A PRACTICE AID FROM BDO'S PROFESSIONAL PRACTICE GROUP

Accounting for Leases Under ASC 842

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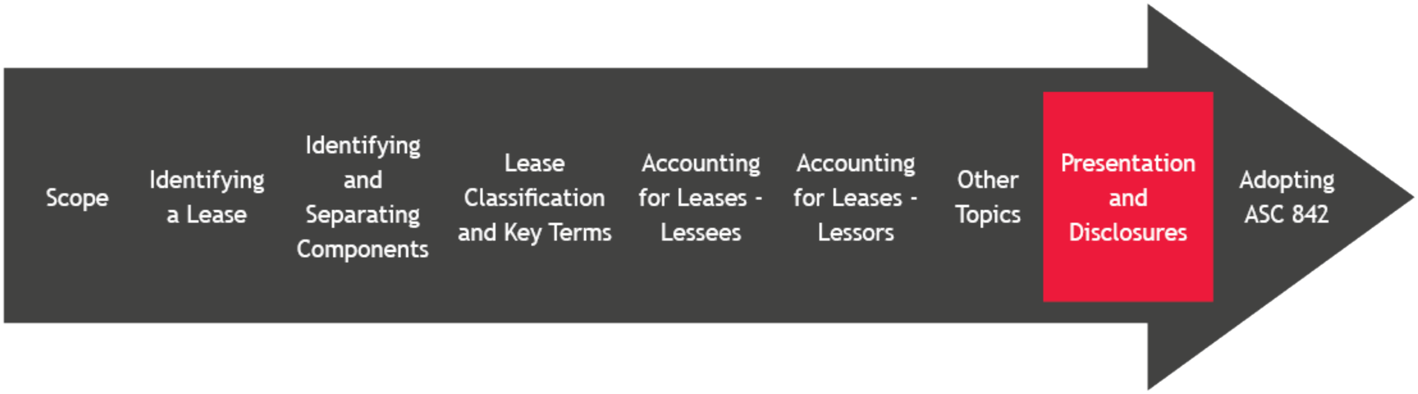
BDO Knows Presentation and Disclosures



OVERVIEW

During the project leading to the new lease standard, many users indicated that the disclosure requirements in the legacy lease guidance did not provide them with enough information to understand an entity's leasing activities. As a result, ASC 842 includes enhanced disclosure requirements, including an overall disclosure objective together with expanded disclosure requirements for leases.

Consistent with the disclosure requirements in ASC 606 on revenue from contracts with customers, the FASB did not provide explicit materiality requirements. An entity will consider the disclosure objective, which is to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases, and determine the level of details and emphasis needed on various disclosure requirements to satisfy the disclosure objective. The more extensive the entity's leasing activities, the more comprehensive the disclosures are expected to be.

For lessees, the FASB viewed differences in risks between leased assets and owned assets, between lease liabilities and other financial liabilities, and economic differences between operating and finance leases. Those differences drove some of the new presentation and disclosure requirements in ASC 842. Presentation of lease expense for operating leases, and amortization and interest expense for finance leases in the statement of comprehensive income is generally consistent with prior GAAP; and the presentation of cash flows arising from leases in the statement of cash flows will be driven by the presentation of lease expense in the income statement.

Meanwhile the FASB decided to retain most aspects of the lessor accounting model in previous GAAP. Therefore, lessors' presentation of leases in the statement of financial position, statement of comprehensive income, and statement of cash flows generally will not change. But many users indicated they needed more information about a lessor's leasing activities and associated risks, including credit risk related to lease receivables, and residual asset risk for the unguaranteed residual assets. ASC 842 therefore includes expanded disclosures about lessors' leasing activities.

