donor restricted.

Management evaluated the lease and determined it should be classified as a **financing lease**. They do not know the rate implicit in the lease, so SSA used its incremental borrowing rate of 5% to discount.

Example - Below Market Rent (con't)

Below Market Financing Lease

Calculating the ROU asset and lease liability	
Value of Lease	
Fair value of rental - 3 X $5,000	15,000
Discount at 5%	(1,380)
Discounted value of rental	13,620
Value of contribution	
Total fair value of arrangement	69,000
Less fair value rents to be paid	(15,000)
Amount attributable to contribution	54,000
Discount on contribution receivable	(5,250)
Discounted value of contribution	48,750

Contribution Receivable	Year 1	Year 2	Year 3
Contribution rec. beginning of year	$ 54,000	$ 36,190	$ 20,000
Beginning of year discount	(5,250)	NA	NA
Amortization of discount (5%)	2,440	1,810	1,000
Fair value of donated lease rental	(15,000)	(18,000)	(21,000)
Contribution Rec.-End of Year	$ 36,190	$ 20,000	$ -

Example - Below Market Rent (con't)

Finance Lease

Contribution Portion						
Contribution receivable	48,750					
Contribution revenue with donor restrictions		48,750				
To record the initial contribution						
Annual Journal Entry 1	**Year 1**		**Year 2**		**Year 3**	
Lease expense	15,000		18,000		21,000	
Contributions receivable		15,000		18,000		21,000
To record the expense related to donated space						
Annual Journal Entry 2						
Net assets released from restriction- with dono	15,000		18,000		21,000	
Net assets released from restriction- without donor restriction		15,000		18,000		21,000
To release amounts from restriction						
Annual Journal Entry 3						
Contribution receivable	2,440		1,810		1,000	
Amortization - Contribution with donor restriction		2,440		1,810		1,000
To amortize the discount						

Example - Below Market Rent (con't)

	Year 1	Year 2	Year 3
Accounting for the Lease Component			
Lease liability			
Lease liability beginning of year)	13,620	9,290	4,750
Add amortization (lease expense)	670	460	250
Less lease payment	(5,000)	(5,000)	(5,000)
Lease liability end of year)	9,290	4,750	-
Right of Use Asset			
ROU asset, beginning of year	13,620	9,080	4,540
Less amortization (lease expense)	(4,540)	(4,540)	(4,540)
ROU asset,end of year	9,080	4,540	-

Example - Below Market Rent (con't)

Journal Entries						
Initial entry to record the Lease Portion						
Lease Portion						
ROU Asset, net of discount	13,620					
Lease liability		13,620				
To record the initial lease entry						
	Year 1		**Year 2**		**Year 3**	
Annual Journal Entry 1						
Lease expense	670		460		250	
Lease liability	4,330		4,540		4,750	
Cash		5,000		5,000		5,000
To record the payment of the rent						
Annual Journal Entry 2						
Amortization of ROU Asset	4,540		4,540		4,540	
ROU Asset		4,540		4,540		4,540
To record amortization of the ROU asset						

Example - Below Market Rent (con't)

Operating Lease

A social service agency (SSA) received the use of space from a business entity. The undiscounted value for the annual rental is $69,000 which is computed at $20,000 Y1, $23,000 Y2 and $26,000 Y3. This is because the location is growing in popularity and rents are increasing. Consideration paid each year is $5,000 each year so there is a lease component. The remainder is considered an unconditional promise to give which has been assessed as fully collectible. The space is usable in future periods, so the contribution is donor restricted.

Management evaluated the lease and determined it should be classified as an **operating lease**. They do not know the rate implicit in the lease, so SSA used its incremental borrowing rate of 5% to discount.

The first step is to separate the lease component from the contribution. This would be the amount attributable to the lease at fair value.

Example - Below Market Rent (con't)

Operating Lease

Calculating the ROU asset and lease liability	
Value of Lease	
Fair value of rental - 3 X $5,000	15,000
Discount at 5%	(1,380)
Discounted value of rental	13,620
Value of contribution	
Total fair value of arrangement	69,000
Less fair value rents to be paid	(15,000)
Amount attributable to contribution	54,000
Discount on contribution receivable	(5,250)
Discounted value of contribution	48,750

Example - Below Market Rent (con't)

Operating Lease

Calculating the ROU asset and lease liability	
Value of Lease	
Fair value of rental - 3 X $5,000	15,000
Discount at 5%	(1,380)
Discounted value of rental	13,620
Value of contribution	
Total fair value of arrangement	69,000
Less fair value rents to be paid	(15,000)
Amount attributable to contribution	54,000
Discount on contribution receivable	(5,250)
Discounted value of contribution	48,750

Example - Below Market Rent (con't)

The next chart illustrates the rent (lease) expense. In an operating lease under ASC 842 the lease is a consistent amount. Although it represents the same components of interest and amortization of the ROU asset, the distinction is that the ROU asset is adjusted so that the lease expense is ratable over the years. In the finance lease, the ROU asset is amortized at a consistent rate and the lease expense is not consistent.

