

Example Summary and Journal Entries

Base Example – Generic Building Lease

**Disclaimer – The exposure draft received nearly 700 letters of comment through the comment period ended December 15, 2010. There is some expectation that key features of the standard will be modified as a result of constituent response. As a result, these illustrative examples will not likely be accurate or appropriate to rely upon after issuance of the final standard. We have provided these as an educational tool only and do not represent these examples to be accurate under current or future final standards. Any templates used in the examples below are for internal use only and are not available for distribution.

Leasing Example – **Generic Building Lease**

Subject:

ABC Corporation has entered into a lease to house operations.

Details:

The lease terms are as follows:

Tenant:	ABC Corporation (ABC)
Lessor:	General Properties, LLC (GP, LLC)
Premises:	Suite 100 of the 9999 Building, totaling 20,000 rentable square feet
Term:	10 years
Lease Date	November 1, 2009
Commencement Date:	January 1, 2010
Base Rental:	\$22 per square foot for 2010 with a 5% increase annually on January 1
Initial Direct Costs	ABC Corporation paid an attorney \$9,000 in general fees and \$1,000 for document preparation in conjunction with the lease process
Commissions	Commissions on the lease of \$50,000 are paid directly by the lessor
Security Deposit:	\$25,000
Free Rent Period:	No rent shall be due for January 1, 2010 through March 31, 2010
Option to Extend:	Lease may be extended for one (1) additional term of five (5) years with a significant term penalty if not extended
% share Operating Costs:	Certain operating costs of the building will be allocated at \$25,000 annually for CAM
Subletting:	Not permitted
Build Out Allowance:	None at inception, \$50,000 build out allowance provided at the beginning of year 6 of the lease and at renewal, if extended
Residual Value Guarantees:	None
Purchase Option	None, but failure to renew does trigger a significant penalty in the contract

Other relevant assumptions:

Incremental borrowing:	The incremental borrowing rate of ABC Corporation is 7%
Rate charged by Lessor	This rate cannot be reliably determined by the lessee, but was computed at 8% for the lessor
Likelihood of extension:	More likely than not due to the term penalty
Reassessment:	Throughout the period, no reassessment of contingent rentals, residual value guarantees or impairment occur
Amortization:	The Right to Use Asset (lessee) and Lease Liability (lessor) will be amortized straight line over the life of the lease

