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Hindsight Is 2020

Reminders About ASC 842 Disclosure Requirements and a Look at Related SEC Feedback in Year 1

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Introduction

Calendar-year-end public business entities (PBEs) adopted the FASB's new leasing standard (ASC 842¹) on January 1, 2019. Since these entities are preparing their annual financial statements for 2019, it is important for them to review the ASC 842 presentation and disclosure requirements. This *Heads Up* outlines the ASC 842 disclosure requirements, elaborates on some of those requirements, and provides examples of related SEC comments issued to registrants in 2019.

To date, there have not been a significant number of SEC comment letters related to leasing transactions under ASC 842. During the 2019 AICPA Conference on Current SEC and PCAOB Developments, the SEC Division of Corporation Finance (the "Division") staff discussed the new leasing standard. At the conference's comment letter panel session, Chief of the Division's Office of Real Estate and Construction Joel Parker indicated that the Division staff is still in the early stages of reviewing disclosures. While it is too soon to identify any trends or themes, Mr. Parker provided some disclosure reminders for registrants as they prepare their annual financial statements. Specifically, he reminded registrants to (1) consider the new standard's changes to disclosure requirements, (2) avoid boilerplate types of disclosures that simply

¹ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

restate the requirements of ASC 842, and (3) tailor disclosures to specific lease arrangements and provide disclosures on the assumptions that were used in applying the standard to those arrangements.²

For a comprehensive discussion of the new leasing standard, including all presentation and disclosure requirements, see Deloitte's [A Roadmap to Applying the New Leasing Standard](#) (the "Leasing Roadmap").³

ASC 842 Lessee Disclosures

Overview

The disclosure objective of ASC 842 is to "enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases." Accordingly, disclosures (both qualitative and quantitative) are intended to supplement the amounts recorded in the financial statements so that financial statement users can better understand the nature of an entity's leasing activities from the standpoint of both lessees and lessors.

The lessee disclosure requirements can be subdivided into the following topics (those that have given rise to more questions or SEC comments are discussed in subsequent sections of this newsletter and are linked accordingly):

- **Significant assumptions and judgments**, which may include:
 - Whether a contract contains a lease.
 - Allocation of consideration in a contract.⁴
 - **Discount rate**.
- Information about the nature of an entity's leases (including subleases):
 - General description of leases.
 - **Basis and terms and conditions on which variable lease payments are determined**.
 - Terms and conditions of options to extend or terminate leases.
 - Residual value guarantees.
 - Restrictions or covenants imposed by leases.
- Leases that have not yet commenced, including the nature of any involvement with the construction or design of the underlying asset.
- Amounts recognized in the financial statements:
 - Finance lease cost.
 - Operating lease cost.
 - **Variable lease cost**.
 - **Short-term lease cost**.
 - Sublease income.
 - Net gain or loss from sale-and-leaseback transactions.
 - Cash paid for amounts included in measurement of lease liabilities.
 - **Supplemental noncash information**.
 - Weighted-average remaining lease term.
 - Weighted-average discount rate.
- **Maturity analysis of liabilities**.
 - Lease transactions with related parties.
 - Practical-expedient disclosure related to short-term leases.
- **Practical-expedient disclosure related to not separating lease and nonlease components**.
- Electing transition practical expedients:
 - Hindsight practical expedient.
 - Practical expedient package.
- **Election not to restate comparative periods in the period of adoption**.

² For more information about leasing topics discussed at the 2019 AICPA Conference on Current SEC and PCAOB Developments, see Deloitte's December 15, 2019, [Heads Up](#).

³ See the [summary of changes](#) made to the Leasing Roadmap since issuance of the February 2019 edition (links therein are available only to [Deloitte Accounting Research Tool \(DART\)](#) subscribers). DART subscribers can also view the full [active version](#).