Operating Lease	**Year 1**	**Year 2**	**Year 3**
Lease liability, beginning	13,620	9,290	4,750
Amortization treated as lease expense	670	460	250
Minus lease payment	(5,000)	(5,000)	(5,000)
	9,290	4,750	-
Right of Use Asset			
ROU asset, beginning	13,620	9,290	4,750
Less amortization - lease expense	(4,330)	(4,540)	(4,750)
	9,290	4,750	-
Lease expense is one consistent amount	5,000	5,000	5,000

Example - Below Market Rent (con't)

Operating Lease

Analysis of contribution receivable

Contribution Receivable	**Year 1**	**Year 2**	**Year 3**
Contribution rec. beginning of year	$ 54,000	$ 36,190	$ 20,000
Beginning of year discount	(5,250)	NA	NA
Amortization of discount (5%)	2,440	1,810	1,000
Fair value of donated lease rental	(15,000)	(18,000)	(21,000)
Contribution rec. end of year	$ 36,190	$ 20,000	$ -

Journal entries- operating lease		
ROU Asset (net of discount)	13,620	
Lease liability		13,620
Entry to record contribution		
Contribution receivable	48,750	
Contribution revenue - donor restricted		48,750

Example - Below Market Rent (con't)

Operating Lease

Journal entries for operating lease - 3 years						
	Year 1		Year 2		Year 3	
Portion that represents the lease						
Lease expense	5,000		5,000		5,000	
Lease liability	4,330		4,540		4,750	
Cash		5,000		5,000		5,000
ROU asset		4,330		4,540		4,750
Portion that represents the contribution						
Lease expense	15,000		18,000		21,000	
Contribution receivable		15,000		18,000		21,000
Net assets released from restriction (donor restrictions)	15,000		18,000		21,000	
Net assets released from restriction (w/o donor restrictions)		15,000		18,000		21,000
Contribution receivable	2,440		1,810		1,000	
Amortization of discount (cont. revenue with donor restrictions		2,440		1,810		1,000

Unit 6

Disclosure

Learning Objectives

At the end of this unit, participants will be able to:

- Identify the necessary disclosures required for the entity's circumstances
- Draft financial statements and disclosures that meet professional standards

Leases and Not-for-Profits

At the end of this unit, participants will be able to:

- Analyze situations where a not-for-profit has a contract with free or below market rent.
- Account for situations where a contract is both a lease and a contribution

Disclosures - Qualitative Information, Lessee

- Information about the nature of leases and subleases including:
- General description
- Basis on which variable lease payments are determined
- Existence and terms and conditions of options to extend or terminate the lease. The narrative should discuss those that are included in ROU assets and liabilities as well as those that are not.
- Existence and terms and conditions of residual value guarantees
- Restrictions or covenants imposed by leases
- Information about leases that have not commenced but that create significant rights and obligations

Disclosures - Qualitative Information, Lessee

- Information about significant assumptions and judgments made in applying the standard which includes:
  - Whether the contract contains a lease
  - Allocation of consideration in a contract between leases and nonlease components
  - Determination of the discount rate
  - Main terms and conditions of any sale and leaseback transactions
  - Whether an accounting policy was made for short term lease exemption.
  - If the short-term lease expense does not reflect the lessee's short term lease commitments a lessee should disclose that fact and the amount of the short term commitments

Disclosures - Significant Judgments and Estimates

Example Footnote 1:

The present value of the lease payments is calculated using the incremental borrowing rate for operating and finance leases, which was determined using a portfolio approach based on the rate of interest that we would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. We use the unsecured borrowing rate and risk-adjust that rate to approximate a collateralized rate which will be updated on a quarterly basis for measurement of new lease liabilities.