PRESENTATION

SUMMARY OF LESSEE PRESENTATION REQUIREMENTS

<table>
<tr><th colspan="2">Lessee Presentation Requirements</th></tr>
<tr><td>Statement of Financial Position</td><td>
▶ Present in the statement of financial position separately from each other and from other assets or liabilities:
• Finance lease right-of-use assets
• Operating lease right-of use assets
• Finance lease liabilities
• Operating lease liabilities
▶ If not presented separately, disclose which line items in the statement of financial position include the right-of-use assets and lease liabilities
▶ If not presented separately, a lessee is precluded from presenting:
• Finance lease right-of-use assets in the same line item as operating lease right-of-use assets
• Finance lease liabilities in the same line item as operating lease liabilities
▶ Classify right-of-use assets consistent with how other depreciating assets such as PP&E are classified (i.e., as noncurrent based on ASC 210-10-45-4(f)); and classify lease liabilities as current or noncurrent consistent with the way other financial liabilities are classified
</td></tr>
<tr><td>Statement of Comprehensive Income</td><td>
▶ For finance leases, present interest expense on the lease liability and amortization of the right-of-use asset in a manner consistent with how the entity presents other interest expense and depreciation or amortization of similar assets, respectively
ASC 842 does not provide specific guidance on presentation of variable lease payments for finance leases. We believe that presentation as either lease expense or interest expense may be appropriate
▶ For operating leases, lease expense is included in income from continuing operations consistent with the presentation of other operating expenses, and should be classified within cost of sales; selling, general, and administrative expense; or another expense line item depending on the nature of the lease
</td></tr>
<tr><td>Statement of Cash Flows</td><td>
▶ For finance leases:
• Classify repayments of the principal portion of the lease liability within financing activities
• Classify interest on the lease liability in accordance with requirements relating to interest paid in ASC 230 on cash flows (typically in operating activities)
▶ For operating leases, classify payments within operating activities, except if those payments represent costs to bring another asset to the condition and location necessary for its intended use, which should be classified within investing activities
▶ For all leases, classify variable lease payments and short-term lease payments not included in the lease liability within operating activities
▶ The establishment of ROU assets and lease liabilities at lease commencement (or that change as a result of lease modifications or reassessment events) should be disclosed as noncash investing and financing activities in accordance with ASC 210-10-50-4
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LESSEE PRESENTATION REQUIREMENTS EXPLAINED

STATEMENT OF FINANCIAL POSITION

The FASB did not mandate separate presentation of lease amounts in the statement of financial position. However, the FASB determined that providing the carrying amount of a lessee's right-of-use assets and lease liabilities separately for finance and operating leases, and separate from other assets and liabilities will provide users with important information about an entity's use of lease arrangements in its business activities and about the relationship between the lessee's lease liabilities and right-of-use assets. Based on its outreach activities and deliberations during the project, the FASB noted that:

- There are differences between leased assets and owned nonfinancial assets (for example, there is typically no residual asset risk for a lease but there are risks associated with replacing the lease at the end of its term based on market conditions),
- A lease liability is a unique class of liability that is linked to a corresponding asset and has features, such as options and variable lease payments, that may differ from other liabilities,
- Right-of-use assets for operating and finance leases are measured differently after the commencement date (see article on Accounting for Leases - Lessees), and lease costs for operating and finance leases differ in terms of recognition and presentation in the statement of comprehensive income. Therefore, separate presentation of lease liabilities for operating and finance leases will help users understand the liability balance to which the lease costs relate, and
- Presenting assets and liabilities arising from finance and operating leases in the same line item in the balance sheet would be misleading because of the differences in underlying economics of each lease type. For example, finance lease liabilities are the equivalent of debt, while operating lease liabilities are not debt-like but are operating in nature and are generally treated differently in bankruptcy.

While the FASB did not prescribe where right-of-use assets must be presented (when they are not presented separately), paragraph BC265 of ASU 2016-02 notes that in some Board members' view, "presenting operating lease assets together with owned property, plant, and equipment may be inappropriate given the Board's conclusion that operating leases convey rights and carry risks substantially different from those of owned property, plant, and equipment."

STATEMENT OF COMPREHENSIVE INCOME

The FASB's decisions on presentation of lease cost in the statement of comprehensive income are linked to the Board's rationale for the lessee accounting model discussed in the previous article on Accounting for Leases - Lessees.

- The FASB noted that finance leases are economically similar to the financed acquisition of other nonfinancial assets, and therefore a lessee should present amortization of the right-of-use asset and the interest on the lease liability in separate line items, similar to how an entity presents depreciation or amortization of similar assets and other interest expense.
- In some Board members' views, operating leases grant different rights to, and impose different obligations on, the lessee such that they are not economically equivalent to other acquisitions of nonfinancial assets. Also, for operating leases, a lessee should recognize a single lease cost based on the pattern in which the benefits conveyed by the lease are consumed, which is generally on a straight-line basis over the lease term. To the extent not capitalized as part of the cost of another asset, the single lease cost is included in the lessee's income from continuing operations, like under previous GAAP.

