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Lessee Accounting Refresher

FASB ASU 2016-02, *Leases (Topic 842)*, is effective for most private companies for fiscal years beginning after December 15, 2021, and interim periods within fiscal year beginning after December 15, 2022, based upon the FASB's issuance of ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, to defer the effective date of ASU 2016-02.

This article is the second in a series of articles that provide a refresher on FASB ASC 842. Since one of the primary differences relates to lessee accounting for operating leases, this article focuses on lessee accounting. It's a high-level overview only, so it's important to refer to the detailed guidance in this topic and the related ASUs.

Practical Consideration:

Last month's FASB ASU 2016-02 article addressed additional leases ASUs, transitioning to the new guidance, primary differences between FASB ASC 842 and FASB ASC 840, scope, general requirements, and implementation considerations.

Initial Recognition

A lessee recognizes a right-of-use asset and lease liability at the commencement date for both operating and finance leases. The lease liability is calculated as the present value of the total lease payments. The right-of-use asset amount may or may not be the same as the lease liability. For short-term leases (original term of less than 12 months and no purchase option), a lessee may make an accounting policy election to expense lease payments straight-line over the lease term and not recognize the lease assets or liabilities.

Subsequent Accounting

Lease classification isn't reassessed after the commencement date unless there is a change in lease term, a contract modification not accounted for as a separate contract, or a reassessment of whether a lessee will exercise an option to purchase the leased asset. If there's a modification, a lessee must consider whether the initial lease contract already considered the modification and whether the contract is still a lease. Depending on the determination, modifications may be accounted for as a change to the

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accounting for the existing lease or as a separate, new contract with no change to the existing lease.

For finance leases, a lessee recognizes amortization expense on the right-of-use asset (straight-line over the shorter of the asset's useful life or the end of the lease term, unless there's a purchase option), interest expense on the lease liability, and any variable lease payments not included in the lease liability. The lease liability is reduced by lease payments and increased for interest. The leased asset should be evaluated periodically for any impairment.

For operating leases, a lessee recognizes a single lease cost each period for the straight-line allocation of the remaining cost of the lease over the lease term, along with any variable lease payments not included in the lease liability. The lease liability is measured as the present value of the unpaid lease payments. The leased asset should be evaluated periodically for any impairment.

If the lease terminates before the end of its term, a lessee removes the right-of-use asset and lease liability from its balance sheet and recognizes the difference between the asset and liability balances in the income statement.

Financial Statement Presentation

Right-of-use assets for finance and operating leases are presented separately from other assets and from each other, and lease liabilities for finance and operating leases are presented separately from other liabilities and from each other. All are classified as current or noncurrent.

On the income statement, for finance leases, interest expense on the lease liability and amortization of the asset are presented with other interest and depreciation and amortization. For operating leases, lease expense is included in operating expenses.

On the statement of cash flows, for finance leases, interest on the lease liability is an operating cash flow unless interest is capitalized. For operating leases, lease payments are included in operating activities unless payments are capitalized. Any variable or short-term lease payments are included in operating activities.

Because the new guidance will result in lessees recognizing additional lease assets and liabilities on their balance sheets for leases they currently account for as operating leases, they should evaluate the potential impact of their leasing transactions on their business and their financial statements. They should also consider the effects on any debt agreements, financial ratios, and other legal contracts.

FASB Amends Discount Rate Rules for Certain Lessees

The FASB issued ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*, on November 11, 2021. The ASU provides a narrow amendment that eases lease accounting rules for private companies and all nonprofits (whether or not they are conduit bond obligors), giving lessees a more flexible way to elect a discount rate to measure leases that must be recorded on the balance sheet.

Topic 842 requires lessees to determine a discount rate to calculate the present value of lease payments when measuring lease liabilities and classifying leases. The existing guidance allows lessees that aren't public business entities to elect a practical expedient to make an accounting policy election to use a risk-free rate as the discount rate for all their leases.

ASU 2021-09 allows private company lessees and nonprofit lessees to make this election at the underlying asset class instead of at the entity level. Lessees should consistently apply the policy election by asset class.

The amendments also clarify current GAAP to require lessees to use the rate implicit in the lease as the discount rate when it is readily determinable instead of the risk-free rate or incremental borrowing rate, even if the practical expedient was elected.

This ASU was issued in response to feedback the FASB received in public roundtables about the cost and complexity to lessees of determining discount rates used to measure lease right-of-use assets and liabilities. They also heard that certain lessees didn't want to elect the risk-free rate because it was generally lower than their incremental borrowing rate and could affect lease

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The PPC Technology Update

by Roman H. Kepczyk, CPA.CITP, CGMA

Technology Trends from CES 2022

Each January, the International Consumer Electronic Show (CES) brings together thousands of manufacturers, startups, and industry experts to tout the latest consumer gadgets and technological innovations which one day may find their way into our homes and businesses. While COVID-19 forced the show to be held virtually last year, the 2022 CES returned to Las Vegas January 4-7 in a hybrid format, with expanded COVID-19 protocols for the roughly 50,000 people that attended in person, and live streaming/recorded events for those who still wanted to participate virtually. While virtual presentations are an outstanding way to deliver concise information two-dimensionally, being onsite and interacting directly with vendors and other attendees provides additional depth and insight. During our three days of attending sessions and roaming the halls, various themes emerged and repeated themselves in different product categories which pointed toward both accounting hardware trends and consumer technology trends worth monitoring for ourselves and our businesses.

