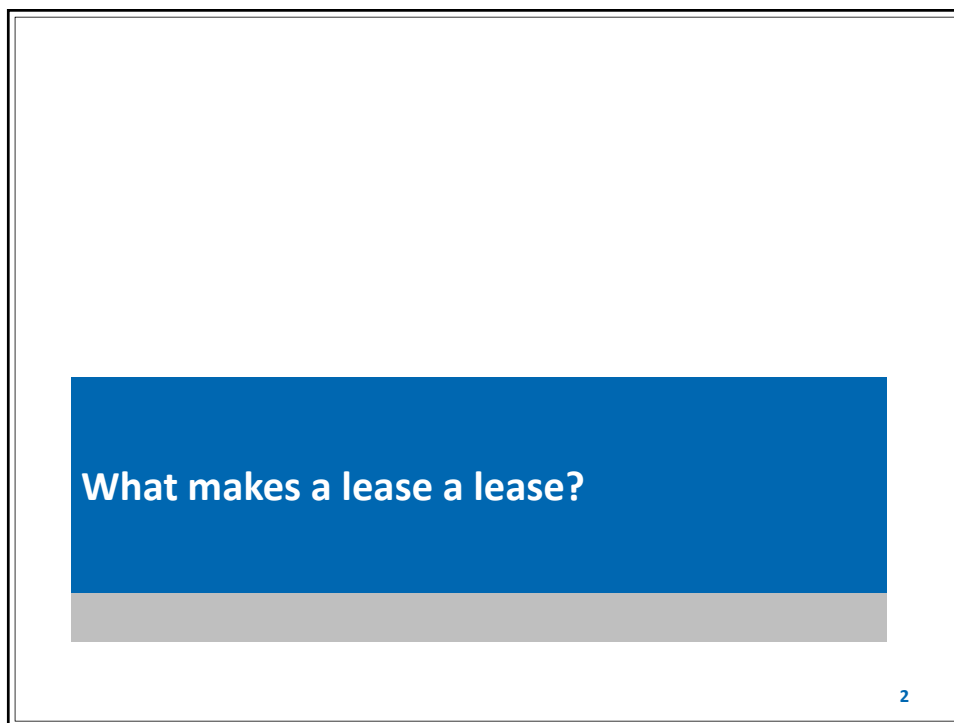


MaherDuessel
Pursuing the profession while promoting the public good®
www.md-cpas.com

Leases

The slide features the MaherDuessel logo at the top, which includes the firm name in a serif font with 'Maher' in black and 'Duessel' in blue, a horizontal line below it, and the tagline and website address in a smaller font. The main content is a large blue rectangle with the word 'Leases' centered in white. A grey horizontal bar is at the bottom of the blue area.

1



What makes a lease a lease?

The slide contains a large blue rectangle with the question 'What makes a lease a lease?' centered in white. A grey horizontal bar is at the bottom of the blue area.

2

2

Lease?

- Customer enters into a contract with a ship owner to transport its cargo
- The contract specifies the cargo to be transported on the ship and the dates of pickup and delivery
- Customer's cargo will occupy substantially all of the capacity of the ship and therefore obtains all of the economic benefits
- The specific ship is identified in the contract and cannot be replaced
- The ship owner will operate the ship and is responsible for the cargo
- The ship owner limits the use of the ship in bad weather conditions

3

3

Lease?

- Customer does not obtain the right to control the ship because it does not have the right to direct its use, therefore, not a lease
- Limits of use due to weather conditions and the ship owner operating the ship does not disqualify the contract as a lease

4

4

Current Lease Accounting

5

5

Lease Type Criteria

FASB codification Topic 840

– Capital lease criteria

- Lease transfers ownership by the end of the term
- Lease contains a bargain purchase option
- Lease is 75% or more of the estimated economic life of the leased property
- Present value of the minimum lease payments equals 90% of the fair value of the property

– Operating leases

- Anything not meeting the criteria of a capital lease

6

6

Capital Leases

- Value equal to the present value of the minimum lease payments or fair value of the asset leased (whichever is lower)
- Lease liability amortized
- Lease asset depreciated
 - Life of the asset or term of the lease depending on the criteria met
- Disclose future minimum payments

7

7

Operating Leases

- No liability or asset recorded
- Lease payments are expensed
- Disclose future minimum payments
 - If long-term and noncancelable

8

8

Lease Accounting Under FASB Topic 842

9

9

Scope and Effective Date

- FASB Topic 842
- Effective date – reporting period beginning after December 15, 2019
- How does this improve accounting and financial reporting?
 - Improves transparency and comparability among organizations by recognizing lease assets and lease liabilities.

