May 23, 2016

840 Leases
10 Overall
15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

> Overall Guidance

840-10-15-1 The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Leases Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Leases Topic.

Pending Content:

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Editor's Note: *Paragraph 840-10-15-1 will be superseded upon transition, together with its heading:*

> **Overall Guidance**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

> Entities

840-10-15-2 The guidance in the Leases Topic applies to all entities.

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Editor's Note*: Paragraph 840-10-15-2 will be superseded upon transition, together with its heading:*
> **Entities**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

> Transactions

840-10-15-3 The evaluation of whether an arrangement contains a **lease** within the scope of the Leases Topic shall be based on the substance of the arrangement using the following guidance. That evaluation shall be made at inception of the arrangement based on all of the facts and circumstances. Paragraph 840-10-35-2 establishes the criteria under which a reassessment of whether an arrangement contains a lease after the inception of the arrangement shall be made.

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Editor's Note*: Paragraph 840-10-15-3 will be superseded upon transition, together with its heading:*
> **Transactions**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-4 This Topic does not address whether an undivided interest or a pro rata portion of property, plant, or equipment could be the subject of a lease. The issue of how to determine if a component part of property, plant, or equipment is itself property, plant, or equipment is not a subject of this Topic. Nevertheless, arrangements that identify a physically distinguishable portion of property, plant, or equipment are within the scope of this Topic.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-5 The identification of property, plant, or equipment in the arrangement need not be explicit; it may be implicit. Property, plant, or equipment has been implicitly specified if, for example, the owner-seller owns or leases only one asset with which to fulfill its obligation to the purchaser and it is not economically feasible or practicable for the owner-seller to perform its obligation through the use of alternative property, plant, or equipment.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

> > Arrangements that Qualify as Leases

840-10-15-6 An arrangement conveys the right to use property, plant, or equipment if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying property, plant, or equipment. The right to control the use of the underlying property, plant, or equipment is conveyed if any of the following conditions is met:

a. The purchaser has the ability or right to operate the property, plant, or equipment or direct others to operate the property, plant, or equipment in a manner it determines while obtaining or controlling more than a minor amount of the output or other utility of the property, plant, or equipment. The purchaser's ability to operate the property, plant, or equipment may be evidenced by (but is not limited to) the purchaser's ability to hire, fire, or replace the property's operator or the purchaser's ability to specify significant operating policies and procedures in the arrangement with the owner-seller having no ability to change such policies and procedures. A requirement to follow prudent operating practices (or other similar requirements) generally does not convey the right to control the underlying property, plant, or equipment. Similarly, a contractual requirement designed to enable the purchaser to monitor or ensure the seller's compliance with performance, safety, pollution control, or other general standards generally does not establish control over the underlying property, plant, or equipment.

b. The purchaser has the ability or right to control physical access to the underlying property, plant, or equipment while obtaining or controlling more than a minor amount of the output or other utility of the property, plant, or equipment.

c. Facts and circumstances indicate that it is **remote** that one or more parties other than the purchaser will take more than a minor amount of the output or other utility that will be produced or generated by the property, plant, or equipment during the term of the arrangement, and the price that the purchaser (lessee) will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

Pending Content:

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***Editor's Note**: Paragraph 840-10-15-6 will be superseded upon transition, together with its heading:*
> > **Arrangements that Qualify as Leases**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-7 Example 2 (see paragraph 840-10-55-32) illustrates further the assessment of the possibility that other parties will take more than a minor amount of the output.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-8 Agreements that transfer the right to use property, plant, or equipment meet the definition of a lease for purposes of this Topic even though substantial services by the contractor (lessor) may be called for in connection with the operation or maintenance of such assets.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-9 This Topic also includes agreements that, although not nominally identified as leases, meet the definition of lease, such as a **heat supply contract** for nuclear fuel.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

> > Arrangements that Do Not Qualify as Leases

840-10-15-9A

Pending Content:

Transition Date: *(P) December 16, 2014; (N) December 16, 2014* | **Transition Guidance: 853-10-65-1**

Service concession arrangements within the scope of Topic 853 on service concession arrangements are not within the scope of the guidance in this Topic.