Laptop Innovations

The hybrid work environment prompted by COVID-19 is here to stay, and laptop vendors responded accordingly with increased display functionality and mobility. Lenovo's ThinkBook Plus Gen 3 integrated an 8″ tablet into their 17″ laptop model, taking advantage of the unused keyboard space to add multiple capabilities such as a ten-key, an application launcher, and a chat function. ASUS announced their Zenbook Fold OLED model that could be used as a 17″ laptop display/tablet with a physical Bluetooth keyboard. It also has an option to fold into a compact PC form with the lower screen being a virtual keyboard. Dell's XPS 13 Plus was further improved by melding the touchpad into the wrist pad, increasing the size of individual keys on the keyboard by eliminating the space between keys (*latticeless*), touch-enabling the traditional function keys at the top of the keyboard (*capacitive*), and incorporating Intel's latest 12th Generation processor and HD, 4K, and OLED display options.

Display Innovation

ASUS built upon the successful legacy of their MB169B+ mobile monitors with their ZenScreen Go display that adds a high capacity (7,800 mAh) battery which will keep the display operating for more than three hours on a single charge. In addition to the traditional USB-C and mini-HDMI connectivity, this model also integrates wireless capabilities to mirror/extend Windows 10 or 11 PCs, as well as Android, iOS, and macOS devices, making it a truly mobile device. ViewSonic mobile monitors were also featured at CES with a 17″ model targeted to gamers and a 16″ VP16-OLED prototype that came with an integrated adjustable stand that would raise the display to eye-level. Finally, curved screens were on display throughout CES with the biggest and *curviest* devices being touted by Samsung. Samsung's Odyssey Ark is a huge, heavily curved 55″ display that can be viewed in both a portrait mode (for optimal viewing of large PDFs) and landscape mode (which can also be used for optimal gaming, if you might be into that kind of thing).

Multi-device Shared Displays

Have you ever wanted to share applications between your PC, tablet, laptop, or external displays? Apparently, most people do, as this was a noticeable trend amongst the vendors with each touting their own solutions to do so seamlessly across different device operating systems. Today's hybrid environment points to accountants continuing to work in different locations with different available displays which is where tools such as Lenovo Magic Launcher, Dell Mobile Connect (DMC), ASUS Glidex/Link to MyASUS, Samsung Flow/Smart View, and others can be utilized to accomplish the link.

Future Trend of Virtual/Augmented Reality Awareness

While workstations and displays fall into the business scope of accountants, virtual and augmented realities are future technologies that could impact accounting firms, and also have the potential to drive new business opportunities for their clients. The following are four future technology trends that are rapidly evolving within the consumer products market.

- **Virtual Reality—Metaverse.** If you saw Steven Spielberg's movie, "Ready Player One," you have a good idea of what the *metaverse* or virtual reality universe eventually could become. It's basically a virtual world where you can create an avatar and interact with others. Beyond gaming, there are practical real world business opportunities evolving in which digital twins of anything can be created, tested, and experienced virtually before attempting to do so in the real world with real dollars. Real estate can be sold/leased before actually being built, consumer products can be custom prototyped and 3D printed, vacation experiences can be previewed before actually booking a trip, and, of course, training simulations are being created. Imagine attending CPE where you are interacting with virtual clients and producing returns or conducting an audit, and you will start to understand the potential of virtual and augmented reality.
- **Haptic Technology.** *Haptic* relates to the stimulation of the sense of touch and/or motion through technology, such as when a gamer's chair vibrates when the player hits an obstacle or accelerates in a racing game. Multiple vendors across CES integrated haptic capabilities. One such vendor offered flight simulation to pilots learning to fly through the use of haptic gloves and virtual reality (VR) headsets, which would allow them to *feel* the turn of a knob or flip of a switch which they *see* while wearing their VR headset. It sounds like science fiction, but haptic feedback is now being used in mobile devices and by computer vendors such as Dell in the XPS 13 Plus laptop touchpad mentioned previously.
- **Stereoscopic Lens.** Some of you probably remember seeing 3D movies and images by wearing glasses with paper frames and red and blue plastic lens (or today's standard: gray lens glasses with black rims). While the 3D effect was cool, the glasses made the experience awkward and unnatural. The reason for this is that you see *stereoscopically*, which means your eyes see slightly different angles of the same object that allow you to see three-dimensionally. Canon announced their Dual Fisheye lens and Kokomo app, which allow for the creation of 3D images/movies that can be viewed with virtual reality glasses to create more lifelike 3D images and live experiences in the metaverse. This trend's evolution provides opportunities through stereoscopic cameras which allow autonomous vehicles to *see* things today that GPS/radar don't and can provide simpler solutions as summarized next.
- **Autonomous Vehicles.** While the prospect of having completely driverless cars easily available to the average consumer is still many years away, there are places where autonomous vehicles are currently available and changing business models. John Deere announced the availability of its fully autonomous tractor which can till, plant, and harvest crops 24 hours a day and do so in a straight line within one inch of accuracy (only stopping for fuel or identifying a potential obstacle) due to its integration of GPS and stereoscopic lens that *see* 360 degrees around the tractor. Following up on last year's Starship delivery robots at college campuses, Ottonomy announced their delivery bots are being used in airports.