Example Footnote 2:

For most leases the implicit rate is not readily determinable. Accordingly, we use a discount rate in determining the present value of future payments based on the yield-to-maturity of our secured publicly traded debt instruments interpolating the duration of the debt to the term of the executed lease.

Disclosures - Significant Judgments and Estimates

Example Footnote 3:

The lease liabilities are measured at the lease commencement date and determined using the present value of the minimum lease payments not yet paid and the Company's incremental borrowing rate, which approximates the rate at which the we could borrow, on a secured basis. The interest rate implicit in the lease is generally not determinable in transactions where the Company is the lessee.

Example Footnote 4:

The Company generally uses its fully collateralized incremental borrowing rate as of the commencement date to calculate and record the lease. The incremental borrowing rate is influenced by factors such as credit rating and lease term and therefore, may differ for individual leases, embedded leases or portfolios of leased assets.

Disclosures - Quantitative Information, Lessee

- Finance lease expense segregated between amortization of ROU asset and interest on lease liabilities
- Operating lease expense
- Short term lease expense and disclosure where future significant ST lease commitments are known.
- Variable lease expense
- Sublease income
- Weighted average discount for finance and operating leases as of the reporting date
- Gains and losses arising from sale and leaseback transactions
- Related party disclosures
- Maturity analysis of lease liabilities showing undiscounted cash flows on an annual basis for each of the first 5 years and total of remaining as well as reconciling the undiscounted cash flows and lease liabilities recognized in the balance sheet.

Short Term Lease- Example

The Bay Street Advocacy Group (BSAG) elects to apply the short-term lease measurement and recognition exemption to its office equipment. For the majority of the reporting period ending 12/31/X1, there were only two short-term leases in that class. However, on 12/27/X1, BSAG entered into 8 new lease agreements for office equipment, and they all qualify for the short-term lease measurement and recognition exemption. The short-term lease expense for the reporting period ending 12/31/X1 was $30,000, but the total short-term lease payments for the following year will be $120,000.

Disclosure Example

- Following are excerpts from Microsoft Corporation's June 30, 2022 year end 10-K filing
- FASB did not provide nonpublic entities with the opportunity for reduced disclosures, so these are excellent examples.

Accounting Policy- Lessee

Leases

We determine if an arrangement is a lease at **inception**. Operating leases are **included** in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our consolidated balance sheets. Finance leases are **included** in property and equipment, other current liabilities, and other long-term liabilities in our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are **recognized** at **commencement date** based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, **we generally use our incremental borrowing rate** based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date.

Accounting Policy- Lessee

Leases (con't)

The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a **straight-line basis** over the lease term. We have lease agreements with **lease and non-lease components**, which are generally **accounted for separately**. **For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component**. Additionally, for certain equipment leases, **we apply a portfolio approach to effectively account for the operating lease ROU assets and liabilities.**

Disclosures Related to Income Statement- Lessee

Note 14 Leases

We have operating and finance leases for datacenters, corporate offices, research and development facilities, Microsoft Experience Centers, and certain equipment. Our leases have remaining lease terms of 1 year to 19 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 1 year.

The components of lease expense were as follows (millions):

Year ended June 30,	2022	2021	2020
Operating Lease Cost	2,461	2,127	2,043
Finance Lease Cost			
Amortization of right-of-use assets	980	921	611
Interest on lease liabilities	429	386	336

Financial Statement Presentation- Lessee

- Deloitte Review of **50** Fortune 125 Companies noted:
  - **ROU Assets- Operating leases-** 19 respondents presented the information in its own line item, 30 in other assets and 1 in property, plant and equipment.
  - **ROU Assets- Finance leases-** 27 respondents presented information within property, plant and equipment. The remainder did not disclose finance leases.
  - **Operating Lease liabilities (current)-** 11 of respondents presented information in its own line item and 39 within an existing line item.
  - **Operating Lease liabilities (noncurrent)-** 18 respondents presented information in its own line item and 32 within an existing line item.
  - **Finance Lease liabilities (current and noncurrent)-** 2 respondents presented finance leases on a separate line (both). The remaining disclosed within the existing debt line item or other liabilities line item.