STATEMENT OF CASH FLOWS

The requirements for presenting cash outflows in the statement of cash flows are linked to the presentation of expenses arising from a lease in the statement of comprehensive income and are generally consistent with prior GAAP.

Example 1 - Statement of cash flow presentation - Lessees

FACTS

- Ironside Co. leases heavy machinery for its operations with a lease term of 10 years. Payments start at $100,000 in the first year and increase by 5% annually. There are no initial direct costs, lease incentives, or prepaid lease payments.
- Ironside Co. accounts for the lease as an operating lease and recognizes straight-line lease expense of $125,779 annually **[A]**.
- The rate implicit in the lease is not readily determinable and therefore Ironside Co. uses its incremental borrowing rate, which is 6%.

ANALYSIS

- Ironside Co. accounts for the lease as follows throughout the lease term, assuming no modifications, reassessments, or impairments. See previous article on Accounting for Leases - Lessees for additional guidance.

	Lease Liability					Right-of-use Asset		
	Beg. Balance	Interest (6%) [B]	PMT [C]	Closing Balance	Amort. of Liability [B] + [C]	Beg. Balance	Amort. [A] - [B]	Closing Balance
Year 1	904,337	54,260	-100,000	858,598	(45,740)	904,337	(71,519)	832,819
Year 2	858,598	51,516	-105,000	805,114	(53,484)	832,819	(74,263)	758,556
Year 3	805,114	48,307	-110,250	743,170	(61,943)	758,556	(77,472)	681,084
Year 4	743,170	44,590	-115,763	671,998	(71,172)	681,084	(81,189)	599,895
Year 5	671,998	40,320	-121,551	590,767	(81,231)	599,895	(85,459)	514,436
Year 6	590,767	35,446	-127,628	498,585	(92,182)	514,436	(90,333)	424,103
Year 7	498,585	29,915	-134,010	394,491	(104,094)	424,103	(95,864)	328,239
Year 8	394,491	23,669	-140,710	277,450	(117,041)	328,239	(102,109)	226,130
Year 9	277,450	16,647	-147,746	146,352	(131,099)	226,130	(109,132)	116,998
Year 10	146,352	8,781	-155,133	0	(146,352)	116,998	(116,998)	0

- Ironside Co. uses the above information to prepare its statement of cash flows. One acceptable presentation is for Ironside Co. to (1) add back the amortization of the right-of-use asset as a noncash rent expense and (2) to separately present the change in lease liability. However, other presentations may be acceptable (for example, presentation as a single net line item consistent with presentation of the single operating lease expense in the income statement). In this example, other line items are omitted, and we assume Ironside Co. has only one lease.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Noncash rent expense	71,519	74,263	77,472	81,189	85,459	90,333	95,864	102,109	109,132	116,998
Change in lease liability	(45,740)	(53,484)	(61,943)	(71,172)	(81,231)	(92,182)	(104,094)	(117,041)	(131,099)	(146,352)
Net cash from operations	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX

SUMMARY OF LESSOR PRESENTATION REQUIREMENTS

	Lessor Presentation Requirements
Statement of Financial Position	▶ Sales-type and direct financing leases • Present lease assets (i.e., the aggregate of the lessor's net investment in sales-type and direct financing leases) separately from other assets • Classify lease assets as current or noncurrent consistent with the way similar assets are classified ▶ Operating leases • Present the underlying asset subject to an operating lease and any lease receivable in accordance with other topics (for example, ASC 310 on Receivables or ASC 360 on PP&E)
Statement of Comprehensive Income	▶ For all leases, present income arising from leases separately, or disclose which line items in the statement of comprehensive income include lease income ▶ For sales-type and direct financing leases, present profit or loss recognized at the commencement date in a manner that best reflects the lessor's business model, for example: • Present revenue and cost of goods sold in separate line items if the lessor uses leases as an alternative means of realizing value from goods it would otherwise sell (e.g., manufacturers and dealers), so that income and expenses from sold and leased items are presented consistently. Note that revenue recognized is the lesser of (1) the fair value of the underlying asset at the commencement date and (2) the sum of the lease receivable and any prepaid lease payments. Cost of goods sold is the carrying amount of the underlying asset at the commencement date minus the unguaranteed residual asset • Present profit or loss in a single line item if the lessor uses leases for purposes of providing finance (e.g., financial institutions)
Statement of Cash Flows	▶ Classify cash receipts from leases within operating activities, regardless of lease classification ▶ However, lessors within the scope of ASC 942, Financial Services – Depository and Lending, should classify principal payments received under sales-type and direct financing leases within investing activities consistent with paragraph 942-230-45-4

