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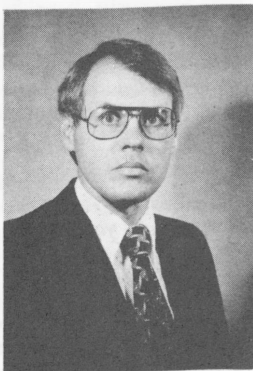
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Mapping The Method

FASB No. 13, Accounting for Leases



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One of the activities which consumes an increasing amount of time is the reading which must be done to stay abreast of the regulations established by the SEC and the accounting standards of the FASB. As new auditing standards, CASB requirements, and Federal Trade Commission regulations are adopted the volume of reading material becomes overwhelming. If review of these materials can be made more efficient, additional time will be released for other purposes.

This article is designed to 1) assist the reader to more rapidly understand the complex FASB Statement No. 13 "Accounting for Leases," and 2) present an argument for inclusion of such flowcharts with future FASB Statements. Examining flowcharts of a Statement is one effective way of gaining a quick understanding of its essential concepts. Figure 1 is a flowchart of the sections of the "Accounting for Leases" Standard pertaining to the lessor. Figure 2 is a flowchart of the sections of the Standard relating to the lessee.

Figures 1 and 2 illustrate the criteria used by the lessee and lessor to distinguish between operating and capital leases. At least one of the criteria must be met to be classified as a capital lease by the lessee. As to the lessor, in addition to meeting at least one of the same criteria, two additional criteria must be met. Collectibility of the minimum lease payments must be reasonably certain and there must be no important uncertainties surrounding the amount of unreimbursable costs to be incurred by the lessor in order for the lease to be classified as a sales-type or direct financing lease. This represents an improvement over APB Opinions 5 and 7 in which the criteria were entirely different for the lessor and lessee.

When the lease is an operating lease its treatment is fairly uncomplicated for both parties to the transaction. The accounting and disclosure requirements are shown in the lower left-hand portion of each of the figures.

When the lease is a capital lease its treatment can be relatively complex. From the lessor's point of view the Standard differentiates between sales-type leases, direct financing leases, and leveraged leases as shown in Figure 1. The effect of a sale to a third party is also covered. The flowchart lists the relevant questions to ask to differentiate between these and shows how each is to be accounted for and disclosed.

The lessee's accounting and disclosure

requirements for the capital lease are affected by whether or not a provision change takes place before expiration of the lease. Figure 2 reflects the necessary accounting and disclosure requirements for leases which have a provision change before expiration and for those which remain unchanged.

The Statement, of course, contains rules for leases involving four categories of real estate transactions, sale-leaseback transactions, subleases, and similar transactions. These are not illustrated in Figures 1 and 2.

The real purpose in this short article is not to discuss every facet of the Standard. The purpose is to illustrate how the use of flowcharts can facilitate an overview of the Standard. Such an approach can provide a frame of reference for anyone studying it.

It is proposed that the FASB establish a precedent and begin to assist accountants to more easily and quickly comprehend its standards by including in each standard (whenever feasible) a flowchart (or flowcharts) of the accounting and reporting requirements contained therein. The flowchart(s) would depict a graphic outline of the text. An interested person could see the overall concepts and interrelationships of elements contained in the statement prior to initial reading. Those who have at one time had an understanding of the standard and who need to refresh their memory could do so by reviewing the flowchart. Review of the standard itself might or might not be necessary, depending upon the particular problem at hand.

Use of the flowcharting technique to simplify an accounting pronouncement is not new or unique. A recent example is contained in the March 1977 issue of the *Journal of Accountancy*, where a flowchart was used to express *APB Opinion 29* more clearly.¹ More recently, the August 1977 *Journal of Accountancy* carried an article, "A Practitioner's Guide to Accounting for Leases," in which flowcharts were used to illustrate Criteria for Lease Classification and Original Lessee's Accounting for Subleases.² That article reviewed major changes in accounting for leases brought about as a result of Statement No. 13. The purpose in that article was different from the purpose in this one. However, the use of flowcharts illustrates the validity of the argument set forth here. It is clear that there is a need for such guidelines. Accountants, in general, and all users of FASB

statements could be greatly assisted by the inclusion of a flowchart (or flowcharts) in each FASB statement upon issuance. Much loss of time, much duplication of effort, could be prevented. In addition, it would probably cut down on diverse approaches being developed unnecessarily. Importantly, it could cut down the time and dollar cost of compliance for business.