⁴ Note that the requirement to disclose assumptions and judgments about the allocation of consideration in a contract is not applicable if the entity elects the practical expedient of not separating lease and nonlease components. Entities should ensure that allocation assumptions and judgments are appropriately disclosed for any class of underlying assets for which the practical expedient was not elected.

In addition to considering the above disclosure requirements for lessees, an entity that is both a lessee and lessor or engages in sale-and-leaseback transactions will need to review the lessor and sale-and-leaseback requirements separately.

Significant Assumptions and Judgments

ASC 842-20

50-3 A lessee shall disclose all of the following: . . .

- c. Information about significant assumptions and judgments made in applying the requirements of this Topic, which may include the following:
 1. The determination of whether a contract contains a lease (as described in paragraphs 842-10-15-2 through 15-27)
 2. The allocation of the consideration in a contract between lease and nonlease components (as described in paragraphs 842-10-15-28 through 15-32) . . .

As required by ASC 842-20-50-3, a lessee should ensure that it has appropriately disclosed qualitative information about its leases, including significant judgments made in the application of ASC 842. The information that a lessee discloses about the determination of whether a contract contains a lease should be consistent with the disclosure objective of ASC 842 and generally is qualitative. Lessees should ensure that their disclosures sufficiently describe how arrangements are accounted for in accordance with ASC 842, particularly when individual transactions are significant.

Further, as noted in ASC 842-20-50-2, a lessee should consider the appropriate level of disclosure aggregation or disaggregation so that it avoids “including a large amount of insignificant detail or . . . aggregating items that have different characteristics.”



Examples of SEC Comments

- We note that . . . you entered into a non-cancellable lease for an office building with an estimated construction cost of \$[X] million. Please explain to us how you account for this project and lease agreement under ASC 842. See guidance in ASC 842-40-55-3 through 55-5.
- We note that you have entered into lease agreements related to redevelopment projects . . . Please explain to us how you accounted for these projects and lease agreements under ASC 842.

Discount Rate

ASC 842-20

50-3 A lessee shall disclose all of the following: . . .

- c. Information about significant assumptions and judgments made in applying the requirements of this Topic, which may include the following:
 3. The determination of the discount rate for the lease (as described in paragraphs 842-20-30-2 through 30-4).

It is important for a lessee to consider disclosing information about the significant assumptions and judgments it used to determine its discount rate(s). For example, a lessee may need to disclose information about its determination of the incremental borrowing rate, such as collateral assumptions, the term used, and the economic environment in which the lease is denominated. To the extent that a portfolio approach is used to determine discount rates, a lessee should consider disclosing information about the composition of the portfolios.

Further, since ASC 842-20-50-4(g)(4) requires lessees to disclose the weighted-average discount rate for both operating and finance leases, a lessee should consider whether the discount rate it used for some of its leases is significantly different from the discount rate it used for other leases and is therefore affecting the weighted-average calculation disclosed. In these situations, a lessee may want to consider providing additional disclosure of the discount rates that are affecting the lessee's disclosed weighted-average rate.



Examples of SEC Comments

- We note your disclosure that your weighted average discount rate on operating leases is [X]%. Please tell us and revise to disclose how you determined the discount rate. See ASC 842-20-50-3(c)(3).
- We note from your disclosure . . . that the weighted-average discount rate used for finance leases is [X]% and the weighted-average discount rate used for operating leases is [Y]%. Please provide us with additional details regarding how you determined or calculated the weighted-average discount rates for each class of your leases.
- We note your disclosure that when available, you use the rate implicit in the lease to discount lease payments to present value; however most of your leases do not provide a readily determinable implicit rate. Please tell us if you have used the rate implicit in the lease for any of your lease payment calculations. If so, describe the circumstances and how you obtained the inputs to determine the rate implicit in the lease.
- We note your disclosure that as most of the Company's leases do not provide an implicit rate, you used the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. For those leases that do provide an implicit rate, please tell us if you use the implicit rate or incremental borrowing rate in calculating the present value of the lease payments.