Some leases, such as real estate leases, require the lessee to reimburse the lessor for costs incurred related to property taxes, insurance, and maintenance services (e.g., common area maintenance). As discussed in the previous article, Identifying and Separating Components, lessor costs such as property taxes and insurance that protects the lessor's asset are not a component of the contract, while maintenance services represent a nonlease component. A lessor accounts for lessor costs paid by the lessor and reimbursed by the lessee on a gross basis, and such reimbursements are allocated between the lease and nonlease components consistent with the initial (or most recent) allocation of the consideration in the contract unless the variable payments can be allocated only to the lease component. If the lessor elected the practical expedient not to separate under ASC 842-10-15-42A, and assuming the lease component is predominant, the tenant reimbursements should be presented within lease income (unless one or more nonlease components do not meet the conditions to be combined). Additional disclosures factually discussing the reimbursements may be appropriate in the notes.

LESSOR PRESENTATION REQUIREMENTS EXPLAINED

STATEMENT OF FINANCIAL POSITION

The net investment in the lease is comprised of the following components: the lease receivable, the unguaranteed residual asset and, for direct financing leases, any deferred selling profit. In considering presentation of sales-type and direct financing leases on the balance sheet, the FASB decided against requiring a lessor to separately present the components of the net investment in the lease. Accordingly, a lessor is required to present a single net investment in sales-type and direct financing leases separately from other assets. However, certain disclosures of the lessor's investments in leases are required to provide users with information about the lessor's exposure to credit risk (for the lease receivable) and asset risk (relating to the unguaranteed residual asset). Refer to the disclosure section for additional discussion. Lease assets are financial assets that are subject to current and noncurrent presentation requirements in a classified balance sheet.

For operating leases, the assets underlying those leases and related depreciation are presented in accordance with other accounting guidance (for example, ASC 360). Also, in accordance with ASC 842-30-50-13, assets subject to operating leases should be presented separately from owned assets that are held and used by the lessor as they are subject to different risks. Any rent receivable, deferred rent revenue (that results from the requirement to recognize rents on a straight-line basis), and prepaid initial direct costs are also subject to current and noncurrent presentation requirements.

STATEMENT OF COMPREHENSIVE INCOME

ASC 842 provides guidance on presentation in the statement of comprehensive income only for sales-type and direct financing leases. No guidance is provided for operating leases.

For sales-type and direct financing leases, the FASB noted that lessors' business models vary. For example, some like banks and other financial institutions use leasing as a means to provide financing to lessees. Others like manufacturer or dealer lessors use leasing as an alternative means of realizing value from assets they would otherwise sell (for example, medical equipment manufacturers). Accordingly, ASC 842 permits presentation of the profit recognized at the commencement date as either gross or net based on the lessor's business model.

ASC 842 does not provide specific guidance on the presentation of variable lease payments received for direct financing or sales type leases. We believe that presentation as either lease income or interest income may be appropriate.

STATEMENT OF CASH FLOWS

When ASU 2016-02 was initially issued, all lessors were required to classify all cash receipts from leases as operating activities in the statement of cash flows, regardless of whether the lease was an operating lease, sales-type lease, or direct financing lease. In the FASB's view, this is because leasing is generally part of a lessor's revenue-generating activities.

However, the FASB received feedback from lessor stakeholders within the scope of ASC 942, *Financial Services—Depository and Lending*, that they historically have presented principal payments received under leases within investing activities based on an illustrative example in ASC 942 that was not eliminated with the issuance of ASC 842. Following that feedback, the FASB issued ASU 2019-01, *Codification Improvements* in March 2019 to clarify that lessors that are depository and lending institutions within the scope of ASC 942 should present all "principal payments received under leases" within investing activities. See the next article, **Adopting ASC 842**, for effective dates and transition of ASU 2019-01.