Pending Content:

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***Editor's Note**: Paragraph 840-10-15-9A will be superseded upon transition, together with its heading:*
> > **Arrangements that Do Not Qualify as Leases**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-10 The definition of a lease does not include agreements that are contracts for services that do not transfer the right to use property, plant, or equipment from one contracting party to the other. Further, although specific property, plant, or equipment may be explicitly identified in an arrangement, it is not the subject of a lease if fulfillment of the arrangement is not dependent on the use of the specified property, plant, or equipment.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-11 For example, if the owner-seller is obligated to deliver a specified quantity of goods or services and has the right and ability to provide those goods or services using other property, plant, or equipment not specified in the arrangement, then fulfillment of the arrangement is not dependent on the specified property, plant, or equipment and the arrangement does not contain a lease. Most arrangements that call for delivery of an asset that has quoted market prices available in an active market will generally not be dependent on specific property, plant, or equipment to fulfill the arrangement.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-12 Other property, plant, or equipment not specified in the arrangement may include property, plant, or equipment owned or controlled by the owner-seller, or it may include a third party's property, plant, or equipment (for example, if the owner-seller purchases goods or services in the spot market to fulfill its obligation under the arrangement).

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-13 The owner-seller's right and ability to provide goods or services using other property, plant, or equipment does not always mean that the arrangement does not contain a lease. For example, a warranty obligation that permits or requires the substitution of the same or similar property, plant, or equipment if the specified property, plant, or equipment is not operating properly does not preclude lease treatment.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-14 In addition, a contractual provision (contingent or otherwise) permitting or requiring the owner-seller to substitute other property, plant, or equipment for any reason on or after a specified date does not preclude lease treatment before the date of substitution.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-15 Because a lease is defined as conveying the right to use property, plant, or equipment (land and/or depreciable assets), inventory (including equipment parts inventory) and minerals, precious metals, or other natural resources cannot be the subject of a lease for accounting purposes because those assets are not depreciable. This Topic does not apply to lease agreements concerning the rights to explore for or to exploit natural resources such as oil, gas, minerals, timber, precious metals, or other natural resources. Similarly, intangibles such as workforce and licensing agreements for items such as motion picture films, plays, manuscripts, patents, and copyrights are not deemed the subject of a lease for accounting purposes even though those assets may be amortized.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

> > Multiple-Element Arrangements

840-10-15-16 In determining whether an arrangement is within the scope of this Topic, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and shall, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting, including a lease. That presumption may be overcome if there is sufficient evidence to the contrary.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

__Editor's Note__: Paragraph 840-10-15-16 will be superseded upon transition, together with its heading:
> > **Multiple-Element Arrangements**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-17 If an arrangement contains a lease and related executory costs, as well as other nonlease elements, the classification, recognition, measurement, and disclosure requirements of this Topic shall be applied by both the purchaser and the supplier to the lease element of the arrangement.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-18 Other elements of the arrangement not within the scope of this Topic shall be accounted for in accordance with other applicable generally accepted accounting principles (GAAP).

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-19 For purposes of applying this Topic, payments and other consideration called for by the arrangement shall be separated at the inception of the arrangement or upon a reassessment of the arrangement into:

a. Those for the lease, including the related executory costs and profits thereon

b. Those for other services on a relative fair value basis, consistent with the guidance in paragraph 605-25-15-3A(b).

Pending Content:

Transition Date: *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance: 606-10-65-1**

For purposes of applying this Topic, payments and other consideration called for by the arrangement shall be separated at the inception of the arrangement or upon a reassessment of the arrangement into:

a. Those for the lease, including the related executory costs and profits thereon

b. Those for other services on a relative **standalone selling price** basis, consistent with the guidance in paragraph 606-10-15-4 and paragraphs 606-10-32-28 through 32-41.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

> **Other Considerations**

840-10-15-20 Paragraph 815-10-15-79 explains that leases that are within the scope of this Topic are not derivative instruments subject to Subtopic 815-10, although a derivative instrument embedded in a lease may be subject to the requirements of Section 815-15-25. Paragraph 815-10-15-80 explains that residual value guarantees that are subject to the guidance in this Topic are not subject to the guidance in Subtopic 815-10. Paragraph 815-10-15-81 requires that a third-party residual value guarantor consider the guidance in Subtopic 815-10 for all residual value guarantees that it provides to determine whether they are derivative instruments and whether they qualify for any of the scope exceptions in that Subtopic.

Pending Content:

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> **Other Considerations**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

840-10-15-21 Examples 1 through 5 (see paragraphs 840-10-55-30 through 55-37) illustrate the application of the scope guidance in this Subsection.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

Lessees

> **Overall Guidance**

840-10-15-22 The Lessees Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Subtopic, see paragraph 840-10-15-1.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

***Editor's Note**: Paragraph 840-10-15-22 will be superseded upon transition, together with its heading:*
> **Overall Guidance**

[Paragraph superseded by Accounting Standards Update No. 2016-02]

Lessors

> Overall Guidance

840-10-15-23 The Lessors Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Subtopic, see paragraph 840-10-15-1.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

***Editor's Note**: Paragraph 840-10-15-23 will be superseded upon transition, together with its heading:*
> **Overall Guidance**

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