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# Who would have thought lease accounting would be so complicated?

AUDIT

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For years, the number of accounting rules for capital-versus-operating leases has continued to grow and become more and more complex. How many times has a leasing company told you, "This lease qualifies as a capital lease," only to have your auditors tell you it doesn't? No area in accounting has focused more on form over substance throughout the years than lease accounting. As a result, every time the accounting industry issued a new rule or requirement for leasing transactions, the leasing companies would find a new exception. The accounting profession has finally said, "enough is enough," and intends to fix what some people have called the abuses of lease accounting.

In March 2009, the [Financial Accounting Standards Board](#) (the Board or FASB) published, for comment, a Discussion Paper, "Leases: Preliminary Views." The comment period for this discussion paper ended July 17, 2009, and the Board plans on issuing an exposure draft in June 2010, with a final standard issued sometime in 2011. This proposal is a joint effort of the FASB and the International Accounting Standards Board (IASB) and will significantly affect lease accounting for almost every company.

Under the proposed model, a lessee's rights and obligations for all leases of property, plant and equipment, existing and new, would be recognized on the balance sheet. The proposed model would result in an asset recognized for the right to use the leased item over the lease term and a corresponding liability for the obligation to pay rentals.

This change will affect how companies negotiate leases, and could affect lease-versus-buy decisions. No longer will companies be able to facilitate off-balance sheet financing arrangements through fancy lease transactions. In the future, lease-versus-buy decisions will be based more often on the business considerations, and in certain instances, the tax benefits of the transaction type. An interesting concept - accounting for a transaction based on its substance!

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