



# Accounting for Leases

April 2012

Note: These materials are provided to facilitate understanding of the issues to be addressed at the May 10, 2012, SBAC meeting. These materials are presented for discussion purposes only; they are not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or the FASB.

# Why change lease accounting?

Leasing can be a form of off-balance sheet financing  
Current accounting allows operating leases to remain off-balance sheet

Bright line to capitalise leases means similar contracts are accounted for differently

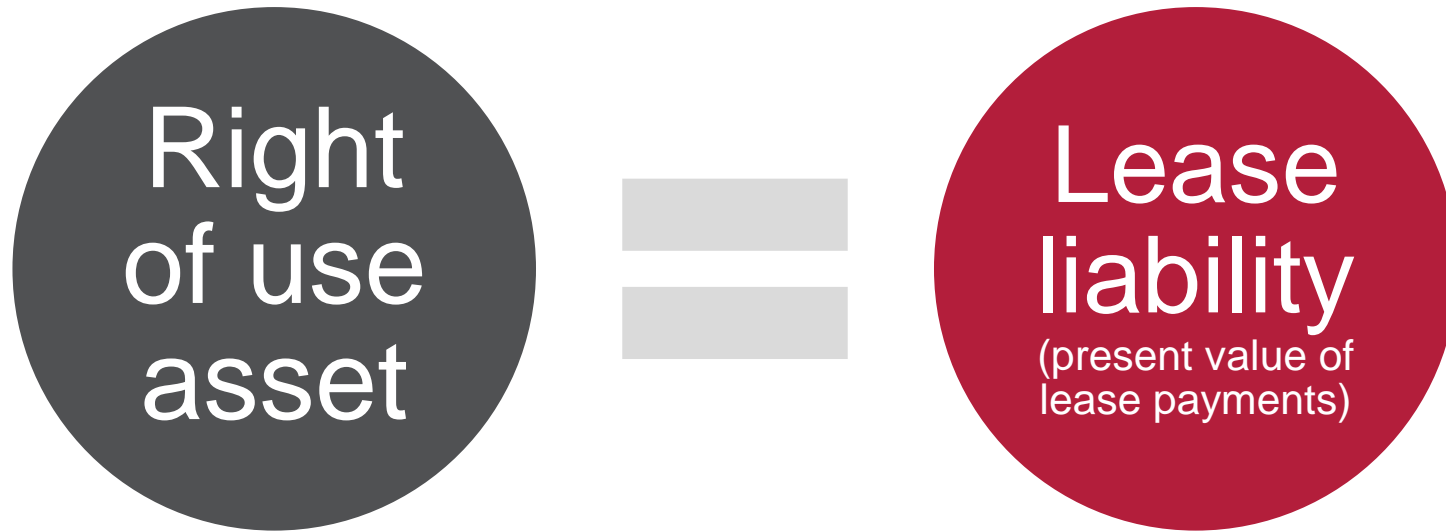
Analysts make adjustments based on limited information

- Multiples of annual rent (typical range 6x – 10x)
- Present value of future rent payment

# Transfer of the right to use an asset



# Measurement at beginning of lease



# Measurement over lease term

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How to allocate the cost of a lease over the lease term?

## Approach A

Typically straight-line ROU  
amortisation

+

Decreasing interest on  
liability

=

Decreasing total expense

## Approach B

Typically increasing ROU  
amortisation, reflecting  
time value of money

+

Decreasing interest on  
liability

=

Typically straight-line total  
expense

## How to allocate the cost of a lease over the lease term?

### Approach C

ROU amortisation profile depends on how much of leased asset consumed by lessee

+

Decreasing interest on liability

=

Varying total expense

### Approach D

Total payments allocated evenly over the lease term. Effectively no financing.

=

Always straight-line total expense

# Comparison of approaches

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	<b>Approach A</b>	<b>Approach B</b>
<b>Method for amortising ROU asset</b>	Same way as other assets	Different from other assets
<b>Effect on net income</b>	Decreasing total expense, especially for long-term leases	Straight-line total expense for many leases
<b>What does the effect on net income represent?</b>	Same as purchasing an asset and separately financing it	Different from purchasing an asset and separately financing it
<b>Presentation of amortisation and interest</b>	Presented separately	Combined as “lease expense”

# Comparison of approaches continued

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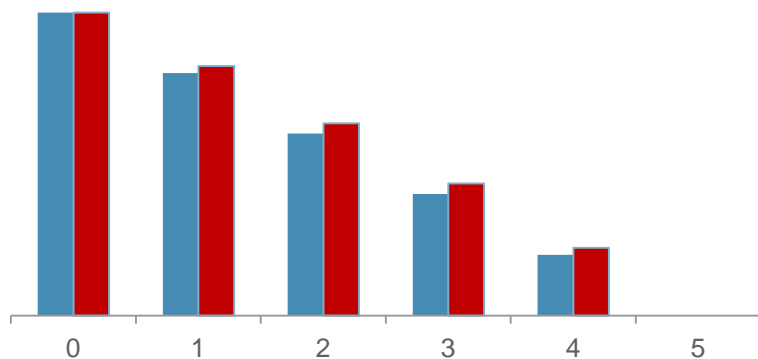
	<b>Approach C</b>	<b>Approach D</b>
<b>Method for amortising ROU asset</b>	Different from other assets	Different from other assets
<b>Impact to net income</b>	Total expense pattern depends on the lease <ul style="list-style-type: none"><li>• The higher the consumption, the steeper the decline in expense</li><li>• The lower the consumption, the more straight-line the expense</li></ul>	Straight-line total expense for all leases
<b>What does the effect on net income represent?</b>	Same as purchasing the underlying asset and separately financing it	Different from purchasing an asset and separately financing it
<b>Presentation of amortisation and interest</b>	Presented separately	Total payments allocated to lease expense evenly over the lease term