DISCLOSURE REQUIREMENTS

DISCLOSURE OBJECTIVE APPLICABLE TO LESSEES AND LESSORS

ASC 842-20-50-1 (applicable to lessees) and ASC 842-30-50-1 (applicable to lessors) provide that "the objective of the disclosure requirements is to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases." ASC 842-20-50-2 (applicable to lessees) and ASC 842-30-50-2 (applicable to lessors) further indicate that "a lessee [lessor] shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. A lessee [lessor] shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or by aggregating items that have different characteristics."

With that objective in mind, judgment will be required to determine the level of disclosures necessary for an entity. However, as a guiding principle, paragraph BC 276 in the Basis for Conclusions of ASU 2016-02 indicates that "if leasing is a significant part of an entity's business activities, the disclosures would be more comprehensive than for an entity whose leasing activities are less significant…." For example, although ASC 842 does not provide specific quantitative or qualitative disaggregation requirements such as those required under ASC 606, for entities for which leasing is a significant portion of their business, such disaggregation might be appropriate.

Therefore, an entity may consider the following steps in preparing its notes to the financial statements:

Consider information relevant to users' understanding of the amount, timing and uncertainty of cash flows from leases → *Consider the level of detail necessary based on the significance of the entity's leasing activities* → *Provide the required disclosures about the entity's leases in sufficient detail in order to meet the disclosure objective*

Entities must make appropriate disclosures for each annual reporting period for which a statement of comprehensive income (statement of activities) is presented and in each year-end statement of financial position. Entities are not required to repeat disclosures if the information is already presented in the financial statements as required by other accounting standards.

Although the majority of the disclosures required by ASC 842 only affect an entity's annual financial statements, the standard requires that lessors provide a table disclosing lease income for each interim and annual reporting period. Entities otherwise should look to ASC 270 on interim disclosure requirements as applicable for additional guidance. Additionally, in the year of adoption, the Securities and Exchange Commission (SEC) requires public companies to include all required annual disclosures in any interim financial statements that are prepared until the next annual financial statements are filed – even if the disclosure requirements are only applicable for annual periods. Refer to the next article, Adopting ASC 842, for additional disclosure requirements in transition.

Unlike other recent standards, ASC 842 does not distinguish between public entities and all other entities. The disclosure principle and related requirements apply to all entities.

LESSEE DISCLOSURE REQUIREMENTS

<table>
<tr><th colspan="2">Lessee Disclosure Requirements</th></tr>
<tr><td>Qualitative Disclosures</td><td>

Information about the nature of its leases, including:

A general description of those leases
The basis and terms and conditions on which variable lease payments are determined
The existence and terms and conditions of options to extend or terminate the lease. A lessee should provide narrative disclosure about the options that are recognized as part of its right-of-use assets and lease liabilities and those that are not.
The existence and terms and conditions of residual value guarantees provided by the lessee
The restrictions or covenants imposed by leases, for example, those relating to dividends or incurring additional financial obligations

(A lessee should identify the information relating to subleases included in the above disclosures, as applicable)
Information about leases that have not yet commenced but that create significant rights and obligations for the lessee, including the nature of any involvement with the construction or design of the underlying asset
Information about significant assumptions and judgments made, including:

The determination of whether a contract contains a lease
The allocation of consideration in a contract between lease and nonlease components
The determination of the discount rate for the lease

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<tr><td>Quantitative Disclosures</td><td>

For each period presented, disclose amounts related to a lessee's total lease cost (i.e., including amounts recognized in income and capitalized) and the cash flows arising from lease transactions:

Finance lease cost, segregated between amortization of right-of use assets and interest on lease liabilities
Operating lease cost
Short-term lease cost, excluding expenses relating to leases with a lease term of one month or less
Variable lease cost
Sublease income, disclosed on a gross basis, separate from finance or operating lease expense
Net gain or loss recognized from sale and leaseback transactions
Amounts segregated between those for finance and operating leases for:

