

TRAVIS JOHANSEN
2803 ANYSA LANE
DENTON, TX 76209

1850-100
Comment Letter No. 159

FASB Technical Director

401 Merritt 7

PO Box 5116

Norwalk, CT 06856 File Reference No. 1850-100

TRAVIS JOHANNSEN

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Dear FASB Technical Director:

I am an accounting student at a major University in Texas. Each semester I seem to learn a little more about our accounting system in the US and its many complexities. This semester we learned about leases and I must say I was shocked to learn, that they are not listed on the balance sheet. In our first basic accounting course I was taught that assets and liabilities were placed on the balance sheet so that investors could have a clear picture of the financial strength/weakness of a company.

But, then I learn that over 600 billion dollars of leases aren't listed on balance sheet. Large retail companies, airline companies, railway companies etc... show very few assets but have large leases that are virtually invisible on the financial statements. Under the current guidelines no asset or liability is recorded on the balance sheet when a company has an operating lease. The payment made on the lease is simply recorded as an expense on the P and L. Then the company is required to disclose the future minimum lease payments. The result of these guidelines force investors to make adjustments based on frequently inaccurate estimates.

I believe that the general public would be as shocked as I am about this discovery. This lack of full disclosure requires immediate review. In our current economic environment we can't risk the appearance of off balance sheet transactions of this magnitude. Due to the popularity of defined employee contribution plans we have more novice investors betting their future on investments in the market. We should give them the clearest picture possible to help them invest their hard earned investment capital. Therefore, we should recognize a right-of-use asset and a liability to make lease payments on the balance sheet. This will allow investors to trade their telescope for a microscope so they can have an accurate view of their potential investments.

I also agree with the proposal to recognize amortization of the right-of-use asset and interest on the liability of lease payments over the useful life of the asset or lease term. As was described in your pod cast by Danielle Zeyher, "this pattern of interest and amortization will be similar to the effect you would have if you would have purchased the asset and financed it, but of course only to the extent of the rights and obligations that are conveyed through the lease agreement." A portion of leases are so similar in nature to a purchase that they should be treated as such.

I agree with the proposal on purchase options. The FASB should consider leases canceled when an option to purchase the underlying asset is exercised. The option price should not be considered a lease

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payment but part of the cost of acquiring the underlying asset. This is how we currently account for capital leases. I believe that this meets the definition of a sale as long as the realization principle is met.

I believe that companies should account for purchase options when it is "more likely than not" that they will exercise the purchase option. Otherwise there will be an incentive for companies not to declare their intent to exercise purchase options.

Respectfully,

Travis Johannsen