Comparison of Financial Statement Impact for Life of the Lease

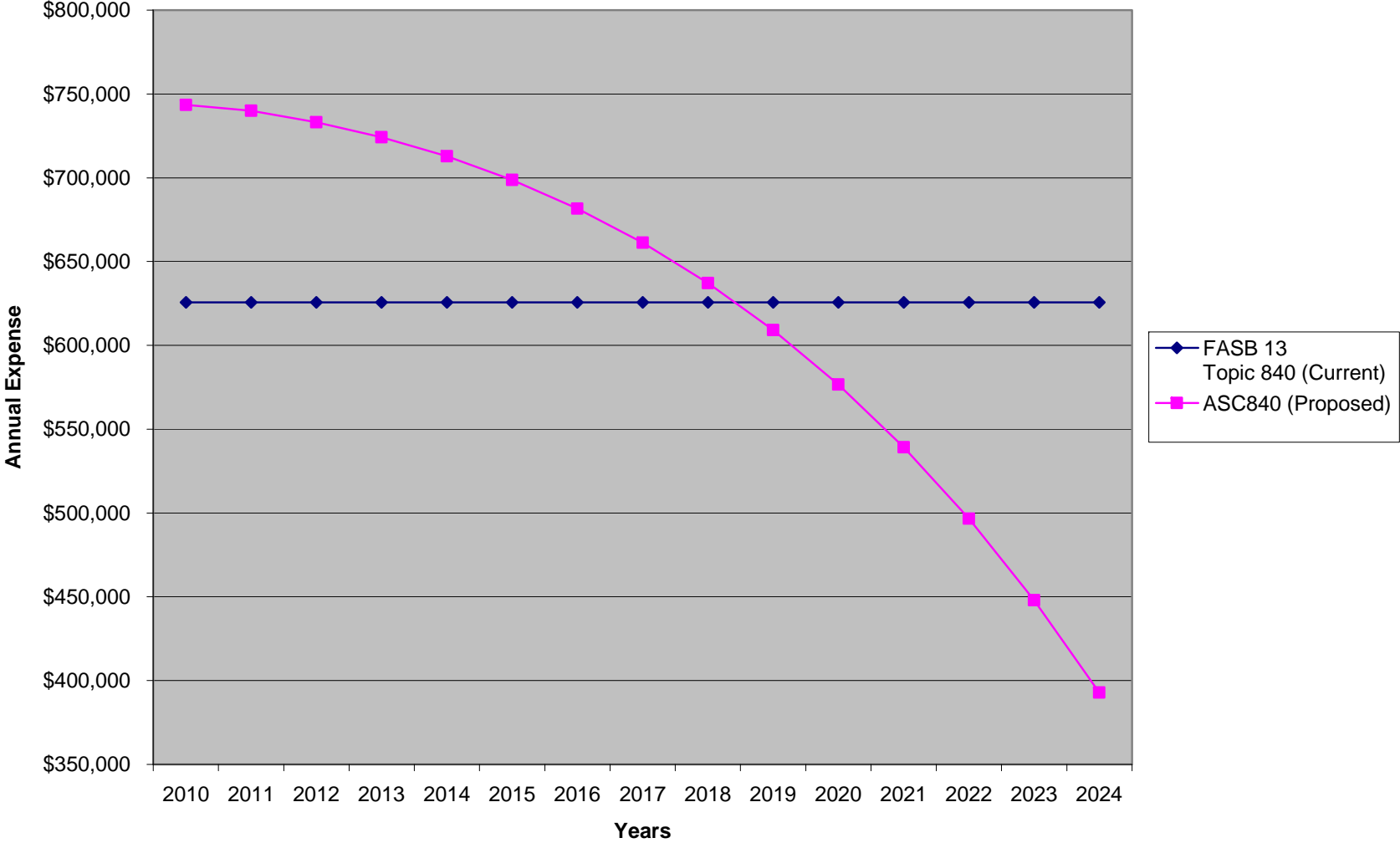
Detailed balance sheet comparisons follow, but the summary impact of key elements are listed below:

Year	Lease Expense vs. Amort / Interest		Right To Use Asset (not recorded under the current accounting requirements)		Straight Line Liab vs. Lease Liability	
	FASB 13 (Current)*	ASC840 (Proposed)*	FASB 13 (Current)	ASC840 (Proposed)	FASB 13 (Current)	ASC840 (Proposed)
2009	\$10,000	\$-	\$--	\$--	\$--	\$--
2010	\$625,653	\$743,398	\$--	\$5,050,477	\$295,653	\$5,453,874
2011	\$625,653	\$739,895	\$--	\$4,689,729	\$459,307	\$5,371,021
2012	\$625,653	\$733,146	\$--	\$4,328,980	\$599,760	\$5,258,219
2013	\$625,653	\$724,200	\$--	\$3,968,232	\$716,013	\$5,112,271
2014	\$625,653	\$712,819	\$--	\$3,607,484	\$806,867	\$4,929,541
2015	\$625,653	\$698,732	\$--	\$3,246,735	\$870,920	\$4,705,925
2016	\$625,653	\$681,651	\$--	\$2,885,987	\$906,974	\$4,437,228
2017	\$625,653	\$661,265	\$--	\$2,525,239	\$913,627	\$4,118,744
2018	\$625,653	\$637,228	\$--	\$2,164,490	\$889,280	\$3,745,224
2019	\$625,653	\$609,159	\$--	\$1,803,742	\$832,334	\$3,311,035
2020	\$625,653	\$576,653	\$--	\$1,442,994	\$741,187	\$2,810,139
2021	\$625,653	\$539,272	\$--	\$1,082,245	\$614,240	\$2,236,063
2022	\$625,653	\$496,542	\$--	\$721,497	\$449,694	\$1,581,656
2023	\$625,653	\$447,939	\$--	\$360,749	\$245,547	\$839,047
2024	\$625,653	\$392,901	\$--	\$--	\$--	\$--
Totals	\$9,394,800	\$9,394,800				
Average Balance			\$--	\$2,525,239	\$622,760	\$3,593,999