Cash paid for amounts included in the measurement of lease liabilities segregated between operating and financing cash flows
Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets
Weighted-average remaining lease term, based on the remaining lease term and the lease liability balance for each lease as of the reporting date
Weighted-average discount rate, based on the discount rate for the lease used to calculate the lease liability balance for each lease, and remaining balance of lease payments for each lease, as of the reporting date
(See ASC 842-20-55-53 for an example of these disclosures)

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Lessee Disclosure Requirements	
	• Disclose maturity analysis of undiscounted lease liabilities (commonly referred to as the 5-year table) separately for finance leases and operating leases, with a reconciliation of undiscounted cash flows to the finance lease liabilities and operating lease liabilities recognized in the statement of financial position ▶ While the FASB included an example lessee disclosure of quantitative disclosures in ASC 842-30-55-53 (Example 6) for which the information is provided in a tabular format, the disclosure requirements in ASC 842-20-50 do not specifically require such a format
Policy Elections and Practical Expedients	▶ Disclose policy election for short-term leases, if elected • If the short-term lease expense does not reasonably reflect the lessee's short-term lease commitments, disclose that fact and the amount of short-term lease commitments ▶ Disclose practical expedient for not separating lease components from non-lease components, if elected, and which asset classes to which the election applies ▶ Disclose accounting policy on using the risk-free discount rate for the lease, if elected
Related Party Leases	▶ Disclose lease transactions between related parties in accordance with paragraphs 850-10-50-1 through 50-6
Sale and Leaseback Transactions	▶ If a seller-lessee enters into a sale and leaseback transaction, it provides the disclosures required for lessees for the leaseback ▶ A seller-lessee must also disclose the main terms and conditions of the sale and leaseback transaction and any gains or losses arising from the transaction separately from gains or losses on disposal of other assets

Noncash Changes in Right-of-Use Assets to Disclose

ASC 842-20-50-4(g)(2) requires disclosure of "[s]upplemental noncash information on lease liabilities arising from obtaining right-of-use assets." In addition, ASC 230-10-50-3 requires disclosure of information about all investing and financing activities of an entity during a period that affects recognized assets or liabilities but that do not result in cash receipts or cash payments in the period. Therefore, we believe that all material noncash changes to right-of-use assets, both increases and decreases, should be disclosed, either on the face of the statement of cash flows or in the related notes. The initial recognition of a right-of-use asset should therefore be included in this disclosure, along with the following:

- Any lease modification that grants an additional right-of-use asset or removes a right-of-use asset,
- Any other remeasurement that results in increases or decreases (debits or credits) to the right-of-use asset, such as changes in the assessment of the lease term.

See previous article, Accounting for Leases - Lessees, for additional information on modifications and remeasurement events.

Example 2 - Lessee disclosure example

For purposes of this example, we have assumed that Susie's Stitch-n-Sew ("Susie's") is a national retailer of fabrics and other craft materials which primarily leases its retail locations. We have not presented a statement of financial position, but have assumed that Susie's has presented the following captions:

- Operating lease ROU assets
- Fixed assets, net
- Current portion of operating lease liabilities
- Long-term operating lease liabilities
- Current portion of long-term debt
- Long-term debt

We have also not presented a statement of comprehensive income but have assumed that Susie's has presented Cost of sales, SG&A expense, Depreciation and amortization expense, and Interest expense.

This example assumes that the guidance in ASC 842 has been in effect for all periods presented, and that all amounts are in millions.

Note X. Leases

Susie's has historically entered into a number of lease arrangements under which we are the lessee. Specifically, of our 250 retail locations, 240 are subject to operating leases and 5 are subject to finance leases. In addition, we lease our corporate headquarters facility, as well as various warehouses and regional offices. We are also a party to an additional 12 leases in which we previously operated a retail location, but which are now subleased to third parties. In addition, we have elected the short-term lease practical expedient related to leases of various equipment used in our retail locations.

As of December 31, 20X9, we have entered into eight leases for additional retail locations and one lease for an additional warehouse which have not yet commenced. Although certain of the retail locations are currently under construction, we do not control the building during construction, and are thus not deemed to be the owner during construction.

