


Lease accounting
New guidance for lessees

 Grant Thornton

August 11, 2017
Arlington, Texas

Lease accounting – New guidance for lessees



Daryl Buck
National Managing Partner
Accounting Advisory

Tulsa
918.877.0824
daryl.buck@us.gt.com

Learning objectives

Lease accounting – new guidance for lessees

- Describe the key features of the new lease accounting model
- Identify the critical information needed to account for an operating lease under new lease standard
- Assess the impact of the new standard on lessees' financial statements and disclosures




Agenda

- Overview
- Definition of a lease
- Components of the contract
- Initial measurement
- Classification
- Subsequent measurement
- Disclosures
- Transition and effective date






Overview

 Grant Thornton

- Balance sheet recognition of liabilities related to operating leases
- Definition of a lease
- Lessee accounting
 - Operating leases
 - Finance leases
- Lessor Accounting
- Sale and Leaseback

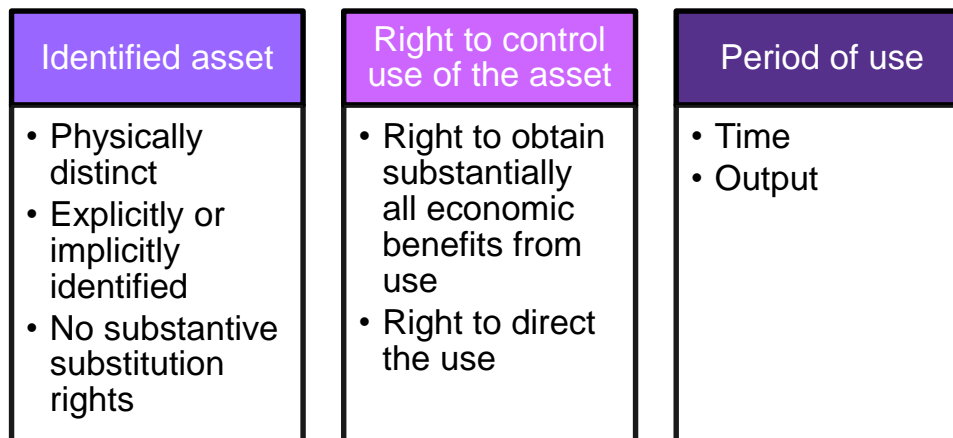


Definition of a lease

 Grant Thornton

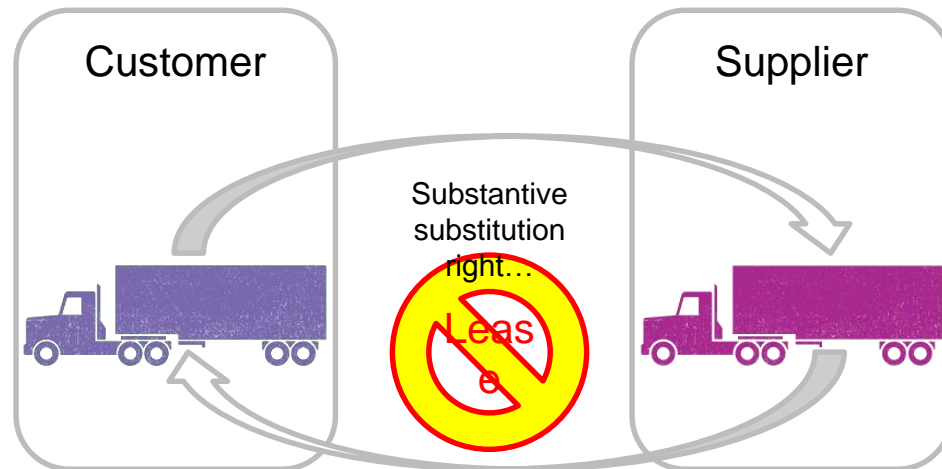
Definition of a lease

Three key components



Definition of a lease

Identified asset



Definition of a lease

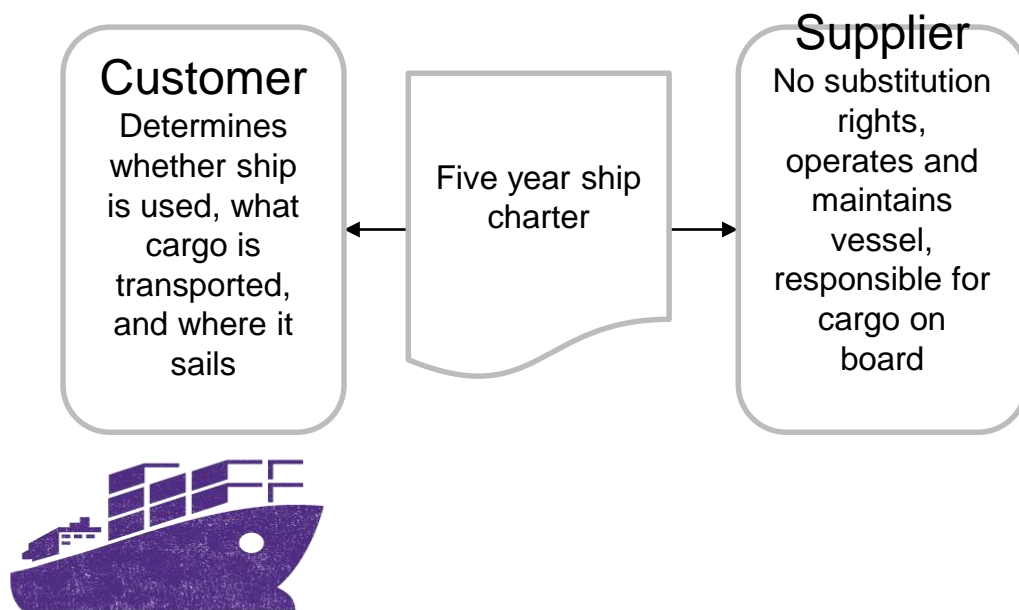
Right to control use of the asset

Right to direct the use

- Right to direct how and for what purpose asset is used, **or**
- If decisions about how and for what purpose asset is used are predetermined
 - Customer has right to operate asset, **or**
 - Customer designed asset