Key Takeaway — Discount Rate

While it is too early to identify trends in SEC comments, we believe that the SEC staff will continue to focus on the discount rate disclosure. As previously noted, the staff encourages registrants to avoid boilerplate types of disclosures that simply restate the requirements of ASC 842. For example, as illustrated in one of the SEC comment examples above, a registrant's boilerplate disclosure indicating that the registrant used the implicit rate "when available" may elicit an SEC comment requesting additional information about when the registrant used the implicit rate.

Basis and Terms and Conditions on Which Variable Lease Payments Are Determined

ASC 842-20

50-3 A lessee shall disclose all of the following: . . .

- a. Information about the nature of its leases, including: . . .
 2. The basis and terms and conditions on which variable lease payments are determined. . . .

Only some variable lease payments (those based on an index or rate) are included in the initial and subsequent measurement of a lessee's lease liability and right-of-use (ROU) asset. Because variable lease costs are treated in different ways, the determination of what type of variability exists within a lease contract and whether that variability is included in, or excluded from, the recognized lease liability is critical to understanding lease costs and to achieving the disclosure objective (i.e., to understanding the timing and uncertainty of the entity's cash flows).

An entity must explain the types of variability that exist in its contracts, and this explanation should include a discussion of key terms and conditions. For example, an entity may encounter variability because a retail store location's rent is determined on the basis of a percentage of its store's sales. From that simple description, a user of the financial statements may understand the direct relationship between the sales and the rent increases. Sometimes, however, the variability may be more complex, in which case an entity may need to provide additional explanation and align key financial metrics. Although an entity is not expressly required to do so, it may be helpful for the entity to describe the sources of the variability in two separate groups: (1) amounts included in the lease liability (e.g., amounts based on an index or rate) and (2) variability that is excluded (e.g., amounts based on a percentage of sales).

Illustrative Example — Potential Items to Consider When Disclosing the Basis and Terms and Conditions on Which Variable Lease Payments Are Determined

Variable lease payments that are based on an index or rate:

- A majority of leases are subject to annual changes in the consumer price index (CPI). While lease liabilities are not remeasured as a result of changes to the CPI, changes to the CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. A 100-basis-point increase in CPI would have resulted in \$6.8 million in additional lease costs.

What causes exposure to variability?

What indices or rates are applied to lease payments?

Variable lease payments not based on an index or rate:

- The company is obligated to pay the lessor 2 percent of its retail store's sales. Such amounts are not included in the measurement of the lease liability but will be recognized as variable lease expense when they are incurred. After \$2 million of retail store sales, the payment amount is 1 percent of the retail store's sales.
- All of the payments made to lease the solar facility are variable. The company pays a stated rate per megawatt produced by the solar facility and is required to purchase 100 percent of the output from the facility, which can produce up to 10 megawatts.

Are there any ceilings or floors to the variability?

What factors influence the variability?

When and how will the variability be resolved?



Example of an SEC Comment

We note your disclosure that, “payments that are not fixed at the commencement of the lease are considered variable payments and expensed as incurred.” We also note based on your table . . . that variable lease payments were approximately [X]% of your total lease cost Please tell us and revise your disclosure in future filings, as necessary, to clarify the basis and terms and conditions on which variable lease payments are determined and whether any of your variable payments depend on an index or a rate. Refer to ASC 842-20-50-3(a)(2), ASC 842-10-30-5 and ASC 842-20-25-6.

Amounts Recognized in the Financial Statements

Variable Lease Cost

ASC 842-20

50-4 For each period presented in the financial statements, a lessee shall disclose the following amounts relating to a lessee’s total lease cost, which includes both amounts recognized in profit or loss during the period and any amounts capitalized as part of the cost of another asset in accordance with other Topics, and the cash flows arising from lease transactions: . . .

- d. Variable lease cost determined in accordance with paragraphs 842-20-25-5(b) and 842-20-25-6(b). . . .