Financial Statement Presentation- Lessee

Balance Sheet

- ROU asset separate from other assets and finance leases separated from operating leases
- Lease liabilities separate from other liabilities and finance leases separated from operating leases
- Alternatively, present the ROU assets with assets which are owned and disclose information in the notes about where the information is located on the balance sheet

Financial Statement Presentation- Lessee

Microsoft Corporation

BALANCE SHEETS (In millions)				
June 30,		**2022**		**2021**
Assets				
Current assets:				
Cash and cash equivalents	$	**13,931**	$	14,224
Short-term investments		**90,826**		116,110
Total cash, cash equivalents, and short-term investments		**104,757**		130,334
Accounts receivable, net of allowance for doubtful accounts of $633 and $751		**44,261**		38,043
Inventories		**3,742**		2,636
Other current assets		**16,924**		13,393
Total current assets		**169,684**		184,406
Property and equipment, net of accumulated depreciation of $59,660 and $51,351		**74,398**		59,715
Operating lease right-of-use assets		**13,148**		11,088
Equity investments		**6,891**		5,984
Goodwill		**67,524**		49,711
Intangible assets, net		**11,298**		7,800
Other long-term assets		**21,897**		15,075
Total assets	$	**364,840**	$	333,779

		2022		2021
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	$	**19,000**	$	15,163
Current portion of long-term debt		**2,749**		8,072
Accrued compensation		**10,661**		10,057
Short-term income taxes		**4,067**		2,174
Short-term unearned revenue		**45,538**		41,525
Other current liabilities		**13,067**		11,666
Total current liabilities		**95,082**		88,657
Long-term debt		**47,032**		50,074
Long-term income taxes		**26,069**		27,190
Long-term unearned revenue		**2,870**		2,616
Deferred income taxes		**230**		198
Operating lease liabilities		**11,489**		9,629
Other long-term liabilities		**15,526**		13,427
Total liabilities		**198,298**		191,791
Commitments and contingencies				
Stockholders' equity:				
Common stock and paid-in capital – shares authorized 24,000; outstanding 7,464 and 7,519		**86,939**		83,111
Retained earnings		**84,281**		57,055
Accumulated other comprehensive income (loss)		**(4,678)**		1,822
Total stockholders' equity		**166,542**		141,988
Total liabilities and stockholders' equity	$	**364,840**	$	333,779

Disclosures- Balance Sheet, Lessee

Supplemental balance sheet information related to leases was as follows (In millions, except lease term and discount				
June 30,		**2022**		**2021**
Operating Leases				
Operating lease right-of-use assets	**$**	**13,148**	$	11,088
Other current liabilities	**$**	**2,228**	$	1,962
Operating lease liabilities		**11,489**		9,629
Total operating lease liabilities	**$**	**13,717**	$	11,591
Finance Leases				
Property and equipment, at cost	**$**	**17,388**	$	14,107
Accumulated depreciation		(3,285)		(2,306)
Property and equipment, net	**$**	**14,103**	$	11,801
Other current liabilities	**$**	**1,060**	$	791
Other long-term liabilities		**13,842**		11,750
Total finance lease liabilities	**$**	**14,902**	$	12,541

Weighted Average Remaining Lease Term		
Operating leases	**8 years**	8 years
Finance leases	**12 years**	12 years
Weighted Average Discount Rate		
Operating leases	**2.1%**	2.2%
Finance leases	**3.1%**	3.4%

Example Calculation- Weighted Average Cash Flow

Weighted Average Lease Term

	Lease liability at 12/31/X1	Percent of total lease liability	Months remaining on the	Weighted Average	
Operating lease 1	45,440	14.88%	24	3.572	
Operating lease 2	125,885	41.23%	51	21.026	
Operating lease 3	68,970	22.59%	12	2.711	
Operating lease 4	39,850	13.05%	15	1.958	
Operating lease 5	25,200	8.25%	25	2.063	
Total lease liability	305,345	100.00%		31.33	2.610731304

The weighted average remaining lease term for operating leases was 2.6 years or 31.33 months.

Example Calculation- Weighted Average Cash Flow

Weighted Average Discount Rate

	Lease 1 Remaining Lease Payments	Lease 2 Remaining Lease Payments	Lease 3 Remaining Lease Payments	Lease 4 Remaining Lease Payments	Lease 5 Remaining Lease Payments	Total remaining lease payments
20X2	22,720	29,616	68,970	31,872	12,096	165,274
20X3	22,720	29,616		7,978	12,096	72,410
20X4		29,616			1,008	30,624
20X5		29,616				29,616
20X6		7,421				7,421
	45,440	125,885	68,970	39,850	25,200	305,345
Percentage lease remaining payments to total	14.88%	41.23%	22.59%	13.05%	8.25%	100.00%
Discount rate at commencement	4.20%	4.40%	5.00%	3.75%	4.50%	
Weighted average discount rate	0.63%	1.81%	1.13%	0.49%	0.37%	4.43%