All of our retail leases include multiple optional renewal periods. Upon opening a new retail location, we typically install brand-specific leasehold improvements with a useful life of approximately eight years. To the extent that the initial term of the related lease is less than the useful life of the leasehold improvements, we conclude that it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term, and the related payments are reflected in the ROU asset and lease liability. Generally, we do not consider any additional renewal periods to be reasonably certain of being exercised, as comparable locations could generally be identified within the same trade areas for comparable lease rates.

All of our leases include fixed rental payments, but many of our leases also include variable rental payments. Specifically, a number of our leases in certain markets require rent payments that are calculated as a percentage of sales in that location. In addition, we also commonly enter into leases under which the lease payments increase at pre-determined dates based on the change in the consumer price index. While the majority of our leases are gross leases, we also have a number of leases in which we make separate payments to the lessor based on the lessor's property and casualty insurance costs and the property taxes assessed on the property, as well as a portion of the common area maintenance associated with the property. We have elected the practical expedient not to separate lease and nonlease components for all of our building leases.

During 20X9, 20X8 and 20X7, we recognized rent expense associated with our leases as follows:

	20x9	20x8	20x7
Operating lease cost:			
Fixed rent expense	$23.7	$22.6	$20.5
Variable rent expense	3.8	3.6	3.4
Finance lease cost:			
Amortization of ROU assets	2.5	2.4	2.2
Interest expense	2.0	2.1	2.0
Short-term lease cost	0.2	0.2	0.3
Sublease income	(1.3)	(1.1)	(1.2)
Net lease cost	$30.9	$29.8	$27.2
Lease cost – Cost of sales	$4.2	$4.0	$4.1
Lease cost – SG&A	22.2	21.3	18.9
Lease cost – Depreciation and amortization	2.5	2.4	2.2
Lease cost – Interest expense	2.0	2.1	2.0
Net lease cost	$30.9	$29.8	$27.2

Amounts recognized as right-of-use assets related to finance leases are included in fixed assets, net in the accompanying statement of financial position, while related lease liabilities are included in Current portion of long-term debt and Long-term debt. As of December 31, 20x9 and 20x8, right-of-use assets and lease liabilities related to finance leases were as follows:

	20x9	20x8
Finance lease ROU assets	$17.6	$17.0
Finance lease liabilities:		
Current portion of long-term debt	2.2	2.2
Long-term debt	15.3	15.1

During the years ended December 31, 20x9, 20x8 and 20x7, we had the following cash and non-cash activities associated with our leases:

	20x9	20x8	20x7
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$26.0	$25.7	$24.8
Operating cash flows from finance leases	2.0	2.1	2.0
Financing cash flows from finance leases	2.0	1.9	1.9
Non-cash investing and financing activities:			
Additions to ROU assets obtained from:			
New operating lease liabilities	$18.7	$20.3	$16.2
New finance lease liabilities	-	3.4	-

The future payments due under operating and finance leases as of December 31, 20x9 is as follows:

	Operating	Finance
Due in 20x0	$ 22.6	$ 2.2
20x1	23.9	3.8
20x2	24.7	3.6
20x3	25.3	3.6
20X4	24.0	3.6
All years thereafter	8.3	2.1
	128.8	18.9
Less effects of discounting	(35.9)	(3.6)
Lease liabilities recognized	$ 92.9	$ 15.3

As of December 31, 20x9 and 20x8, the weighted-average remaining lease term for our operating leases is 4.8 years and 4.9 years, respectively, while the weighted-average remaining lease term for our finance leases is 5.3 years and 5.6 years, respectively.

Because we generally do not have access to the rate implicit in the lease, we utilize our incremental borrowing rate as the discount rate. The weighted average discount rate associated with operating leases as of December 31, 20x9 and 20x8 is 4.2% and 4.0%, respectively, while the weighted-average discount rate associated with finance leases is 3.9% and 3.8%, respectively.

The incremental borrowing rate is the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. In determining that rate, the Company considers prevailing economic conditions at the commencement date and factors such as company-specific credit risk, term of the lease and options, and the effect of collateralization based on the nature and quality of the underlying asset.

LESSOR DISCLOSURE REQUIREMENTS

Considering the disclosure objective previously discussed, and to help entities achieve that objective, ASC 842 requires that a lessor disclose quantitative and qualitative information about:

- Its leases,
- The significant judgments made in applying ASC 842, and
- The amounts recognized in the financial statements for those leases.