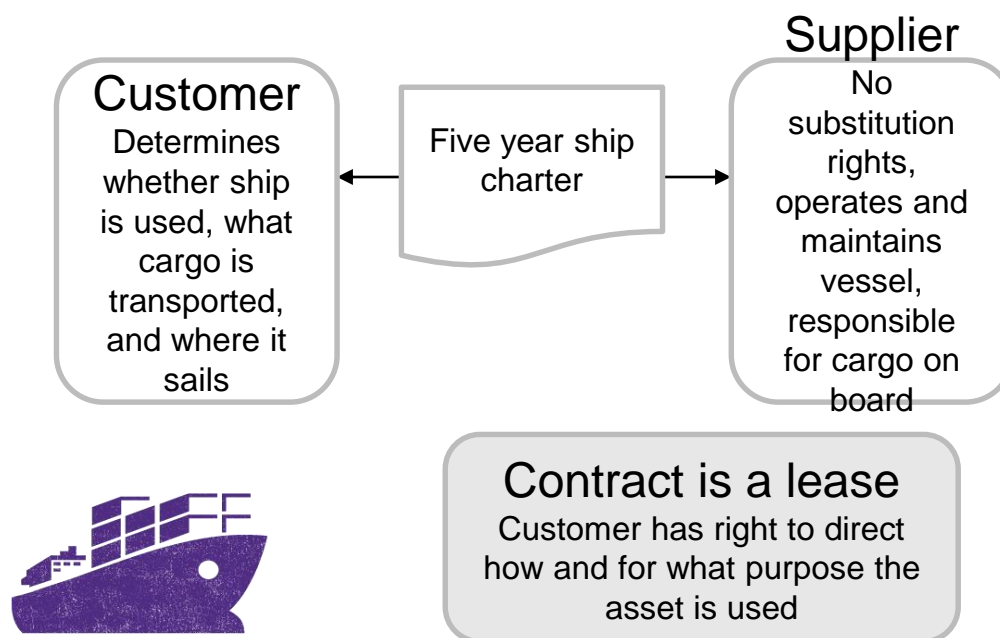
Definition of a lease

Example 1



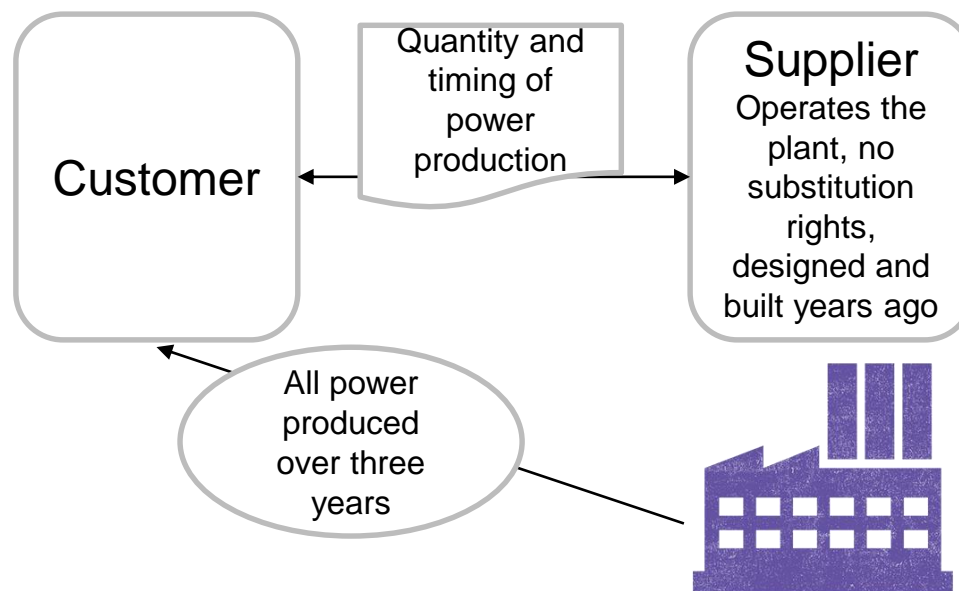
Definition of a lease

Example 1



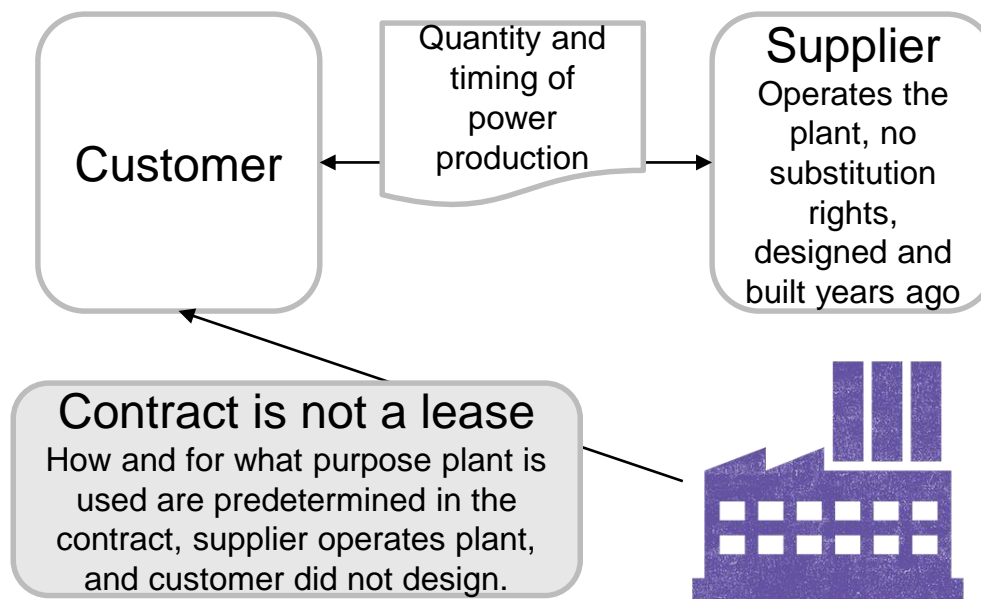
Definition of a lease

Example 2