The variable lease cost disclosure should include the costs⁵ discussed in ASC 842-20-25-5(b) and ASC 842-20-25-6(b) — that is, variable lease payments that are not included in the measurement of the lease liability. Such payments may include amounts that are entirely variable and therefore never would have been included in the measurement of the lease liability, or they may represent the difference between (1) the variable amount based on an index or rate and therefore reflected in the lease liability and (2) what is actually incurred. The disclosure requirements do not stipulate that variable lease cost related to finance leases must be disclosed separately from that for operating leases; however, in some instances, entities may find it helpful to perform such disaggregation.



Key Takeaway — Variable Lease Cost

If an entity discloses that it elected to use the practical expedient of not separating lease and nonlease components for real estate leases and also discloses that it has triple net leases (i.e., leases in which the lessee pays a single fixed payment for rent, but the lessee’s share of property taxes, insurance, and common area maintenance is generally variable), the entity would be expected to disclose the variable lease cost related to such triple net leases. This is because the property taxes, insurance, and common area maintenance are all deemed to be part of the lease component.



Example of an SEC Comment

We note your disclosure that some of your leases include rent escalations based on inflation indexes and fair market adjustments and that certain leases include contingent rental provisions that include a fixed base rent plus an additional percentage of the restaurant’s sales. We also note that you recognize these subsequent escalations and contingent rental payments as variable lease expenses. Please revise the table . . . , which details the components of lease costs, to include the disclosure of variable lease expense, as well as short term lease expense. See ASC 842-20-50-4 for guidance.

⁵ The reference to lease costs can include amounts that are recognized in other line items in the income statement besides line items in which lease expenses are recorded. For example, it may be common in a contract manufacturing arrangement for an entity to record costs associated with the use of a manufacturing line as capitalizable inventory costs. Those costs would ultimately be reflected in cost of goods sold within the income statement rather than in lease expense.

Short-Term Lease Cost

ASC 842-20

50-4 For each period presented in the financial statements, a lessee shall disclose the following amounts relating to a lessee's total lease cost, which includes both amounts recognized in profit or loss during the period and any amounts capitalized as part of the cost of another asset in accordance with other Topics, and the cash flows arising from lease transactions: . . .

- c. Short-term lease cost, excluding expenses relating to leases with a lease term of one month or less, determined in accordance with paragraph 842-20-25-2. . . .

While lessees may elect not to recognize short-term leases on the balance sheet (i.e., leases with a lease term of 12 months or less), lessees are required to disclose short-term lease cost determined under ASC 842-20-25-2. However, expenses related to leases with a lease term of one month or less are excluded from this requirement.⁶

In addition, an entity may have short-term lease costs that are also considered variable lease costs. In these circumstances, we believe that it would be acceptable for an entity to include such costs in either the short-term lease cost disclosure or separately as part of the variable lease cost disclosure. An entity should apply the selected approach consistently and should disclose the approach taken, if material.



Example of an SEC Comment

We note that in your disclosure of the significant components of operating lease expense . . . , you disclose a combined amount for variable and short-term lease costs. Please provide us with your basis for this presentation and tell us the consideration you gave to ASC 842-20-50-4.



Key Takeaways — Short-Term Lease Cost

An entity that discloses that it applied the short-term lease exception would generally be expected to disclose a short-term lease cost.

The short-term and variable lease costs discussed above are required to be disclosed separately. If an entity includes these costs under another caption in its disclosure, it should disclose that fact and also consider materiality.

Supplemental Noncash Information

ASC 842-20

50-4 For each period presented in the financial statements, a lessee shall disclose the following amounts relating to a lessee's total lease cost, which includes both amounts recognized in profit or loss during the period and any amounts capitalized as part of the cost of another asset in accordance with other Topics, and the cash flows arising from lease transactions: . . .