10

10

Definition of a Lease

- A contract that conveys the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration

11

11

Excluded from Scope

- Leases of intangible assets
- Leases of biological assets (timber, plants, animals)
- Leases to explore for or use minerals, oil, natural gas, etc.
- Leases of inventory
- Leases of assets under construction

12

12

Short-Term Lease

- Option to elect an accounting policy to exclude short-term leases
- Lease term
 - Maximum possible term under the lease contract of 12 months including options to extend
 - Leases cancelable by either party such as month-to-month or year-to-year leases
 - Maximum possible term is the noncancelable period (including notice periods)

13

13

Long-Term Leases

14

14

Finance/Sales-Type Lease

- The lease transfers ownership of the underlying asset by the end of the term
- The lease grants an option to purchase the underlying asset and it is reasonably certain to exercise
- The lease term is a major part of the economic life of the underlying asset
- The present value of the lease payments equals or exceeds the fair value of the underlying asset
- The underlying asset is specialized and there is no alternative use to the lessor at the end of the lease term

15

15

Operating Lease

- All other leases not meeting the finance/sales-type criteria

16

16

Lease Term

- The period during which a lessee has a noncancelable right to use an underlying asset, plus:
 - Periods covered by a lessee's or lessor's option to extend the lease if it is reasonably certain
 - Periods covered by a lessee's or lessor's option to terminate the lease if it is reasonably certain
 - Period for which both the lessee and lessor have an option to terminate without permission from the other party (or if both have to agree to extend) are cancelable periods and are excluded from the lease term (rolling month-to-month lease)

17

17

Reassessment of the Lease Term

- If the following occur
 - The lessee or lessor elects an option that was not previously determined to be exercised
 - An event specified in the lease contracts that requires an extension or termination of the lease takes place

18

18

Lease Liability

19

19

Measurement

- Measured at the present value of payments expected to be made during the lease term
- The discount rate used for measurement should be the interest rate the lessor charges the lessee
- If an interest rate is not determined by the lessee, the estimated incremental borrowing rate should be used

20

20

Future Payments Included in the Measurement of the Lease Liability

- Fixed payments
- Variable payments that depend on an index
- Variable payments that are fixed in substance
- The exercise price of the purchase option if it is reasonably certain that the lessee will exercise the option
- Payments for penalties for terminating the lease

21

21

Remeasurement of the Lease Liability

- Change in the lease term
- Likelihood of purchase option being exercised has changed
- Change in the estimated amount of payments
- Change in variable payments that were contingent on the performance or use of the asset become fixed

22

22

Lease Asset (Right to Use Asset)

23

23

Measurement

- Measured as the sum of the following:
 - The amount of the initial measurement of the liability
 - Lease payments made to the lessor at or before the commencement of the lease term, less any incentives
 - Initial direct costs

24

24

Amortization

- Systematic and rational manner over the shorter of:
 - Lease term
 - Useful life of the asset
- If a purchase option is reasonably certain of being exercised:
 - Amortize over the life of the asset
- Operating lease – combined with rent interest
- Sales type lease - recorded as amortization expense

25

25

Adjustments to the Lease Asset

- Same factors as the lease liability
- If value of asset is reduced to zero, remaining liability is removed and recognized as a gain
- Impairment of asset
 - Change in time the asset can be used
 - Decline in utility of the asset

26

26

Financial Statement Presentation

27

27

Lessee – Operating Lease

- Lease Asset (Right to Use)
 - Present value of the lease payments
 - Amortize over life of lease using the effective interest method
- Lease Liability
 - Present value of the lease payments
 - Lease expense is incurred on the straight-line basis and includes both amortization and interest

