



## **FASB Lease Accounting Summary and Update**

April 30, 2013

- The Financial Accounting Standards Board (FASB) anticipates issuing a Revised Exposure Draft for lease accounting in mid-May 2013, after which there will be a comment period of 120 days.
- If approved, the standards could be effective for financial statements with fiscal years ending in 2017. For comparative statements, standards will also apply to the prior two years.
- The two proposed approaches to account for leases will require recognizing both the asset and liability on the balance sheet, but will differ in how to recognize the expenses. The Interest and Amortization (I&A) approach recognizes the interest and amortization expenses separately on the income statement, whereas the Single Lease Expense (SLE) method recognizes lease expense as one straight-lined amount in the statement of comprehensive income. The approach is determined at lease commencement only.
- Leases of property will primarily be accounted for using the SLE approach unless the lease term is a significant portion of the useful life of the leased asset or the present value of lease payments is equal to substantially all of the fair value of the underlying asset.
- Leases of assets other than property, i.e. equipment, will primarily be accounted for using the I&A approach unless the lease term is insignificant when compared to the useful life of the asset or when the present value of lease payments is insignificant compared to the fair value of asset.
- Lease term should include renewal periods or should end at the termination date if there is an economic incentive to exercise the renewal or termination option. The lease term is reassessed when there is a change in factors contributing to the lessee's incentive to renew or terminate the lease.

### **Preparing Your Lease Portfolio for the Big Change**

- Review the lease portfolio data for any missing information, including critical dates, borrowing rate, lease payments during the term, lease payments during the renewal period(s), termination fee owed, and surrender obligations.
- Spreadsheets traditionally used may be inadequate for large portfolios, or a lease accounting system could be required.
- Data necessary for properly determining the correct approach are similar to the capital vs. operating lease criteria, but the lease term determination and reassessment will require additional information from the lease which may not have been previously abstracted.
- Reabstraction of leases may be necessary depending on quality of current data.

#### **For More Information Contact:**

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