- g. Amounts segregated between those for finance and operating leases for the following items: . . .
 - 2. Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets

⁶ Although we expect that most entities will find respite in the "one month or less" exclusion, entities may sometimes find it more burdensome to extract leases with a term of one month or less and may prefer to disclose expenses related to all short-term leases. Therefore, we believe that an entity may elect to include all expenses related to leases with a term of one month or less (or all short-term lease expenses by class of underlying asset) in the short-term lease expense disclosure (despite the explicit exclusions). For further discussion, see Q&A 15-2 in [Section 15.2.4.3](#) of the [Leasing Roadmap](#).

A lessee records an ROU asset upon entering into operating and finance leases. At lease commencement, the lessee would account for the lease transaction (other than any lease payments made at lease commencement) as a noncash investing and financing transaction, as discussed in ASC 230-10-50-4. The new leasing standard requires separate disclosure of the supplemental noncash information related to this activity. Amounts for noncash activities related to operating leases should be disclosed separately from those for finance leases.

In addition to noncash disclosures associated with the initial recognition of a lease, a lessee should also consider noncash disclosure requirements based on other noncash changes (increases or decreases) to the lease balances, such as those resulting from lease modifications or reassessment events.



Connecting the Dots — Statement of Cash Flow Presentation

For operating leases, the guidance in ASC 842 does not specify the appropriate caption for the lease expense that amortized the ROU asset. The lessee may include “noncash lease expense” as a noncash add-back to the operating section of the statement. While this presentation reflects a best practice, there may be other acceptable methods of presentation for the change in ROU assets; however, it would be inappropriate to present the change in ROU assets with a caption of “amortization expense.” Entities contemplating a different method of presentation are encouraged to discuss the method with their accounting advisers. The cash payment is reflected in the operating section as a change in operating liabilities. Since operating leases do not have interest expense, there are no separate disclosures for this activity in the statement of cash flows. See Example 14-1 in [Section 14.2.3](#) of the [Leasing Roadmap](#) for additional information.



Example of an SEC Comment

We note that your statement of cash flow . . . discloses \$[X] of amortization of operating lease assets. Please explain to us the nature of this amount. In this regard, we note that the majority of your leases are considered operating leases and would not have amortization expense recorded as part of the lease accounting. Please advise.

Maturity Analysis of Liabilities

ASC 842-20

50-6 A lessee shall disclose a maturity analysis of its finance lease liabilities and its operating lease liabilities separately, showing the undiscounted cash flows on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessee shall disclose a reconciliation of the undiscounted cash flows to the finance lease liabilities and operating lease liabilities recognized in the statement of financial position.



Connecting the Dots — Relationship Between ASC 842 Maturity Analysis Disclosures and Tabular Disclosure of Contractual Obligations

SEC Regulation S-K, Item 303(a)(5),⁷ requires registrants to provide in MD&A a tabular disclosure of contractual obligations as of their latest fiscal year-end balance sheet date. The objective of this requirement is to help investors understand a registrant's liquidity and capital resources. The registrant must disaggregate the contractual obligations by category as follows:

- Long-term debt obligations.
- Capital (finance) leases.
- Operating lease obligations.
- Purchase obligations.
- Other long-term liabilities reflected on the registrant's balance sheet.

At the September 24, 2019, CAQ SEC Regulations Committee meeting, the SEC staff clarified that for periods after the implementation of ASC 842, cash outflows included in the tabular disclosure of contractual obligations should be consistent with the maturity analysis of lease liabilities required by ASC 842-20-50-6. In a manner consistent with the guidance in [paragraph 9240.7](#) of the SEC Division of Corporation Finance's Financial Reporting Manual, registrants may wish to supplement the tabular disclosure with a narrative discussion to address further aspects of their liquidity needs or future cash requirements that may not otherwise be reflected in the tabular disclosure (e.g., variable lease payments, forward-starting leases).

Practical-Expedient Disclosure Related to Not Separating Lease and Nonlease Components

ASC 842-20

50-9 A lessee that elects the practical expedient on not separating lease components from nonlease components in paragraph 842-10-15-37 shall disclose its accounting policy election and which class or classes of underlying assets it has elected to apply the practical expedient.

