December 13, 2010

Technical Director File Reference No. 1850-100

Re: Leases (Topic 840)

Comments submitted by: Accounting and Auditing Standards Committee—Society of Louisiana Certified Public Accountants

We would like to offer a specific comment on the proposed standard which is listed in the following section.

## **Specific Comments:**

Responses on the questions to the exposure draft are as follows:

- While it will complicate accounting for leases, I do understand the Board's position that
  a right-of-use asset and corresponding liability exists and agree that use of this proposed
  accounting method will more accurately present an entity's financial position. I also
  agree that recording interest expense and amortization is a reasonable way to account
  for the financing and use of the lease asset.
- 2. While I am supportive of the proposed accounting by lessors, I think that it would be better if there was just one method for lessors to use. Having two different methods may be confusing, especially since the rationale for choosing one or the other seems somewhat subjective. I believe that the Also, I see no reason for leveraged leases to be treated differently.
- 3. I am in favor of the simplified approach to short-term leases.
- 4. I think that the definition of leases is adequate and sufficient to differentiate leases from service contracts.
- 5. I have no issues with the proposed scope of the guidance or with the exclusions from the scope.
- 6. I agree with the FASB approach to contracts that contain indistinct lease and service components. It is not clear to me how the lessor could account for the components separately in the IASB's approach if they are not distinct.
- 7. I agree that purchase options should be accounted for only when they are exercised.
- 8. I agree in theory that the lease term should be the longest possible term that is more likely than not to occur, but I do wonder whether the determination of "more likely than not to occur" may be too subjective and provide potential for manipulating financial information. Additionally, I would think that a lessor and lessee could be accounting for

- the same lease over different lease terms, which to me does not make a lot of sense since it is the same transaction. Using the lease term including all available extensions might be a better alternative.
- 9. Yes, I agree that contingent rentals and residual value guarantees should be included in the measurements if they can be reliably measured. I am uncertain how lessors could include them if they cannot be reliably measured.
- 10. I agree with the proposed guidance related to reassessments.
- 11. I agree with the criteria for a sale and leaseback.
- 12. Although I would probably prefer disclosures in notes to the financial statements, especially in instances where the lease asset and liabilities are not overly significant to the financial statements, I am not opposed to the proposed presentation either.
- 13. I would agree that lease income and expense should be presented separately.
- 14. I can agree with the proposed presentation of cash flows from leases, however, another alternative would be to treat them the same way payments on loans are treated, that is, the interest as operating and the principal repayment as investing or financing (depending on whether the financial statements are for the lessor or the lessee.
- 15. I agree with the proposed disclosures.
- 16. I think a simplified retrospective approach is a good idea, but I would allow the option of a full retrospective approach. I would suggest that the effective date for nonpublic companies be later than that for public companies.
- 17. I think that the benefits will generally outweigh the costs, except possibly in the first period in which the standard is effective.
- 18. I believe that additional examples should be included in the final guidance. The examples in the exposure draft relate only to lessors. Examples for both lessors and lessees should be included.
- 19. I don't think that the accounting requirements should differ for nonpublic companies or not-for-profit entities, but depending on how complex disclosures are, simplified disclosures might be appropriate for smaller entities.

Sincerely,

Barbara A. Watts, Chairman Society of Louisiana CPAs Accounting and Auditing Standards Committee