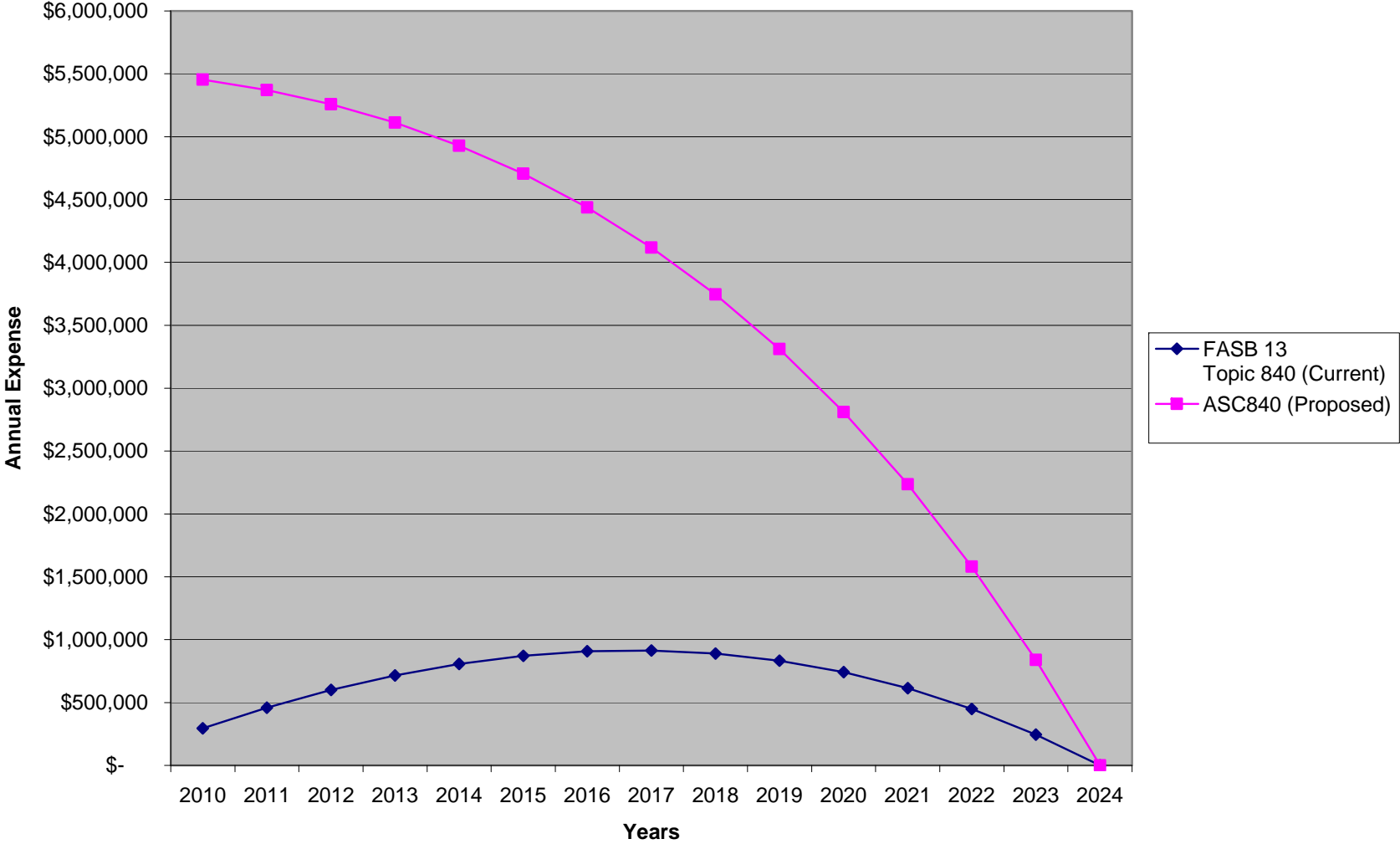
* Excludes CAM charges and Security Deposit