28

28

Lessor – Operating Lease

- Lease Revenue
 - Recognized over the life of the lease on the straight-line basis
- Underlying Lease Asset
 - Do not derecognize

29

29

Lessee – Finance Lease

- Lease Asset
 - Present value of the lease payments
 - Amortize on the straight-line basis over life of lease
- Lease Liability
 - Present value of the lease payments
 - Amortize on the effective interest method over life of the lease

30

30

Lessor – Finance Lease

- Net Investment in Lease
 - Present value of the lease payments due
 - Amortized using the effective interest method
- Underlying Lease Asset
 - Derecognize
- Interest income
 - Recognized over the life of the lease on the effective interest method on the carrying value of the net investment in the lease

31

31

Examples

32

32

Terms of Leased Asset

- Terms
 - Total lease payments - \$120,000
 - 5 years
 - Interest rate 4.00% (incremental borrowing rate)
 - First payment due at start of lease
- Present value of payments
 - \$108,960

33

33

1/1/2020 Lease start date (payment due at time of signing lease)
 120,000 Total lease payments (ROU Asset Value)
 4% Interest rate

Period	Date	PMT Amount	PV
0	1/1/2020	2,000	2,000
1	2/1/2020	2,000	1,993
2	3/1/2020	2,000	1,987
3	4/1/2020	2,000	1,980
4	5/1/2020	2,000	1,974
5	6/1/2020	2,000	1,967
6	7/1/2020	2,000	1,960
7	8/1/2020	2,000	1,954
8	9/1/2020	2,000	1,947
9	10/1/2020	2,000	1,941
10	11/1/2020	2,000	1,935
11	12/1/2020	2,000	1,928
12	1/1/2021	2,000	1,922
13	2/1/2021	2,000	1,915
14	3/1/2021	2,000	1,909
15	4/1/2021	2,000	1,903
16	5/1/2021	2,000	1,896
17	6/1/2021	2,000	1,890
18	7/1/2021	2,000	1,884
19	8/1/2021	2,000	1,877
20	9/1/2021	2,000	1,871
21	10/1/2021	2,000	1,865
22	11/1/2021	2,000	1,859

Totals	120,000	108,960
--------	---------	---------

34

34

Lessee – Operating Lease

- Start of Lease
 - Debit - Right to use asset \$108,960
 - Credit - Lease Liability \$108,960

35

35

1/1/2020 Lease start date (payment due at time of signing lease)
 120,000 Total lease payments (ROU Asset Value)
 4% Interest rate

Period	Present Value of Payments			Right To Use Amortization			Lease Liability Amortization		
	Date	PMT Amount	PV	Principal	Interest	RTU Balance	Principal	Interest	Lease Balance
0	1/1/2020	2,000	2,000	1,650	350	107,310	1,816	-	107,144
1	2/1/2020	2,000	1,993	1,655	345	105,655	1,816	-	105,328
2	3/1/2020	2,000	1,987	1,660	340	103,995	1,816	-	103,512
3	4/1/2020	2,000	1,980	1,666	334	102,329	1,816	-	101,696
4	5/1/2020	2,000	1,974	1,671	329	100,658	1,816	-	99,880
5	6/1/2020	2,000	1,967	1,676	324	98,982	1,816	-	98,064
6	7/1/2020	2,000	1,960	1,682	318	97,300	1,816	-	96,248
7	8/1/2020	2,000	1,954	1,687	313	95,613	1,816	-	94,432
8	9/1/2020	2,000	1,947	1,693	307	93,921	1,816	-	92,616
9	10/1/2020	2,000	1,941	1,698	302	92,223	1,816	-	90,800
10	11/1/2020	2,000	1,935	1,703	297	90,519	1,816	-	88,984
11	12/1/2020	2,000	1,928	1,709	291	88,810	1,816	-	87,168
12	1/1/2021	2,000	1,922	1,714	286	87,096	1,816	-	85,352
13	2/1/2021	2,000	1,915	1,720	280	85,376	1,816	-	83,536
14	3/1/2021	2,000	1,909	1,725	275	83,651	1,816	-	81,720
15	4/1/2021	2,000	1,903	1,731	269	81,920	1,816	-	79,904
16	5/1/2021	2,000	1,896	1,736	264	80,183	1,816	-	78,088
17	6/1/2021	2,000	1,890	1,742	258	78,441	1,816	-	76,272
18	7/1/2021	2,000	1,884	1,748	252	76,694	1,816	-	74,456
19	8/1/2021	2,000	1,877	1,753	247	74,941	1,816	-	72,640
20	9/1/2021	2,000	1,871	1,759	241	73,182	1,816	-	70,824
...
Totals		120,000	108,960	108,960	11,040		108,960	-	