Definition of a lease

Example 2



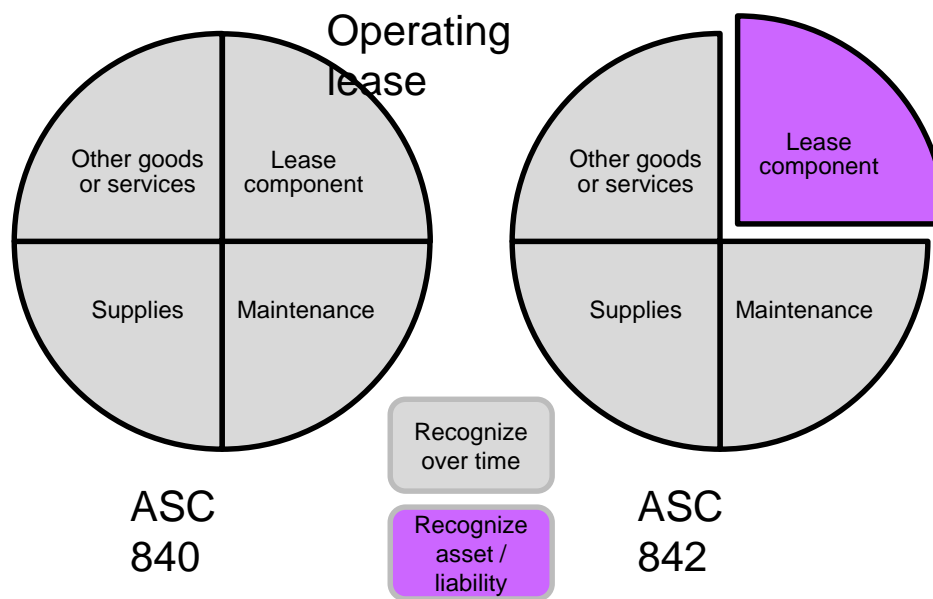


Components of the contract

 Grant Thornton

Components of the contract

Change in practice

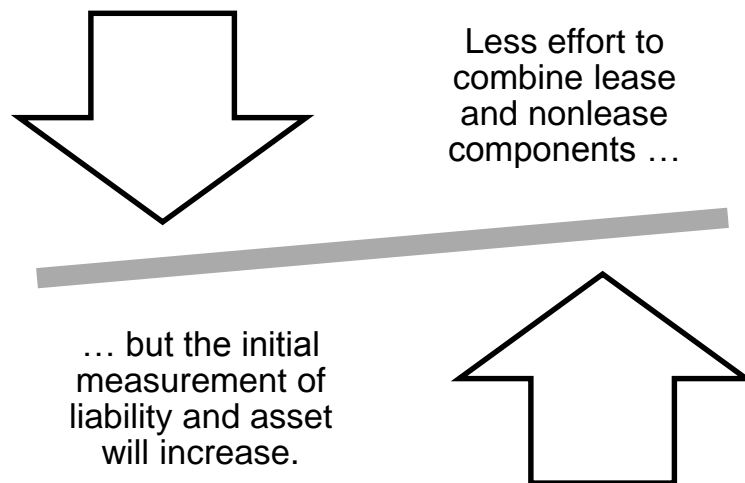


Definition

