



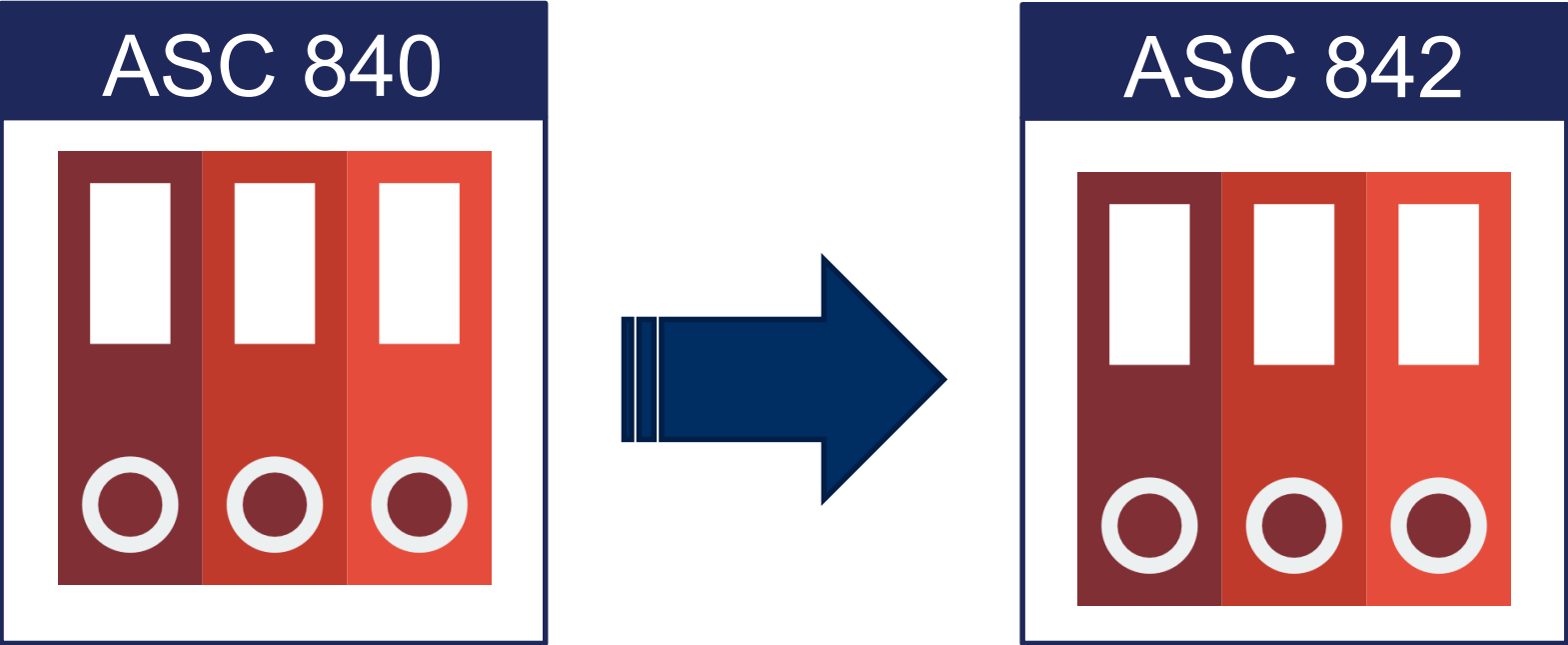
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Lessor Accounting Overview (ASC 842)

Crowe LLP

New FASB Standard

Financial Accounting Standards Board (FASB)



Effective Dates

Public Business Entities:



**December 15,
2018**

All Other Entities:



**December 15,
2021***

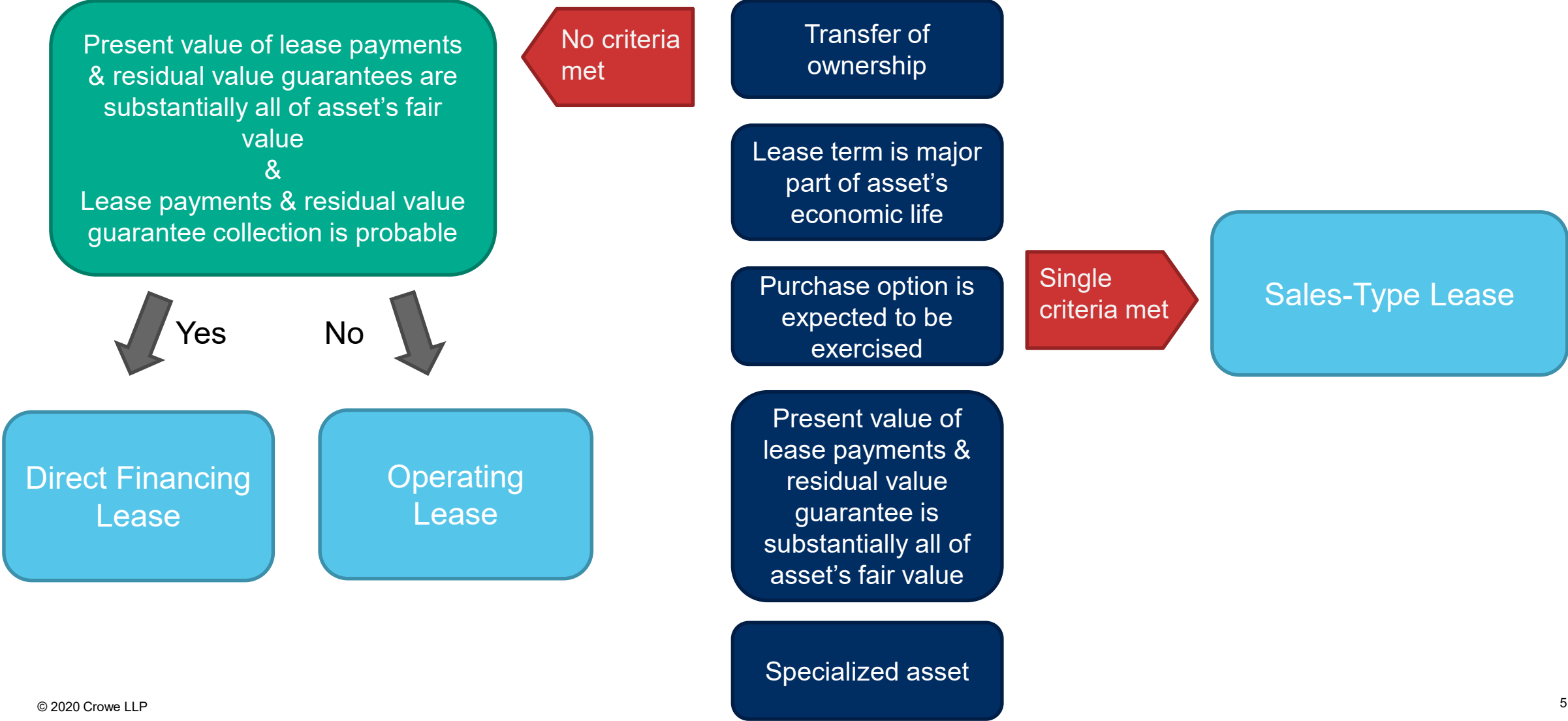
**As a response to the COVID-19 pandemic, on April 8, 2020 the FASB Board decided to amend the effective date of ASC 842, Leases, for private companies and private not-for-profit entities to annual reporting periods beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.*

Lessors – What Changed?

New lessor accounting is not fundamentally changed upon adoption of ASC 842, but some important changes were made to align with the lessee accounting model and the new revenue recognition standard (ASC 606)

Lease payment collectability	Initial direct costs (IDCs)	Non-lease components	Executory costs	Real estate leases
<ul style="list-style-type: none">• Lease classification and revenue recognition changes related to uncertainties in payment collectability	<ul style="list-style-type: none">• Change in definition of IDCs, resulting in fewer items to be capitalized	<ul style="list-style-type: none">• Bifurcation of lease payments between lease and non-lease components	<ul style="list-style-type: none">• Executory costs will be reported on a gross or net basis, dependent party responsible for payment	<ul style="list-style-type: none">• Elimination of specific guidance of leases involving real estate, including sale-and-lease back arrangements