For a lessee that elects to use the practical expedient of not separating lease and nonlease components, the corresponding disclosure requirement is two-pronged: (1) the lessee's accounting policy election to apply the practical expedient **and** (2) the class(es) of underlying assets to which the lessee has elected to apply the practical expedient.



Key Takeaway — Not Separating Lease and Nonlease Components

We have observed that some registrants have appropriately provided the first disclosure required by ASC 842-20-50-9 (i.e., the election not to separate lease and nonlease components) but have not provided the second disclosure required by that guidance (i.e., the class(es) of underlying assets to which the lessee has elected to apply the practical expedient).

⁷ SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Election Not to Restate Comparative Periods in the Period of Adoption

ASC 842-10

65-1 The following represents the transition and effective date information related to Accounting Standards [Update] No. 2016-02, *Leases (Topic 842)* . . .

Disclosure

- i. An entity shall provide the transition disclosures required by Topic 250 on accounting changes and error corrections, except for the requirements in paragraph 250-10-50-1(b)(2) and paragraph 250-10-50-3. An entity that elects the transition method in [paragraph 842-10-65-1(c)(2)] shall provide the transition disclosures in paragraph 250-10-50-1(b)(3) as of the beginning of the period of adoption rather than at the beginning of the earliest period presented.

Note: See paragraph 250-10-S99-6 on disclosure of the impact that recently issued accounting standards will have on the financial statements of a registrant.

- j. If an entity uses one or more of the practical expedients in [paragraphs 842-10-65-1(f), (g), and (gg)], it shall disclose that fact.
- jj. An entity electing the transition method in [paragraph 842-10-65-1(c)(2)] shall provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. . . .

An entity adopting ASC 842 should provide the transition disclosures required by ASC 250, excluding the disclosure in ASC 250-10-50-1(b)(2) about the effect of the change on income from continuing operations, net income, any other financial statement line item, and any per-share affected amounts for any of the periods. The disclosure required by ASC 250-10-50-1(b)(3) regarding “the cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position” should be provided as of the date of initial application of ASC 842.

In addition, an entity that elects not to restate comparative periods in the period of adoption must (1) disclose that fact and (2) provide the ASC 840 disclosures for all periods (interim and annual) that are presented in accordance with ASC 840.



Examples of SEC Comments

- We note in your disclosure . . . that you adopted ASC 842 using the optional transition method provided in ASU No. 2018-11. Please tell us how your disclosure complies with ASC 842-10-65-1(jj) with respect to all periods that continue to be in accordance with ASC 840.
- In future filings, please provide the required ASC 840 disclosures for all periods that continue to be reported in accordance with ASC 840 or explain why such disclosures are not required. Reference is made to ASC 842-10-65-1(jj).



Key Takeaway — 840 Disclosures Required in the Comparative Periods

When an entity elects to apply the transition relief provided by [ASU 2018-11](#),⁸ it must provide the ASC 840 disclosures for all periods (interim and annual) that are presented in accordance with ASC 840. As part of this requirement, the entity must apply the guidance in ASC 840-20-50-2(a) (commonly referred to as the “lease commitments table”) as of the latest balance sheet presented. Further, paragraph BC14 of ASU 2018-11 indicates that the latest balance sheet date presented should be the latest balance sheet date presented under ASC 840 (e.g., December 31, 2018, for a PBE with a calendar year-end). Therefore, for a PBE with a calendar year-end, the ASC 840-20-50-2(a) lease commitments table as of December 31, 2018, will be presented in the interim and annual financial statements for the year ended December 31, 2019.

⁸ FASB Accounting Standards Update No. 2018-11, *Leases (Topic 842): Targeted Improvements*.