The following table summarizes those disclosure requirements:

<table>
<tr><th colspan="2">Lessor Disclosure Requirements</th></tr>
<tr><td>Qualitative Disclosures</td><td>
▶ Information about the nature of its leases, including
• A general description of those leases
• The basis and terms and conditions on which variable lease payments are determined
• The existence and terms and conditions of options to extend or terminate the lease
• The existence and terms and conditions of options for a lessee to purchase the underlying asset
▶ Information about significant assumptions and judgments made, including:
• The determination of whether a contract contains a lease
• The allocation of consideration in a contract between lease and nonlease components (unless a lessor elects the practical expedient in paragraph 842-10-15-42A and all nonlease components in the contract qualify for that practical expedient)
• The determination of the amount the lessor expects to derive from the underlying asset following the end of the lease term
▶ Information about how the lessor manages its risk associated with the residual value of its leased assets
• Risk management strategy for residual assets
• Carrying amount of residual assets covered by residual value guarantees
• Any other means by which the lessor reduces its residual asset risk, for example buyback agreements and variable lease payments for use in excess of specified limits
</td></tr>
<tr><td>Quantitative Disclosures</td><td>
▶ For each annual <u>and interim</u> reporting period, disclose <u>in a tabular format</u>:
• Sales-type leases and direct financing leases:
▪ Profit or loss recognized at the commencement date (disclosed on a gross or net basis as discussed in the Presentation section above)
▪ Interest income (either in aggregate or separated by components of the net investment in the lease)
• Operating leases: Lease income relating to lease payments
• Lease income relating to variable lease payments not included in the measurement of the lease receivable
▶ Disclose the components of the lessor’s aggregate net investment in sales-type and direct financing leases (that is, the carrying amount of lease receivables, unguaranteed residual assets, and any deferred selling profit on direct financing leases)
▶ Sales-Type and Direct Financing Leases
• Explain significant changes in the balance of unguaranteed residual assets and deferred selling profit on direct financing leases
</td></tr>
</table>

<table>
<tr><th colspan="2">Lessor Disclosure Requirements</th></tr>
<tr><td></td><td>
Disclose maturity analysis (commonly referred to as the 5-year table) of undiscounted lease receivables, with a reconciliation of undiscounted cash flows to lease receivables
▶ Operating Leases
Disclose maturity analysis (commonly referred to as the 5-year table) of undiscounted lease payments to be received. The maturity analysis for operating leases must be presented separately from the maturity analysis for sales-type and direct financing leases
Provide disclosures required by ASC 360 on property, plant, and equipment separately for underlying assets under operating leases from owned assets
</td></tr>
<tr><td>Policy Elections and Practical Expedients</td><td>
▶ An entity that elects the practical expedient to not separate nonlease components from associated lease components (including an entity that accounts for the combined component entirely in ASC 606 on revenue from contracts with customers) should disclose the following by class of underlying asset:
Accounting policy election and the class or classes of underlying assets for which it has elected to apply the practical expedient
The nature of:
The lease components and nonlease components combined as a result of applying the practical expedient
The nonlease components, if any, that are accounted for separately from the combined component because they do not qualify for the practical expedient
The topic the entity uses to account for the combined component (ASC 842 or ASC 606)
▶ A lessor that elects to exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific lease revenue producing transaction and collected by the lessor from the lessee shall disclose its election and comply with the disclosure requirements in ASC 235-10-50-1 through 50-6
</td></tr>
<tr><td>Related Party Leases</td><td>▶ Disclose any lease transactions between related parties in accordance with ASC 850 on related party disclosures</td></tr>
<tr><td>Sale and Leaseback Transactions</td><td>▶ The buyer-lessor provides the disclosures applicable to lessors for the leaseback</td></tr>
<tr><td>Leveraged Leases</td><td>▶ Although ASC 842 removed leveraged lease accounting, leases that met the definition of a leveraged lease under ASC 840 that commenced before ASC 842's effective date are grandfathered in. As such, entities that continue to have leveraged leases must continue to provide disclosures as required by ASC 842-50, which carries forward existing guidance from ASC 840.</td></tr>
</table>

Contacts

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