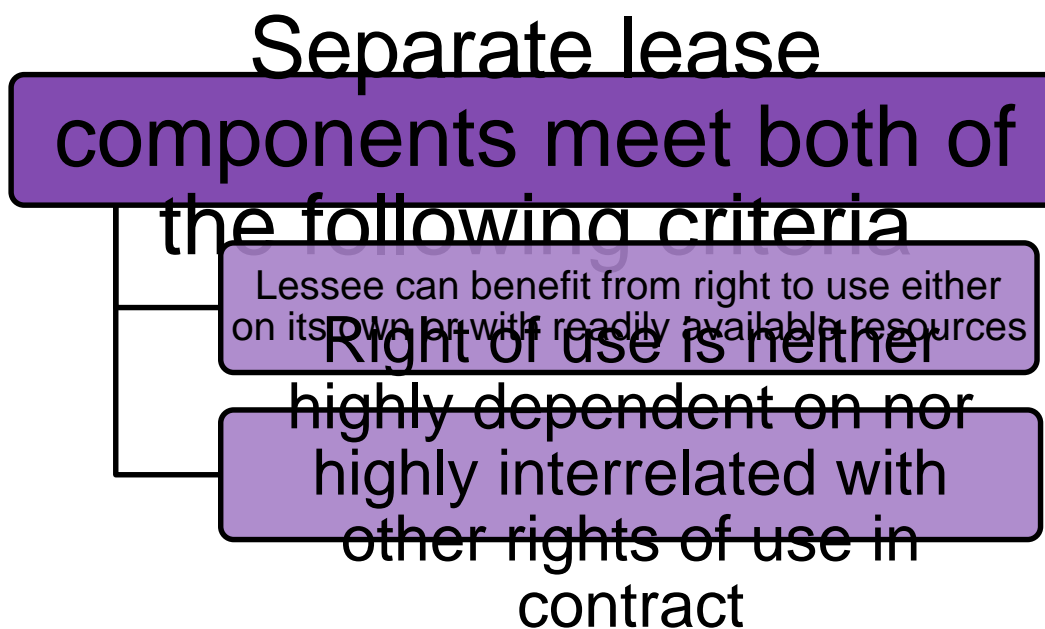
Items or activities that transfer good or service to lessee (lease or nonlease components)	
Payments for: <ul style="list-style-type: none">• Administrative tasks• Lessor's costs	Not components of a contract