Note – as a result of the renewal penalty, the lease term under current standards is considered to include the renewal period, so the straight line expense is calculated over the 15 years (as the longer term more likely than not to occur). Without the renewal penalty, the expenses under current accounting would be higher toward the end of the lease term as the first 10 years would be calculated on an average monthly rental of \$45,202 (\$542,420 annually) and the last five years would be calculated on an average monthly rental of \$66,010 (\$792,120 annually).

Impact on Net Income



Impact on Lease Liability



Comparison of Financial Statement Impact for Life of the Lease – Detailed by Year

December 31, 2010 – Initial Lease Year End

	FASB 13 (Current)		ASC840 (ED - Proposed)	
	Income Stmt	Balance Sheet	Income Stmt	Balance Sheet
Income Statement				
Operating Expense (Rent & CAM)	\$650,653		\$25,000	
Amortization Expense	\$--		\$360,748	
Interest Expense	\$--		\$382,649	
Impact on Net Income	\$650,653		\$768,397	
Balance Sheet				
<i>Assets</i>				
Security Deposit		\$50,000		\$50,000
Right to Use Asset		\$--		\$5,411,225
Accm Amort – RTUAsset		\$--		\$(360,748)
<i>Liabilities</i>				
Lease Liability (St Line / Lease Ob)		\$(295,653)		\$(5,453,874)

- Note that cash impacts are the same under both sets of accounting.
- Note that cash flows from leasing under current standards are part of operating income on the cash flow statement, but are separate out as financing cash flows under the proposed standard.

December 31, 2014 – Middle of Original Lease Term Life

	FASB 13 (Current)		ASC840 (ED - Proposed)	
	Income Stmt	Balance Sheet	Income Stmt	Balance Sheet
Income Statement				
Operating Expense (Rent & CAM)	\$650,653		\$25,000	
Amortization Expense	\$--		\$360,748	
Interest Expense	\$--		\$352,070	
Impact on Net Income	\$650,653		\$737,818	
Balance Sheet				
<i>Assets</i>				
Security Deposit		\$50,000		\$50,000
Right to Use Asset		\$--		\$5,411,225
Accm Amort – RTUAsset		\$--		\$(1,803,742)
<i>Liabilities</i>				
Lease Liability (St Line / Lease Ob)		\$(806,867)		\$(4,929,541)

- Note that cash impacts are the same under both sets of accounting.
- Note that cash flows from leasing under current standards are part of operating income on the cash flow statement, but are separate out as financing cash flows under the proposed standard.

December 31, 2019 – End of Original Lease Term Life

	FASB 13 (Current)		ASC840 (ED - Proposed)	
	Income Stmt	Balance Sheet	Income Stmt	Balance Sheet
Income Statement				
Operating Expense (Rent & CAM)	\$650,653		\$25,000	
Amortization Expense	\$--		\$360,748	
Interest Expense	\$--		\$248,411	
Impact on Net Income	\$650,653		\$634,159	
Balance Sheet				
<i>Assets</i>				
Security Deposit		\$50,000		\$50,000
Right to Use Asset		\$--		\$5,411,225
Accm Amort – RTUAsset		\$--		\$(3,607,483)
<i>Liabilities</i>				
Lease Liability (St Line / Lease Ob)		\$(832,334)		\$(3,311,035)

- Note that cash impacts are the same under both sets of accounting.
- Note that cash flows from leasing under current standards are part of operating income on the cash flow statement, but are separate out as financing cash flows under the proposed standard.

