

Leases

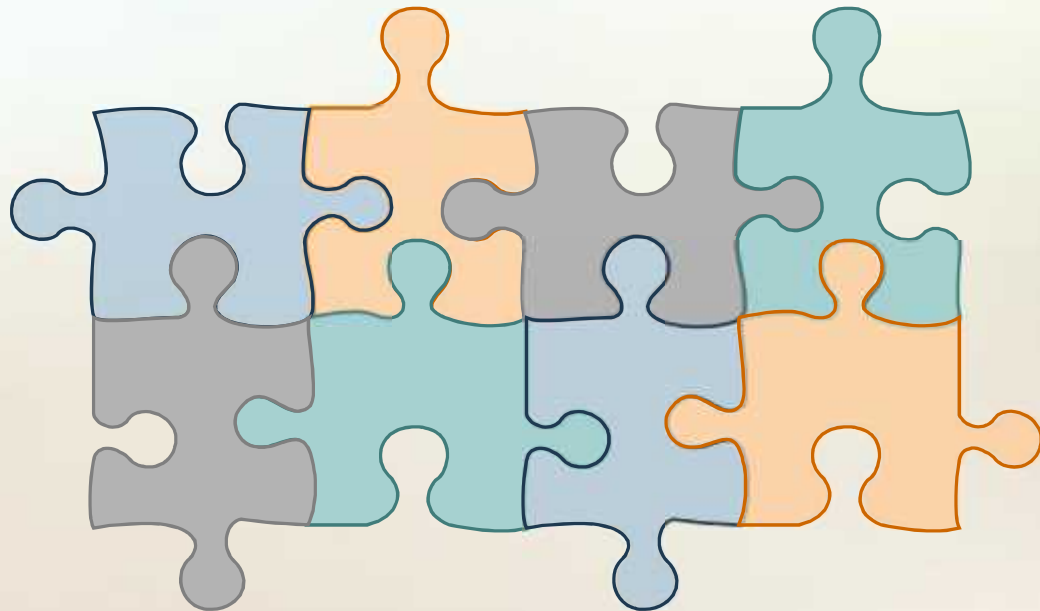
Summary of GASB Preliminary Views

Introduction

- Definitions
- Scope and exceptions
- Accounting for lessee and lessor

Leases in General

All leases are financings of the right to use an underlying asset - single treatment



Vocabulary

Lease - **contract** that conveys the right to use a **nonfinancial** asset (underlying asset) for a period of time in an **exchange** or **exchange-like** transaction.

Vocabulary

Lease Term - period during which a lessee has **noncancellable right to use** an underlying asset, plus (if applicable)

- Periods covered by option to extend if **probable** will exercise
- Periods covered by option to terminate if **probable** that will not exercise

Specific Scope Exceptions

- Lease contracts concerning exploration or exploitation of natural resources
- Leases of biological assets, including timber
- Licensing contracts for items such as motion pictures, patents, copyrights, etc.
- Service Concession Arrangements under GASB 60

Transfer of Ownership...

- If transfer ownership of an underlying asset, and
- No termination options, then
- Report as financed purchase of that asset.
- Bargain purchase options - same treatment

Contracts with Multiple Components

- Both lease and service components in contract (use of building and maintenance) - separate
- Multiple lease components with different lease terms - separate
- Underlying assets in different major classes of assets - separate

Lessee Accounting

- Recognize lease liability and intangible lease asset
- Capital outlay and other financing source in governmental funds

Lease Liability

- PV of payments to be made during lease term
- Other amounts probable - residual value guarantees, e.g.

Lease Asset

- Initial amount of the lease liability, plus
 - payments at or before the beginning of the lease, less incentives
 - initial direct, ancillary costs to place lease asset in service
- Amortized over shorter of lease term or life of underlying asset
- Subject to impairment - GASB 42

Disclosures - Lessee

- General description
- Total amount of assets recorded under leases and related amortization
- Amount of assets recorded under leases by major class of underlying assets
- Expense recognized for payments not previously included in liability
- Schedule of future lease payments
- Commitments for leases not yet begun
- Components of any impairment loss

Lessor Accounting

- Lease receivable
- Deferred inflow of resources

Lease Receivable

- Lease payments to be received plus residual value guarantees

Deferred Inflow of Resources

Initial value of the lease receivable, plus payments received at or prior to beginning of lease related to future periods (i.e. final month's rent)

Short-term Leases

- Term of less than one year
- Specific accounting

Lessor Disclosures

- General description
- Cost of assets on lease by major classes and accumulated depreciation
- Revenue from leases
- Revenue from payments not previously included in receivable
- Schedule of future lease payments
- If debt secured by lease payments, options for termination by lessee

What Now?

- Still preliminary
- Opportunity to talk to clients

More Information

- GASB website
- TKW Website - Audit Resources