Lessor Lease Classification Criteria



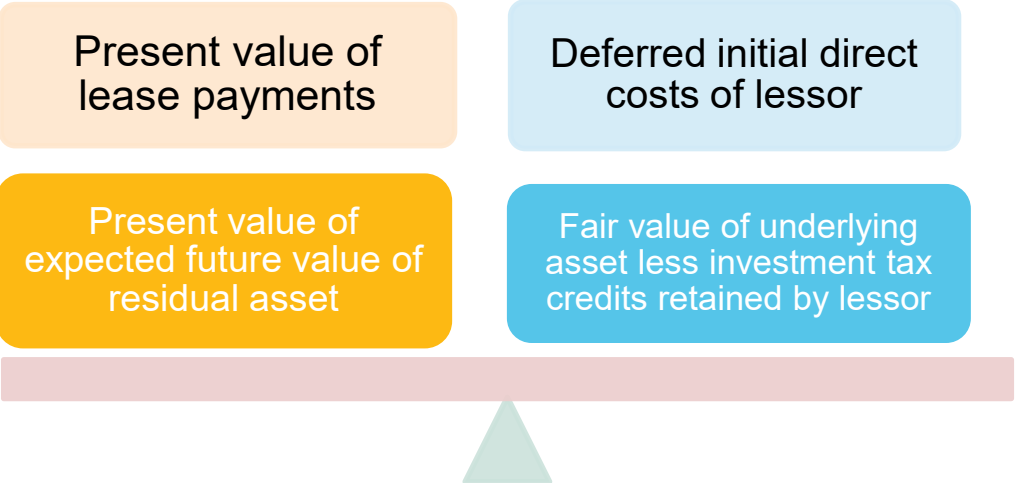
Measurement and Presentation

	Direct Financing or Sales-Type	Operating Lease
Balance sheet	Recognize net investment in the lease and derecognize leased asset (unless, for a sales-type lease, collectability is not probable and the lease asset is not derecognized)	Continue to recognize underlying asset
Income statement	<p>Direct financing – interest and profit over lease term; loss at commencement</p> <p>Sales-type – interest over lease term; profit/loss at commencement if collectability is probable</p>	Lease income, typically straight-line
Cash flow statement	Operating – cash received	Operating – cash received

Calculation of Sales-Type Initial Measurement



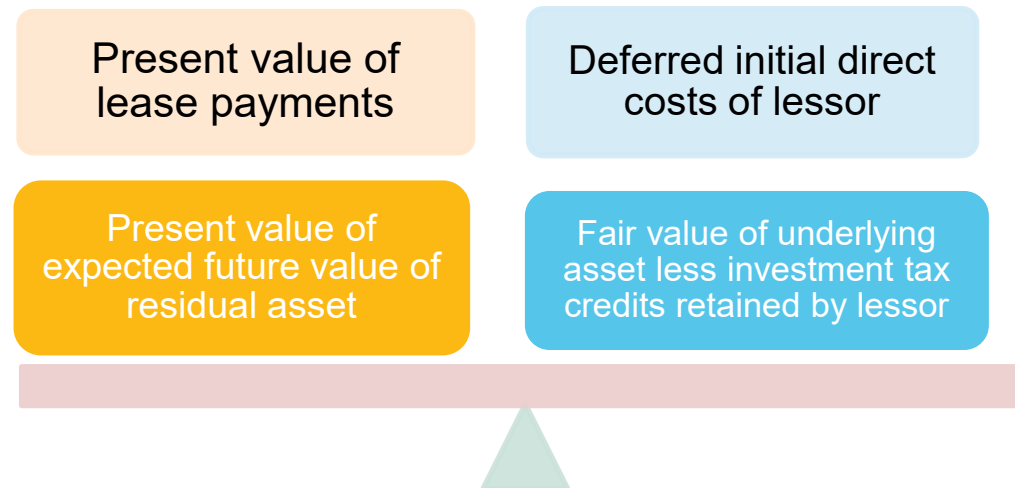
Leases are discounted using the implicit rate on the lease, which is determined as the balancing rate between the following components:



Calculation of Direct Financing Initial Measurement



Leases are discounted using the implicit rate on the lease, which is determined as the balancing rate between the following components:



Financial Disclosures

Qualitative

Nature of leases and significant terms

Significant assumptions and judgments made in application

Residual value risk management

Significant changes in unguaranteed residual assets and deferred selling profit

Quantitative

Table of lease income

Lease income related to variable lease payments not included in measurement of lease receivable

Maturity analysis of undiscounted cash flows

Profit or loss recognized at commencement date

Required PP&E disclosures for assets subject to operating leases

Impacts To Lessors

While lessor accounting will be relatively unchanged, lessors will need to revisit their lease population, update business processes to comply with changes to the new standard, and consider software solutions to meet their lease management and financial reporting requirements.

The new accounting rules for leases will likely impact contract negotiations in the future between lessors and lessees.

COVID-19 Update

The COVID-19 pandemic brought swift consequences for many businesses. Those responsible for the preparation of financial statements need to reassess their prior assumptions and assessments.

Lessors should consider the following implications as a result of the pandemic:

- *Renegotiations of existing lease terms and conditions, likely resulting in a lease accounting modifications*
- *Changes in the assessment of rent payment collectability, which impacts the subsequent accounting treatment*
- *Impairment of operating lease assets, if there was a significant adverse change in the business that could affect the value of the long-lived asset group*
- *Assessment of asset fair values, which affects lessor lease classification*



Thank you

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