Components of the contract

Practical expedient



Separate lease components



Treat right to use land as a separate lease component unless effect of doing so would be insignificant, for

Separating would not change the classification of other lease components

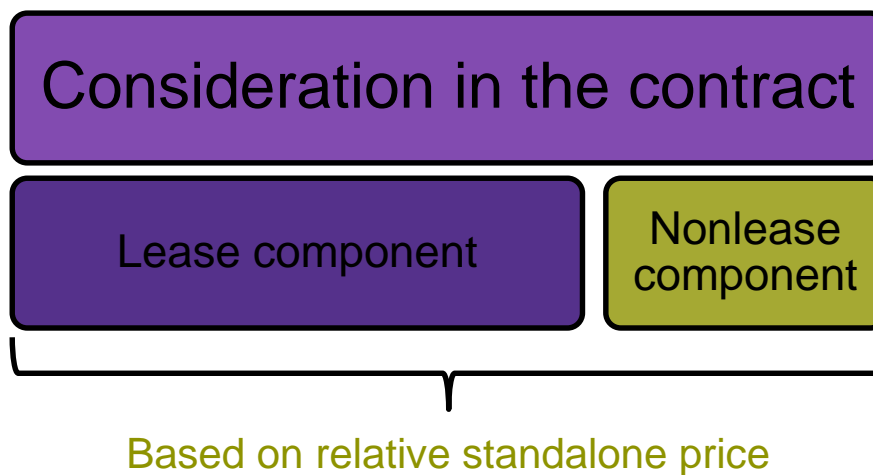
Amount recognized for land lease component would be insignificant

Multiple contracts

Combine multiple contracts when

- Negotiated as package with same commercial objective
- Amounts paid depend on each other
- At least some of the rights to use underlying assets are a single lease component

Allocate consideration




Components of the contract

Lease payments

Lease payments	Fixed payments, including in-substance fixed payments, less lease incentives
	Variable lease payments that depend on a rate or index
	Exercise price of option reasonably certain of exercise
	Termination penalty if lease term assumes termination option exercised
	Structuring fees paid to SPE owners
	Amounts probable of being owed under residual value guarantee

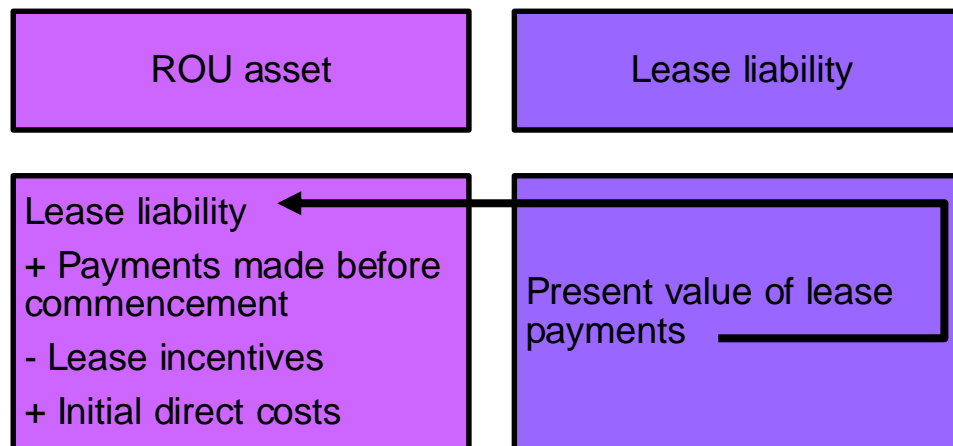


Initial measurement

 Grant Thornton

Initial measurement

ROU asset and lease liability



Initial measurement

Initial direct costs

Incremental costs of a lease that would not have been incurred if the lease had not been obtained.