December 31, 2020 – First Year of Renewal Term

	FASB 13 (Current)		ASC840 (ED - Proposed)	
	Income Stmt	Balance Sheet	Income Stmt	Balance Sheet
Income Statement				
Operating Expense (Rent & CAM)	\$650,653		\$25,000	
Amortization Expense	\$--		\$360,748	
Interest Expense	\$--		\$215,905	
Impact on Net Income	\$650,653		\$601,653	
Balance Sheet				
<i>Assets</i>				
Security Deposit		\$50,000		\$50,000
Right to Use Asset		\$--		\$5,411,225
Accm Amort – RTUAsset		\$--		\$(3,968,232)
<i>Liabilities</i>				
Lease Liability (St Line / Lease Ob)		\$(741,187)		\$(2,810,139)

- Note that cash impacts are the same under both sets of accounting.
- Note that cash flows from leasing under current standards are part of operating income on the cash flow statement, but are separate out as financing cash flows under the proposed standard.

December 31, 2025 – Final Year of Renewal Term

	FASB 13 (Current)		ASC840 (ED - Proposed)	
	Income Stmt	Balance Sheet	Income Stmt	Balance Sheet
Income Statement				
Operating Expense (Rent & CAM)	\$650,653		\$25,000	
Amortization Expense	\$--		\$360,748	
Interest Expense	\$--		\$32,153	
Impact on Net Income	\$650,653		\$417,901	
Balance Sheet				
<i>Assets</i>				
Security Deposit		\$--		\$--
Right to Use Asset		\$--		\$5,411,225
Accm Amort – RTUAsset		\$--		\$(5,411,225)
<i>Liabilities</i>				
Lease Liability (St Line / Lease Ob)		\$--		\$--

- Note that cash impacts are the same under both sets of accounting.
- Note that cash flows from leasing under current standards are part of operating income on the cash flow statement, but are separate out as financing cash flows under the proposed standard.

Lessee Current Accounting – Original Lease Term

Lease life Cycle		FASB 13 (Current)			ASC840 (ED - Proposed)		
<i>Date</i>	<i>Activity</i>	<i>Accounts</i>	<i>Debit</i>	<i>Credit</i>	<i>Accounts</i>	<i>Debit</i>	<i>Credit</i>
11/30/09	Security Deposit	Lease Deposit Asset Cash	\$50,000	\$50,000	Lease Deposit Asset Cash	\$50,000	\$50,000
11/30/09	Attorney Fees	Legal expense Cash	\$10,000	\$10,000	Right to Use Asset (RTU) Cash	\$10,000	\$10,000
1/1/10	Recognition of Right to Use Asset and Liability	None			Right to Use Asset (RTU) Lease Liability	\$5,411,225	\$5,411,225
Jan – Mar, 2010	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability	\$52,138	\$52,138	Avg Mthly Lease Interest Exp RTU Amortization RTU Accm Amort Lease Liability	\$31,887 \$30,062	\$30,062 \$31,887
Apr – Dec, 2010	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138	\$15,471 \$36,667	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$31,887 \$30,062 \$ 4,780	\$30,062 \$36,667
12/31/10	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2011	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138	\$13,638 \$38,500	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$31,595 \$30,062 \$ 6,905	\$30,062 \$38,500
12/31/11	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2012	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138	\$11,713 \$40,425	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$31,033 \$30,062 \$ 9,392	\$30,062 \$40,425
12/31/12	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2013	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability	\$52,138	\$ 9,692	Avg Mthly Lease Interest Exp	\$30,287	

		Cash		\$42,446	RTU Amortization Lease Liability	\$30,062 \$12,159	
					RTU Accm Amort Cash		\$30,062 \$42,446
12/31/13	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2014	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138	\$ 7,569 \$44,569	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$29,339 \$30,062 \$15,230	\$30,062 \$44,569
12/31/14	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
1/1/15	Build out allowance	None			None		
2015	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138	\$ 5,341 \$46,797	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$28,165 \$30,062 \$18,632	\$30,062 \$46,797
12/31/15	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2016	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138	\$ 3,001 \$49,137	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$26,742 \$30,062 \$22,395	\$30,062 \$49,137
12/31/16	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2017	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138	\$ 544 \$51,594	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$25,043 \$30,062 \$26,051	\$30,062 \$51,594
12/31/17	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2018	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138 \$ 2,035	\$54,173	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability	\$23,040 \$30,062 \$31,133	