36

36

Lessee - Operating Lease

- Monthly Entries
 - Debit Lease expense \$1,834
 - Debit Lease liability \$1,816
 - Credit Lease asset \$1,650
 - Credit Cash \$2,000

37

37

Lessee – Finance Lease

- Start of Lease
 - Debit - Right to use asset \$108,960
 - Credit - Lease Liability \$108,960

38

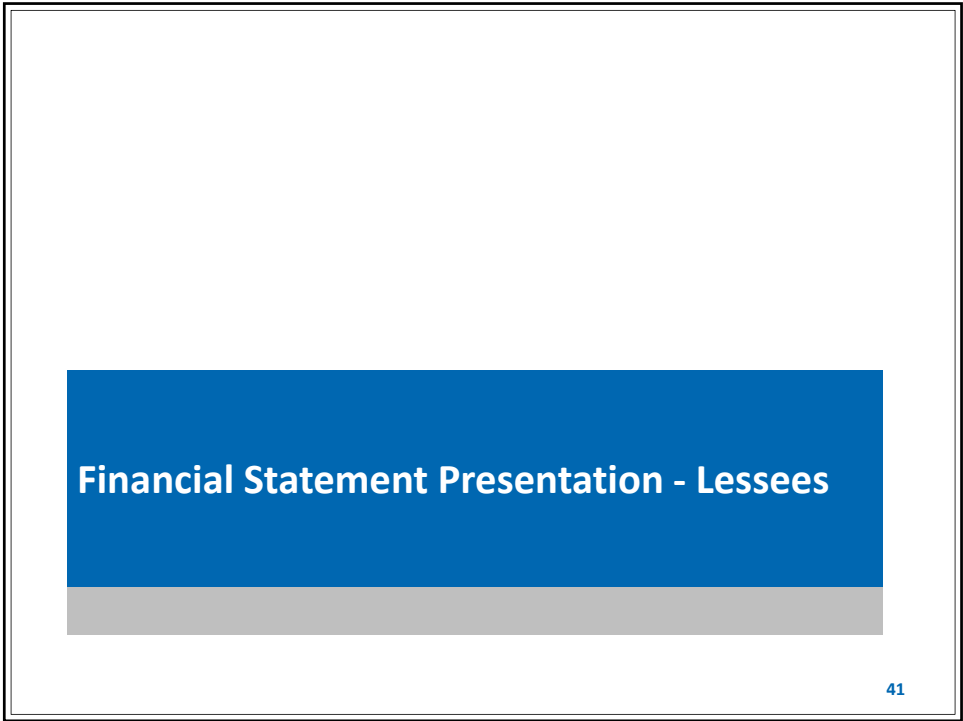
38

1/1/2020 Lease start date (payment due at time of signing lease)
 120,000 Total lease payments (ROU Asset Value)
 4% Interest rate