Can elect to account for short term leases "off balance sheet"

- Lease term 12 months or less
- Policy election by class of underlying asset
- Similar to old operating lease accounting

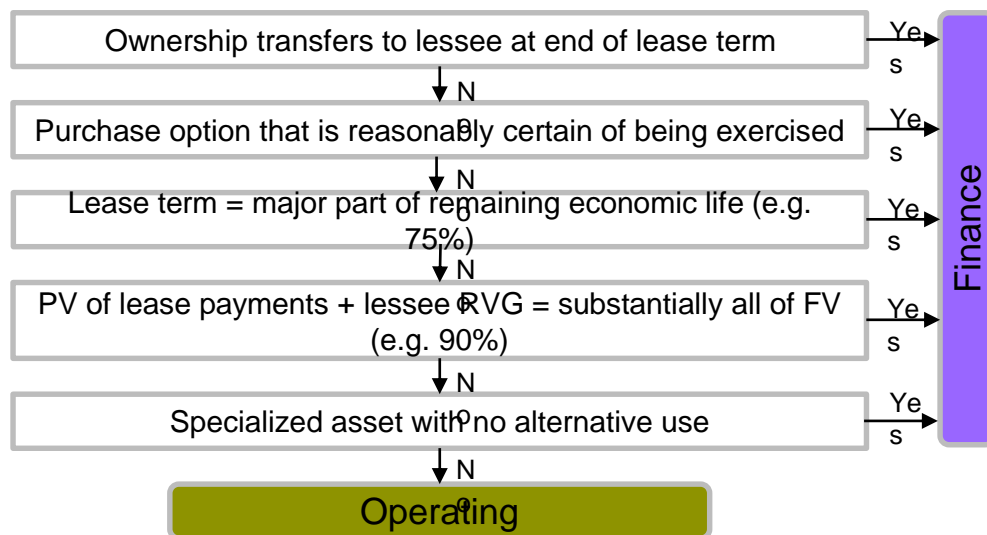


Classification

 Grant Thornton

Classification

Finance or operating




Lease term definition

Non-cancellable period for which lessee has the right to use underlying asset, plus...	Periods covered by renewal option if lessee reasonably certain to exercise
	Periods covered by option to terminate if lessee reasonably certain not to exercise
	Periods covered by renewal or termination options controlled by the lessor

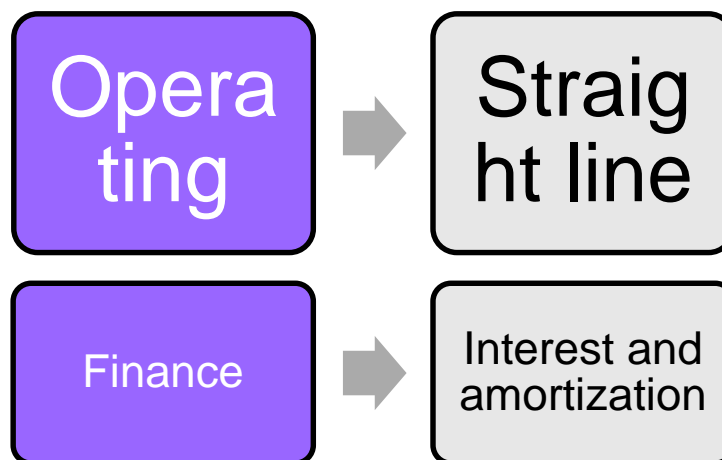
Implicit rate	<ul style="list-style-type: none">• Use when readily determinable• Often not known to lessee
Incremental borrowing rate	<ul style="list-style-type: none">• Rate lessee would pay to borrow on collateralized basis• Assume similar term/environment
Risk-free rate	<ul style="list-style-type: none">• Practical expedient for non-public business entities• Would likely increase measurements



Subsequent measurement

 Grant Thornton

Subsequent measurement



Subsequent measurement

ROU asset and lease liability

	Operating	Finance
ROU asset	Lease liability + prepaid rent - accrued rent - remaining incentive + unamortized initial direct costs - impairment	Previous carrying amt - accumulated amortization - impairment
Lease liability	PV of remaining lease payments	Previous carrying amt + interest expense - lease payments

Remeasurement


Lessee shall remeasure lease payments when	Contingency related to variable payments is resolved Change in lease term
	<hr/>
	Change in assessment whether change is reasonably certain to occur
	Change in assessment whether change is reasonably certain to occur Purchase option under residual value guarantee