While these techs and trends can seem somewhat far reaching and impractical, most of us remember a time when the capabilities of today's personal computers, smartphones, GPS, and media players were considered science fiction.

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classification and result in higher lease liabilities and right-of-use assets.

Effective Dates

Topic 842 is effective for private companies and non-profit organizations that aren't conduit bond obligors for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The effective date for ASU 2021-09 is different depending on whether or not the entity has adopted Topic 842 as of November 11, 2021.

Entities that haven't adopted Topic 842 as of November 11, 2021, are required to adopt the amendments in this ASU at the same time they adopt Topic 842 and should apply the existing transition methods in Topic 842 when adopting ASU 2021-09.

For entities that have adopted Topic 842 as of November 11, 2021, the amendments in this ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted. The amendments must be applied on a modified retrospective basis to leases existing at the beginning of the fiscal year of adoption.

Adopting the amendments in this ASU isn't an event that causes remeasurement and reallocation of the lease consideration or reassessment of the lease term or classification.

Disclosures

ASU 2021-09 requires lessees to disclose the fact they chose the accounting policy election and include the asset classes for which it has been elected. They also must disclose the amount of the change in the right-of-use asset and lease liability as a result of the adoption of the ASU.

Practical Consideration:

ASU 2021-09 is available at **www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176178876155&acceptedDisclaimer=true**.

FASB Requires New Disclosures About Government Assistance

The FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, on November 17, 2021. It calls for new disclosures in notes to the financial statements about the types of transactions, how they were accounted for, and their effect on the financial statements.

Because there is currently diversity in practice, and because of the increasing demand from financial statement users for information about government assistance, the FASB issued this ASU to improve financial reporting and increase transparency through disclosure. It applies to all business entities except nonprofit organizations in the scope of Topic 958, *Not-for-Profit Entities*, and employee benefit plans.

Government assistance can take many forms because there are many types of governments, related entities, and enterprises authorized by governments to administer assistance for them. The COVID-19 pandemic significantly increased the number of entities receiving assistance and the level of government funding provided.

Analogous Guidance

Current GAAP doesn't have specific guidance on accounting and disclosures for many kinds of government assistance business entities receive. The ASU notes current GAAP requires that entities who determine the accounting for a transaction with a government isn't specified within the scope of GAAP should look to accounting principles for similar transactions or events first and then consider nonauthoritative guidance from other sources. In practice, some business entities apply the guidance for nonprofit organizations on contributions received in Topic 958 or in IAS 20 on accounting for government grants.

Scope

The scope of the amendments in ASU 2021-10 is limited to transactions accounted for by applying a grant or contribution accounting model by analogy and excludes transactions accounted for under other GAAP, such as

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Topic 450, *Contingencies*; Topic 470, *Debt*; Topic 740, *Income Taxes*; and transactions where the government is a customer, covered by Topic 606, *Revenue from Contracts with Customers*.

Disclosures

The following are the required annual disclosures for transactions with a government accounted for by applying a grant or contribution accounting model by analogy. If any of the disclosures aren't provided because of legal prohibitions on disclosing them, there should be a general description and indication of the legal restriction for the omitted disclosures.

- **The nature of the transactions and accounting policies used to account for them.** This includes a general description and whether the assistance was received in cash or other assets.
- **The balance sheet and income statement line items where the transactions were recorded, and the amounts on each line item.**
- **Significant terms and conditions, including any commitments and contingencies, of the transactions.** These can include the agreement length, amounts to be received each year and whether they are fixed or variable, commitments made by the government and the entity, whether the government can recapture any of the amounts and under what conditions, and any other contingencies.

Entities that prepare interim financial statements should follow the requirements of Topic 270, *Interim Reporting*, to determine the disclosures they should include in interim periods.

Effective Date

The amendments in ASU 2021-10 are effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. Early application is permitted. The amendments should be applied either prospectively to all transactions in scope reflected in the financial statements at the date the ASU is initially applied and new transactions after that date, or retrospectively.

Practical Consideration:

ASU 2021-10 is available at **www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176178928778&acceptedDisclaimer=true**.