The weighted average discount rate for operating leases was 4.43%

Disclosures- Balance Sheet, Lessee

The following table outlines maturities of our lease liabilities as of June 30, 2022				
(In millions)				
Year Ending June 30,		Operating Leases		Finance Leases
2023	$	2,456	$	1,477
2024		2,278		1,487
2025		1,985		1,801
2026		1,625		1,483
2027		1,328		1,489
Thereafter		5,332		9,931
Total lease payments		15,004		17,668
Less imputed interest		(1,287)		(2,766)
Total	$	13,717	$	14,902

As of June 30, 2022, we have additional operating and finance leases, primarily for datacenters, that have not yet commenced of $7.2 billion and $8.8 billion, respectively. These operating and finance leases will commence between fiscal year 2023 and fiscal year 2028 with lease terms of 1 year to 18 years.

Financial Statement Presentation- Lessee

- **Statement of Comprehensive Income**
  - **Operating leases-** unwinding of the discount of the lease liability together with the amortization of the ROU asset
  - **Finance Leases –** unwinding of the discount on the lease liability separately from the amortization of the right amortization
- This may not be presented due to materiality as noted in Microsoft's statement below.

COMPREHENSIVE INCOME STATEMENTS			
(In millions)			
Year Ended June 30,	**2022**	**2021**	**2020**
Net income	**$ 72,738**	$ 61,271	$ 44,281
Other comprehensive income (loss), net of tax:			
Net change related to derivatives	6	19	(38)
Net change related to investments	(5,360)	(2,266)	3,990
Translation adjustments and other	(1,146)	873	(426)
Other comprehensive income (loss)	(6,500)	(1,374)	3,526
Comprehensive income	**$ 66,238**	$ 59,897	$ 47,807

Financial Statement Presentation- Lessee

- **Statement of Cash Flows**
  - Cash payment for the principal portion of the lease liability arising from finance leases- in financing activities
  - Cash payment for the interest portion of the lease liability arising from operating leases- in operating activities
  - Cash payment arising from operating leases- in operating activities
  - Variable lease payments and short-term lease payments not included in the lease liability within operating activities
  - Excerpt from Microsoft Corporation's footnotes follows.

Cash Flow Disclosure -Lessee

Supplemental cash flow information related to leases was as follows (in millions):

Year ended June 30,	2022	2021	2020
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	2,368	2,052	1,829
Operating cash flows from finance leases	429	386	336
Financing cash flows from finance leases	896	648	409
Right of Use assets obtained in exchange for lease obligations			
Operating leases	5,268	4,380	3,677
Finance leases	4,234	3,290	3,467

FASB Staff Q&A - Lease Concessions

- The FASB staff concluded that a reporting entity can elect not to evaluate whether certain lease concessions, due to the COVID-19 pandemic, provided by a lessor is a lease modification
  - A possible accounting result if this election is made is to account for the lease concessions as variable lease payments
- Of course, a reporting entity may choose to account for lease concessions related to the effects of the COVID-19 pandemic in accordance with the lease modification guidance in ASC 842 or ASC 840 as if the lease concession was part of the existing lease contract

Lessor Disclosures

Sales Type and Direct Financing Leases

- Profit of loss recognized at the commencement date
- Interest income in either the aggregate or separated by components of the net investment in the lease

Operating Leases

- Lease income related to the lease payments

Other

- Lease income related to variable lease payments not included in the lease receivable

Lessor Disclosures

- Standard requires that certain lease income disclosures be provided in tabular format but some entities in the Deloitte Review of 50 Fortune 125 companies provided them in narrative format.
- 7 out of 12 entities in the review used the tabular format
- Lease income related to variable payments not included within the lease receivable must be disclosed. This includes all lease classifications.
- Some entities did not provide the disclosure. 7 of the 12 did not provide this disclosure.

Lessor Disclosure- Net Investment in Lease

- Components of aggregate net investment in sales-type and direct financing leases (CV)
- Lease receivable
- Unguaranteed residual assets
- Deferred selling profit on direct financing leases

This means that each component will be presented at its discounted value (chg. from ASC 840)

Reminders

- ❑ **Post event evaluation:** Please complete the course evaluation that will be pushed out to you as a pop up link on your screen. We welcome your feedback!

KAPLAN