					RTU Accm Amort Cash		\$30,062 \$54,173
12/31/18	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2019	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138 \$ 4,744	\$56,882	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$20,700 \$30,062 \$36,182	\$30,062 \$56,882
12/31/19	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000

Lessee Current Accounting – Extended Lease Term

Lease life Cycle		FASB 13 (Current)			ASC840 (ED - Proposed)		
Date	Activity	Accounts	Debit	Credit	Accounts	Debit	Credit
2020	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138 \$ 7,588	\$59,726	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$17,992 \$30,062 \$41,734	\$30,062 \$59,726
12/31/20	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2021	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138 \$10,574	\$62,712	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$14,877 \$30,062 \$47,835	\$30,062 \$62,712
12/31/21	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2022	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138 \$13,710	\$65,848	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$11,316 \$30,062 \$54,542	\$30,062 \$65,858
12/31/22	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2023	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability	\$52,138 \$17,002		Avg Mthly Lease Interest Exp	\$7,266	

		Cash		\$69,140	RTU Amortization Lease Liability	\$30,062 \$61,874	
					RTU Accm Amort Cash		\$30,062 \$69,140
12/31/23	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
2024	Monthly Rental and Expenses	Straight-Line Rent Expense S-L Lease Liability Cash	\$52,138 \$20,459	\$72,597	Avg Mthly Lease Interest Exp RTU Amortization Lease Liability RTU Accm Amort Cash	\$2,679 \$30,062 \$69,918	\$30,062 \$72,597
12/31/24	Annual CAM Charges	Occupancy Expense Cash	\$25,000	\$25,000	Occupancy Expense Cash	\$25,000	\$25,000
12/31/24	Recovery of Deposit	Cash Lease Deposit Asset	\$25,000	\$25,000	Cash Lease Deposit Asset	\$25,000	\$25,000

ABC Corporation
Consolidated Balance Sheet
December 31, 2010

Assets

	FASB 13 (Current)	ASC840 (Proposed)
Current Assets		
Cash and cash equivalents	\$ 235,000	\$ 235,000
Accounts receivable, net	3,250,000	3,250,000
Inventories	5,750,000	5,750,000
Prepaid expenses and other	<u>65,000</u>	<u>65,000</u>
Total current assets	<u>9,300,000</u>	<u>9,300,000</u>
 Property and Equipment, At Cost		
Furniture and fixtures	345,000	345,000
Right of use assets	<u>345,000</u>	<u>5,411,225</u>
	345,000	5,756,225
Less accumulated depreciation and amortization	<u>(100,000)</u>	<u>(460,748)</u>
	<u>245,000</u>	<u>5,295,477</u>
Total assets	<u>\$ 9,545,000</u>	<u>\$ 14,595,477</u>

Liabilities and Stockholders' Equity

	FASB 13 (Current)	ASC840 (Proposed)
Current Liabilities		
Current maturities of long-term debt	\$ 100,000	\$ 100,000
Current maturities of lease liabilities	<u>850,000</u>	<u>82,853</u>
Accounts payable and accrued expenses	<u>850,000</u>	<u>850,000</u>
Total current liabilities	<u>950,000</u>	<u>1,032,853</u>
 Long-term Debt		
	<u>4,000,000</u>	<u>4,000,000</u>
Straight Line Lease Liability / Lease Liabilities	<u>295,653</u>	<u>5,371,021</u>
 Stockholders' Equity		
Common stock	100,000	100,000
Retained earnings	<u>4,199,347</u>	<u>4,091,603</u>
Total stockholders' equity	<u>4,299,347</u>	<u>4,191,603</u>
Total liabilities and stockholders' equity	<u>\$ 9,545,000</u>	<u>\$ 14,595,477</u>

ABC Corporation
Consolidated Income Statement
For the Year Ended December 31, 2010