An accountant's time is a precious commodity. Wise use of it can mean greater work efficiency and more leisure time. The increase in the number of books, articles, and lectures on management of time indicates a keen interest in this topic. For instance, the AICPA is presently offering a cassette-workbook self-study course on "Total Time Management" to its members and interested parties. Assistance to accountants who wish to improve their time management is suggested here by making the study of Statement No. 13 (and possibly future statements) more efficient. It is hoped the suggestion to the FASB will be adopted. ■

FOOTNOTES

¹S.J. Lambert and Joyce C. Lambert, "Concepts and Applications in APB Opinion No. 29," *Journal of Accountancy*, March, 1977, pp. 62-63.

²Raymond J. Clay, Jr. and William W. Holder, "A Practitioner's Guide to Accounting for Leases," *Journal of Accountancy*, August, 1977, pp.61-68.

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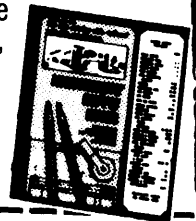
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Figure 1 - Lessor

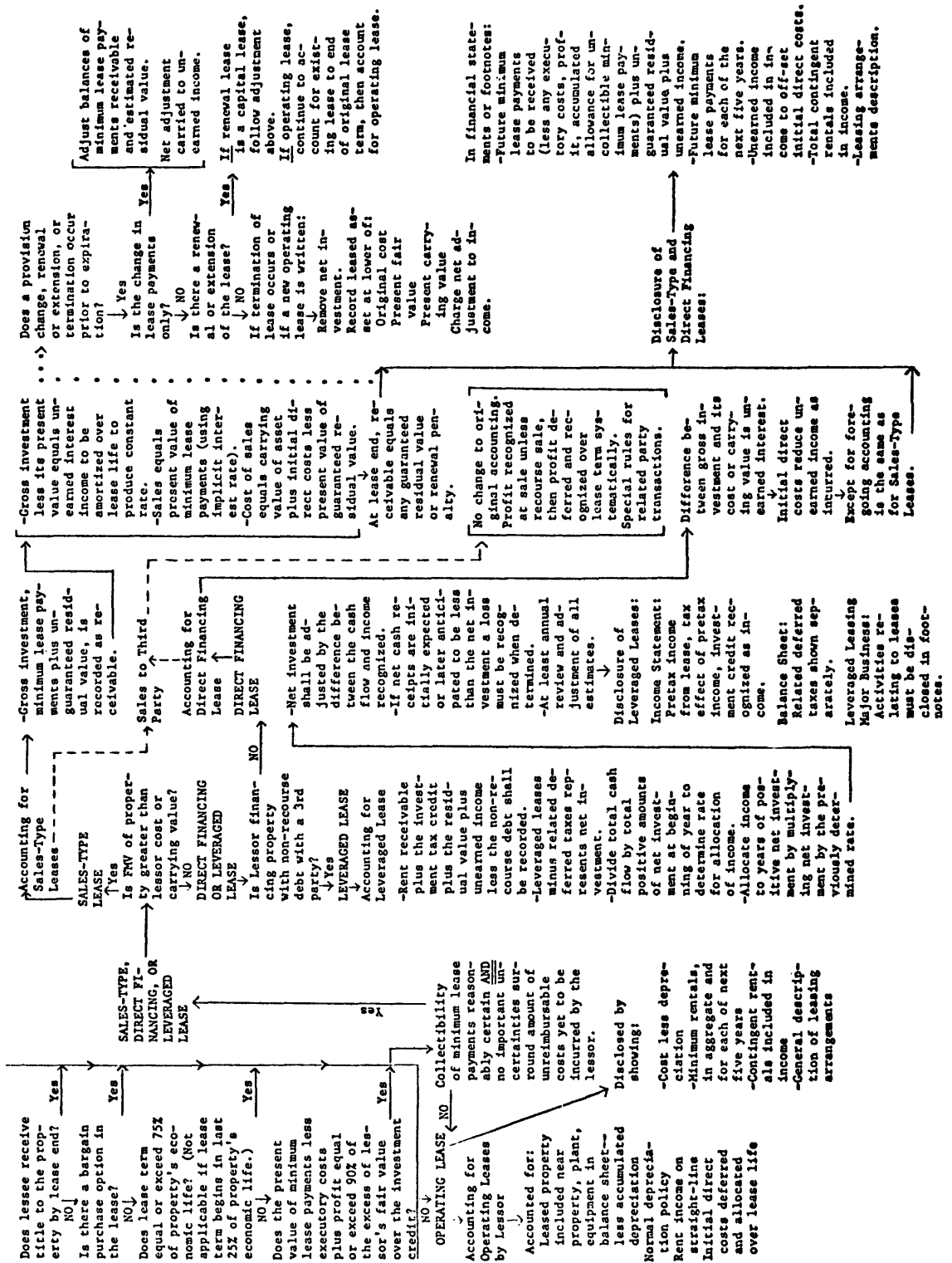


Figure 2 - Lessee