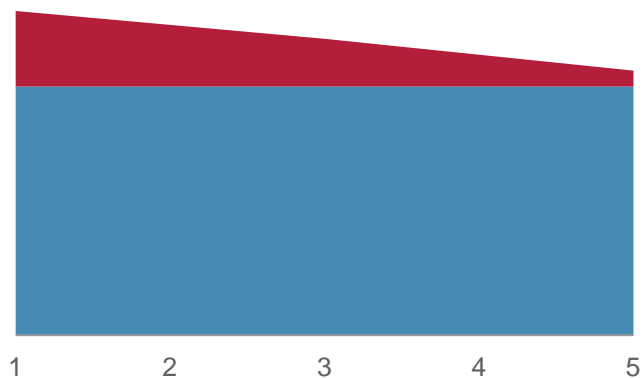
# Comparison of approaches continued

## Approach A

### Balance sheet

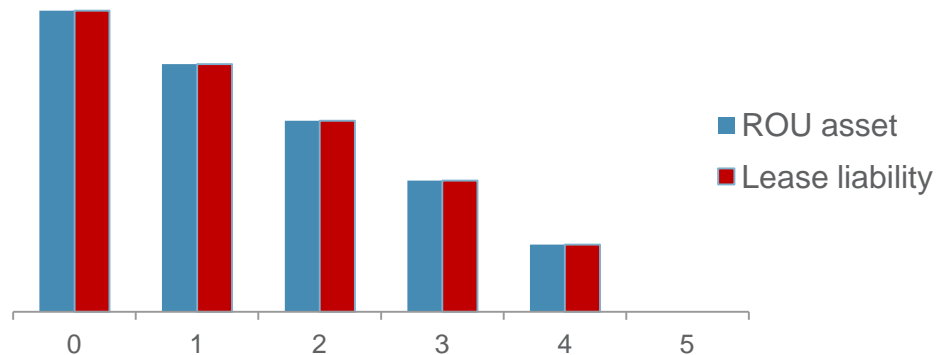


### Income statement

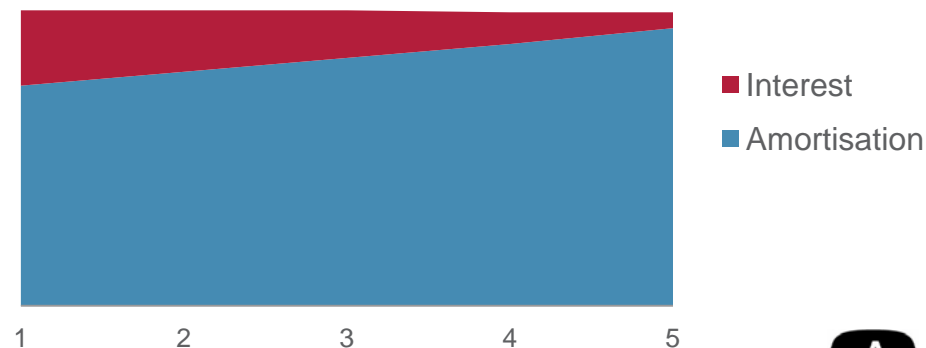


## Approach B

### Balance sheet



### Income statement



# Comparison of approaches continued

## Approach C (equipment)

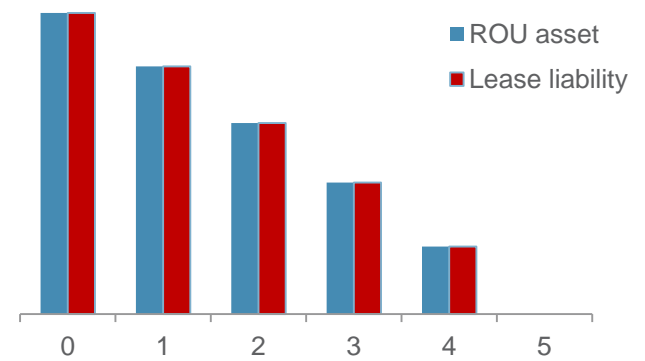
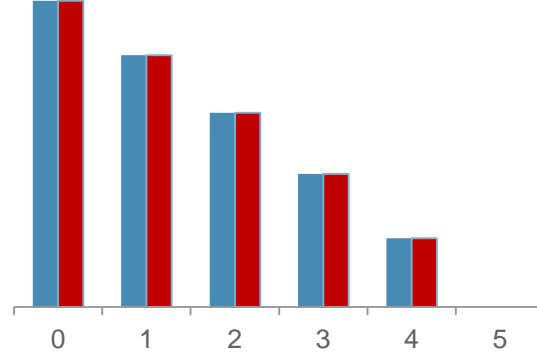
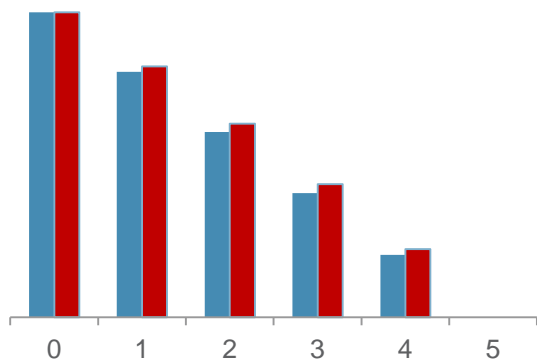
## Approach C (property)

## Approach D

### Balance sheet

### Balance sheet

### Balance sheet



### Income statement

### Income statement

### Income statement