	FASB 13 (Current)	ASC840 (Proposed)
Net Sales	\$ 25,000,000	\$ 25,000,000
Cost of Goods Sold	<u>18,000,000</u>	<u>18,000,000</u>
Gross Profit	<u>7,000,000</u>	<u>7,000,000</u>
Operating Expenses		
Salaries	4,000,000	4,000,000
Rent expense	650,653	25,000
Depreciation and amortization	50,000	410,748
Other	<u>85,000</u>	<u>85,000</u>
	<u>4,785,636</u>	<u>4,520,748</u>
Operating Income	<u>2,214,364</u>	<u>2,479,252</u>
Other Expense		
Interest expense	246,000	628,649
Other	<u>137,000</u>	<u>137,000</u>
	<u>383,000</u>	<u>765,649</u>
Net Income	<u>\$ 1,831,364</u>	<u>\$ 1,713,501</u>

ABC Corporation
Consolidated Cash Flow Statement
For the Year Ended December 31, 2010

	FASB 13 (Current)	ASC840 (Proposed)
Operating Activities		
Net income	\$ 1,831,364	\$ 1,713,620
Items not requiring (providing) cash		
Depreciation	50,000	50,000
Amortization of right to use assets		360,748
Changes in		
Accounts receivable	(850,000)	(850,000)
Inventories	(500,000)	(500,000)
Straight line lease liability	295,653	
Lease liability		382,649
Accounts payable and accrued expenses	(627,017)	(627,017)
Net cash provided by operating activities	<u>200,000</u>	<u>530,000</u>
Investing Activities		
Purchase of property and equipment	(50,000)	(50,000)
Net cash used in investing activities	<u>(50,000)</u>	<u>(50,000)</u>
Financing Activities		
Cash payments for leases		(330,000)
Net cash used in financing activities		<u>(330,000)</u>
Increase in Cash and Cash Equivalents	150,000	150,000
Cash and Cash Equivalents, Beginning of Year	85,000	85,000
Cash and Cash Equivalents, End of Year	<u>\$ 235,000</u>	<u>\$ 235,000</u>
Supplemental Cash Flows Information		
Interest paid on long-term debt	\$ 246,000	\$ 246,000
Initial recognition of right to use asset and associated liability	\$	\$ 5,401,225

ABC Corporation
Consolidated Cash Flow Statement
For the Year Ended December 31, 2010

Note X: Lease Accounting

Amounts Recognized in the Financial Statements

The Company entered into a lease on November 1, 2009 for 20,000 square feet of space commencing on January 1, 2010 for a ten year term with one optional renewal period of five years. The lease includes a significant penalty for non-renewal, resulting in an assessment that the longest term more likely than not to occur is the entire 15 years, including the renewal period. Attorney fees of \$10,000 were incurred in conjunction entering the lease.

Interest expense on the income statement includes \$382,649 of interest related to the lease liability, while depreciation and amortization expense includes \$360,748 of amortization of the right to use asset.

The facility is amortized on a straight line basis over the 15 year life, as this best reflects the pattern of use of the benefit of the space. There are no significant limitations imposed on the Company as a result of entering this lease.

The right to use assets and liabilities to make payments changed during the period as follows:

	<u>Right to Use Asset</u>	<u>Lease Liability</u>
Beginning balance	\$ 10,000	\$ 0
Recognition of present value of lease payments	5,401,225	(5,401,225)
Amortization of the right to use asset	(360,748)	
Interest expense incurred on the lease liability		(382,649)
Cash payments	<u> </u>	<u>330,000</u>
Ending balance	<u>\$ 5,050,477</u>	<u>\$ 5,453,874</u>

Lease Impact on Amount, timing and Uncertainty of Future Cash Flows

The rate charged by the lessor for the facility lease at inception was indeterminable, so the discount rate used to compute the present value of lease payments was the best estimate of the Company's incremental borrowing rate of 7%.

Future minimum lease payments, including the renewal term, at December 31, 2010, were:

2011	\$ 462,000
2012	\$ 485,200
2013	\$ 509,400
2014	\$ 534,800
2015	\$ 561,600
Later years	<u>6,501,800</u>
	<u>\$ 9,054,800</u>