Period	Present Value of Payments			Right To Use Amortization			Lease Liability Amortization		
	Date	PMT Amount	PV	Principal	Interest	RTU Balance	Principal	Interest	Lease Balance
0	1/1/2020	2,000	2,000	2,000	-	118,000	1,650	350	107,310
1	2/1/2020	2,000	1,993	2,000	-	116,000	1,655	345	105,655
2	3/1/2020	2,000	1,987	2,000	-	114,000	1,660	340	103,995
3	4/1/2020	2,000	1,980	2,000	-	112,000	1,666	334	102,329
4	5/1/2020	2,000	1,974	2,000	-	110,000	1,671	329	100,658
5	6/1/2020	2,000	1,967	2,000	-	108,000	1,676	324	98,982
6	7/1/2020	2,000	1,960	2,000	-	106,000	1,682	318	97,300
7	8/1/2020	2,000	1,954	2,000	-	104,000	1,687	313	95,613
8	9/1/2020	2,000	1,947	2,000	-	102,000	1,693	307	93,921
9	10/1/2020	2,000	1,941	2,000	-	100,000	1,698	302	92,223
10	11/1/2020	2,000	1,935	2,000	-	98,000	1,703	297	90,519
11	12/1/2020	2,000	1,928	2,000	-	96,000	1,709	291	88,810
12	1/1/2021	2,000	1,922	2,000	-	94,000	1,714	286	87,096
13	2/1/2021	2,000	1,915	2,000	-	92,000	1,720	280	85,376
14	3/1/2021	2,000	1,909	2,000	-	90,000	1,725	275	83,651
15	4/1/2021	2,000	1,903	2,000	-	88,000	1,731	269	81,920
16	5/1/2021	2,000	1,896	2,000	-	86,000	1,736	264	80,183
17	6/1/2021	2,000	1,890	2,000	-	84,000	1,742	258	78,441
18	7/1/2021	2,000	1,884	2,000	-	82,000	1,748	252	76,694
19	8/1/2021	2,000	1,877	2,000	-	80,000	1,753	247	74,941
20	9/1/2021	2,000	1,871	2,000	-	78,000	1,759	241	73,182
21	10/1/2021	2,000	1,865	2,000	-	76,000	1,765	235	71,417
Totals		120,000	108,960	120,000	-		108,960	11,040	

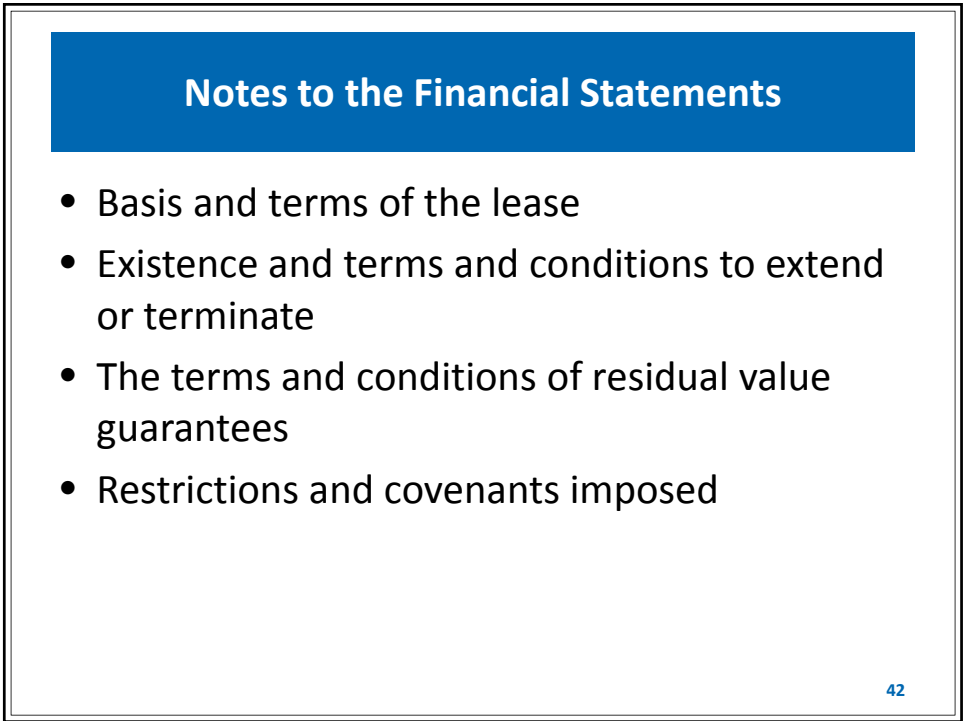
Lessee - Finance Lease

- Monthly Entries
 - Debit Amortization Expense \$2,000
 - Credit Right to use asset \$2,000
 - Debit Lease Liability \$1,650
 - Debit Lease Expense \$350
 - Credit Cash \$2,000



A slide with a white background and a thin black border. In the center, there is a blue rectangular box containing the text "Financial Statement Presentation - Lessees" in white. Below this box is a thin grey horizontal bar. In the bottom right corner of the slide, the number "41" is displayed in blue.

