STAFF PAPER

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Project	**Leases**		
Paper topic	Lessee—Statement of Cash Flows		

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Objective

1. The objective of this paper is to discuss the presentation of cash paid on a lessee's statement of cash flows (SCF) for leases for which the lessee recognizes a single lease expense in its statement of comprehensive income (SCI).

Background

2. At the joint Board meeting on July 20-21, 2011, the Boards discussed the lessee's SCF for lessees and tentatively decided that a lessee should:

   (a) Classify cash paid for lease payments relating to the principal within the financing activities.

   (b) Classify on the SCF or disclose cash paid for lease payments relating to interest in accordance with applicable IFRSs or U.S. GAAP.

   (c) Classify cash paid for variable lease payments not included in the measurement of the liability to make lease payments as operating activities.

   (d) Classify cash paid for short-term leases not included in the liability to make lease payments as operating activities.

3. The Boards tentatively decided that a lessee should disclose the acquisition of a right-of-use (ROU) asset in exchange for a liability to make lease payments as a supplemental noncash transaction disclosure.

4. The single lease expense recognition pattern was not contemplated when these decisions were reached. This paper discusses the presentation in the SCF for leases with that single expense recognition pattern. This paper will refer to this approach as the 'single lease expense' (SLE) approach. This paper will refer to the approach that results in the lessee recognizing interest and amortization expense as the 'interest and amortization' (I&A) approach.

Staff Analysis

5. The Boards tentatively decided to propose a single lease expense recognition pattern for some leases on the basis that the SCI would provide better information about those leases by presenting the costs of the lease as a single operating cost, rather than separate amortization and interest or finance costs.

6. For the effects on the SCF to be representationally faithful to the presentation of amounts in the SCI, the staff think that the cash paid for leases under the SLE approach should be presented in the operating activities section of the SCF.

7. Paragraph 14 of IAS 7 *Statement of Cash Flows*, describes operating activities as items that "generally result from the transactions and other events that enter into the determination of profit or loss." The glossary in the *FASB Accounting Standards Codification*® defines *operating activities* similarly as "the cash effects of transactions and other events that enter into the determination of net income." Because the effect on net income/profit and loss is characterized as an operating cost under the SLE approach, the staff think that the cash flows for those leases are operating cash flows.

Reasons for presenting SLE approach leases in financing activities of the SCF

8. An alternative would be to present the cash flows on leases under the SLE approach as financing activities in the SCF for the following two reasons:

    (a) During the outreach conducted in April and May of 2012, users noted that disclosure of cash amounts paid would be useful. Cash paid would not typically be provided in the operating section of the SCF (because most present the operating section using the indirect method), and thus the only way to ensure that cash paid will be presented as a line item in the SCF would be to present the cash flows as financing activities (or disclose the amounts, as discussed in paragraph 9).

(b) Paragraph 230-10-45-15(c), describes one type of cash outflow that should be considered a financing activity as “other principal payments to creditors who have extended long-term credit”. Although the expense recognition profile is different and interest is not presented, those leases still involve the extension of credit by the lessor. The cash payments from a lessee to a lessor could be seen as a payment to a creditor regardless of the accounting treatment. Thus, those payments could be viewed as financing activities.

9. In response to the feedback reflected in paragraph 8(a) of this memo, the cash paid for leases under the SLE approach could be provided through disclosure. Categorizing the payment as a financing activity is not the only way to get that information.

10. The staff thinks the point raised in paragraph 8(b) is a valid one. However, there are a number of other payments of long-term liabilities that are classified as operating cash flows, such as payments on an environmental liability. Generally speaking, if the long-term liability is not a borrowing or a capital or finance lease, the cash flows for the payment of that liability are presented as operating cash flows.

Staff recommendation

11. The staff recommend that the cash paid for leases for which the lessee recognizes a single lease expense in the SCI should be presented in the operating section of the SCF.

Question 1
Do the Boards agree that the cash paid for leases for which the lessee recognizes a single lease expense in the SCI should be presented in the operating section of the SCF?

Change to the noncash supplemental transaction disclosure

12. Under paragraph 230-10-50-3 and paragraph 43 of IAS 7, supplemental noncash transaction disclosures are required for investing and financing activities of an entity that do not result in cash receipts or cash payments.

13. The staff think that the ROU asset acquired in exchange for any lease liability should be disclosed as a supplemental noncash transaction disclosure (similar to the decision made previously about the acquisition of ROU assets under the I&A approach). At the time the Boards made this decision, there was only one approach to accounting for leases. Therefore, the question now is whether that supplemental information needs to be disaggregated.

14. Each type of lease transaction may affect the SFP differently, particularly if the Boards decide to restrict the presentation of lease liabilities in the SFP (see agenda paper 3A/239, *Lessee – Statement of Financial Position*). Including ROU assets acquired under both the I&A approach and the SLE approach as noncash transaction disclosures would help users analyze the effects on the liabilities for those leases using the I&A approach versus the liabilities for those leases using the SLE approach. Furthermore, this noncash transaction disclosure may be used to analyze what an entity would need to pay in cash to acquire the assets it needs to maintain or grow its business in the current period. This is sometimes referred to as *real cap-ex*. Because the approaches distinguish between leases of assets that are more than insignificantly consumed and those that are not, the user may view that difference as relevant to their analysis of real cap-ex.

Staff recommendation

15. The staff recommend that the ROU asset acquired in leases for which the lessee recognizes a single lease expense in its SCI should be disclosed as a supplemental noncash transaction disclosure.

Question 2
Do the Boards agree that the ROU asset acquired in exchange for a lease liability for which the lessee recognizes a single lease expense in its SCI should be disclosed as a supplemental noncash transaction disclosure?