Other considerations

- Lessees must assess ROU asset for impairment based on ASC 360
- If the lease is denominated in a foreign currency
 - Remeasure the ROU asset based on exchange rate at commencement date (nonmonetary asset)
 - Remeasure liability based on current exchange rate (monetary liability)



Disclosures

 Grant Thornton

Disclosures Summary

Enable users to assess amount, timing, and uncertainty of cash flows arising from leases

Qualitative disclosures	<ul style="list-style-type: none">• General description of lease• Basis and terms and conditions of variable lease payments, extension and termination options, and residual value guarantees• Restrictions or covenants imposed by leases• Significant assumptions and judgments made in identifying a lease, allocation of lease consideration, lease term, and discount rate• Significant rights and obligations for leases not yet commenced
-------------------------	--

Disclosures Summary

Enable users to assess amount, timing, and uncertainty of cash flows arising from leases

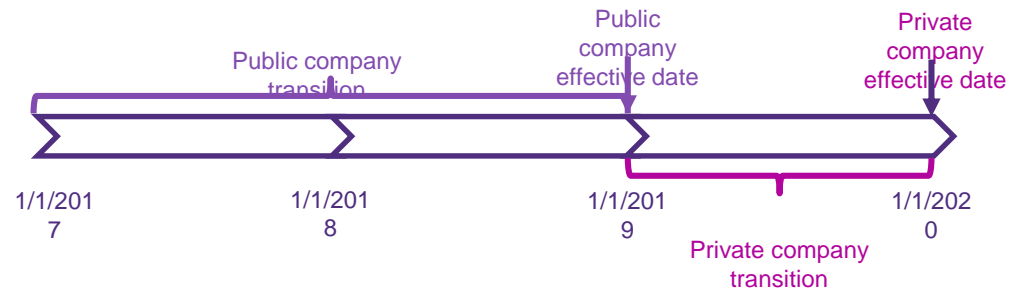
Quantitative disclosures	<ul style="list-style-type: none">• Finance lease cost (separating amortization and interest cost)• Operating lease cost• Short-term lease cost• Variable lease cost• Separately for finance and operating leases: cash paid, weighted-average remaining lease term, weighted-average discount rate, supplemental noncash information about lease liabilities recognized from obtaining ROU assets, maturity analysis of undiscounted lease cash flows and a reconciliation of undiscounted cash flows to lease liabilities
--------------------------	---



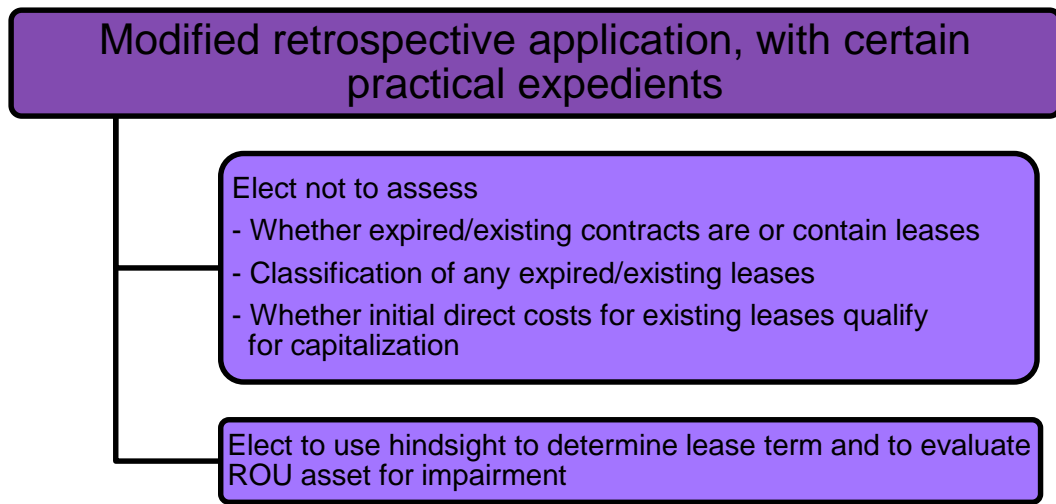
Transition and effective date

 Grant Thornton

Transition and effective date



Practical expedients



Comments?

Questions?