41



A slide with a white background and a thin black border. At the top, there is a blue rectangular box containing the text "Notes to the Financial Statements" in white. Below this box, there is a bulleted list of four items. In the bottom right corner of the slide, the number "42" is displayed in blue.

- Basis and terms of the lease
- Existence and terms and conditions to extend or terminate
- The terms and conditions of residual value guarantees
- Restrictions and covenants imposed

42

Notes to the Financial Statements

- Finance lease cost – segregated between the amortization of the right-to-use asset and lease liability
- Operating lease cost
- Maturity of undiscounted lease liabilities (finance and operating separately) on an annual basis for 5 years and the total remaining after
- Reconciliation of undiscounted cash flows to lease liability recognized

43

43

Statement of Financial Position

- Finance and operating leases presented separately
 - Right-to-use asset
 - Lease liability
 - May combine asset and liability but must include footnote to categorize

44

44

Financial Statement Presentation - Lessors

45

45

Notes to the Financial Statements

- Basis and terms of the lease
- Existence and terms and conditions to extend or terminate
- Existence and terms and conditions of options for a lessee to purchase the underlying asset

46

46

Notes to the Financial Statements

- Lease income recognized
 - Sale-type/financing leases
 - Profit or loss recognized at the commencement date
 - Interest income
 - Operating lease
 - Lease income relating to lease payments
 - Lease income relating to variable lease payments not included in the measurement of the lease receivable

47

47

Notes to the Financial Statements

- Maturity of undiscounted lease receivables on an annual basis for 5 years and the total remaining after
- Reconciliation of undiscounted cash flows to lease liability recognized

48

48

Other Items to Consider

49

49

Lease Incentives

- Payments to or on behalf of the lessee by the lessor
- Considered a rebate or discount to the lease obligation
- Include in the initial measurement
 - Applied as a reduction in lease payments for the period in which the incentive payment will be provided

50

50

Lease Modifications

- Treat as a separate lease if the following are present:
 - The modification gives the lessee an additional lease asset by adding additional underlying asset(s)
 - Increase in lease payments correspond with the standalone price for the additional right of use
- Otherwise remeasure the current lease

51

51

Lease Termination

- Decrease in the lessee's right to use the underlying asset
 - Shortened term
 - Decrease in the number of underlying assets
 - Include partial or full lease termination
- Reduce lease asset and liability and report gain/loss for difference

52

52

Implementation and Practical Considerations

53

53

Implementation

- Implemented retroactively by restatement, if practical for all periods presented
 - Little impact on statement of activities
- Do not apply to immaterial items
 - Consider the underlying asset leased

54

54

Implementation

- Gather information for all outstanding leases and evaluate the terms and conditions and identify:
 - Length of lease
 - Interest rate to apply
 - Useful life of the asset

55

55

Implementation

- Compile information for disclosure
 - Roll forward of leases
 - Future payments schedule
 - Any other payments made/received

56

56

Practical Considerations

- Assess lease agreements
 - Are terms month-to-month or less than 12 months? Can they be amended to do so?
 - Does the lease include cancelable terms?
- Evaluate what is material to the users of the financial statements
- Evaluate current capitalization policies and thresholds

57

57

Questions? Contact Me!

Dustin Starr, CPA - Manager
dstarr@md-cpas.com
412-535-5541

Cole Bocheff, CPA - Senior
cbocheff@md-cpas.com
412-315-3576

Source: Financial Accounting Standards
Board, "Leases," Topic 842

MaherDuessel Pittsburgh | Harrisburg | Butler | State College | Erie | Lancaster
www.md-cpas.com

58

58