ASC 842 Lessor Disclosures

Overview

The disclosure objective for lessors is the same as that for lessees (i.e., “to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases”). However, a lessor should consider the different, lessor-related information that is useful or relevant to a user of its financial statements. Another reason ASC 842 requires more disclosures for lessors than ASC 840 required is that the FASB views a lessor’s activities as similar to other revenue-generating activities, and the lack of disclosure regarding revenue required under ASC 605 (legacy revenue recognition guidance) was a key issue that the Board addressed in its project on revenue from contracts with customers.

The lessor disclosure requirements can be subdivided into the following topics (those that have given rise to more questions or SEC comments are discussed in subsequent sections of this newsletter and are linked accordingly):

- Significant assumptions and judgments, which may include:
 - Whether a contract contains a lease.
 - Allocation of consideration in a contract.
 - Amount lessor expects to derive from underlying asset after the end of the lease term.
 - Practical-expedient disclosure related to not separating lease and nonlease components.
- Information about the nature of an entity’s leases:
 - General description of leases.
 - Basis and terms and conditions on which variable lease payments are determined.
 - Terms and conditions of options to extend or terminate leases.
 - Existence of terms and conditions for a lessee to purchase a leased asset.
- Lease transactions with related parties.
- Residual assets and risk management.
- Amounts recognized in the financial statements:
 - Sales-type leases and direct financing leases:
 - [Tabular disclosures.](#)
 - [Components of net investments in leases.](#)
 - Significant changes in the balance of unguaranteed residual assets and deferred selling profit.
 - Maturity analysis of lease receivables.
 - Operating leases:
 - [Tabular disclosures.](#)
 - Maturity analysis of lease payments.
 - Separate ASC 360 disclosures.

Amounts Recognized in the Financial Statements

Tabular Disclosures

ASC 842-30

50-5 A lessor shall disclose lease income recognized in each annual and interim reporting period, in a tabular format, to include the following:

- a. For sales-type leases and direct financing leases:
 1. Profit or loss recognized at the commencement date (disclosed on a gross basis or a net basis consistent with paragraph 842-30-45-4)
 2. Interest income either in aggregate or separated by components of the net investment in the lease.
- b. For operating leases, lease income relating to lease payments.
- c. Lease income relating to variable lease payments not included in the measurement of the lease receivable.



Key Takeaway — Lease Income Related to Variable Lease Payments

The new leasing standard requires entities to disclose lease income related to variable lease payments. The amount disclosed should include variable lease income associated with *all lease classifications* but should exclude any lease income already furnished in the disclosures about sales-type, direct financing, or operating leases (i.e., this amount should exclude lease income related to payments included in the measurement of the lease receivable or in the calculation of straight-line operating lease income).

Components of Net Investments in Leases

ASC 842-30

50-6 A lessor shall disclose in the notes the components of its aggregate net investment in sales-type and direct financing leases (that is, the carrying amount of its lease receivables, its unguaranteed residual assets, and any deferred selling profit on direct financing leases).



Key Takeaway — ASC 842 Amends Disclosure Requirements Related to the Components of Net Investments in Leases

Under ASC 840, unearned income in a direct financing lease was initially measured as the difference between the gross investment in the lease and the cost or carrying amount of the underlying asset (if applicable). Accordingly, under ASC 840, the disclosure of the components of the net investment in a sales-type or a direct financing lease consisted of the **gross amount** of the components, with an unearned income adjustment to arrive at a total that corresponded to the balance sheet amount. On the other hand, ASC 842 requires disclosure of the **carrying amount** of the components of the net investment. That is, each individual component should be presented at a discounted value.

Thinking Ahead

We expect entities to continue to refine their lease disclosures since adoption of the new leasing standard to ensure that the disclosure requirements and the expectations of the regulators are met in their interim and annual financial statements. Despite the limited number of SEC comments issued to date on ASC 842 disclosures, we hope that the comment examples provided above will help in this effort. As regulators review disclosures and issue comments over the course of the new year, entities should evaluate their peers' filings and look for opportunities to improve existing disclosures. We encourage such continuous improvement and remind preparers to focus on the disclosure objective — that is, to provide disclosures that enable users of entities' financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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