

FASB Emerging Issues Task Force

Issue No. 08-3

Title: Accounting by Lessees for Maintenance Deposits under Lease Arrangements

Document: Issue Summary No. 1, Supplement No. 1*

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Previously distributed EITF materials: Issue Summary No. 1, dated March 3, 2008

References:

FASB Statement No. 5, *Accounting for Contingencies* (FAS 5)

FASB Statement No. 13, *Accounting for Leases* (FAS 13)

FASB Statement No. 29, *Determining Contingent Rentals* (FAS 29)

FASB Statement No. 154, *Accounting Changes and Error Corrections* (FAS 154)

FASB Interpretation No. 19, *Lessee Guarantee of the Residual Value of Leased Property* (FIN 19)

FASB Staff Position, AUG AIR-1, *Accounting for Planned Major Maintenance Activities* (FSP AUG AIR-1)

AICPA Industry Audit Guide, *Audits of Airlines* (Airline Guide)

AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1)

SEC Staff Accounting Bulletin Topic 13, *Revenue Recognition* (SAB Topic 13A)

* The alternative views presented in this Issue Summary Supplement are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles until the Task Force makes such a determination, exposes it for public comment, and it is ratified by the Board.

International Accounting Standard 17, *Leases* (IAS 17)

EITF Issue No. 86-33, "Tax Indemnifications in Lease Agreements" (Issue 86-33)

EITF Issue No. 96-21, "Implementation Issues in Accounting for Leasing Transactions involving Special-Purpose Entities" (Issue 96-21)

EITF Issue No. 98-9, "Accounting for Contingent Rent" (Issue 98-9)

EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities" (Issue 07-3)

EITF Issue No. 08-2, "Lessor Revenue Recognition for Maintenance Services" (Issue 08-2)

Background

1. At the March 12, 2008 EITF meeting, the Task Force reached a consensus-for-exposure on this Issue and directed the staff to issue a draft abstract for public comment. The draft abstract was posted to the FASB website on April 1, 2008, with a comment period that ended May 5, 2008. Comment letters received on the abstract have previously been distributed to Task Force members and have been analyzed by the FASB staff below. At the June 12, 2008 EITF meeting, the Task Force will have the opportunity to consider those comment letters as it redeliberates the consensus-for-exposure. The Task Force will then be asked whether it agrees with the staff recommendations for the proposed changes to the draft abstract, which is attached as Appendix 08-3A, and whether it would like to affirm its consensus-for-exposure (as amended) on this Issue as a final consensus.

Summary of Comment Letters Received and FASB Staff Analysis

2. Three comment letters were received on the draft abstract. The comment letters were from an accounting consulting firm, a preparer, and a state certified public accountants society. The comments addressed the following matters:

- a. Comparison to owner's recognition of aircraft maintenance costs
- b. Timing of expense recognition
- c. Situations in which the lessee does not expect all deposits to be returned (from day one of the lease)
- d. Changes in estimate
- e. Lessor accounting.

Comparison to owner's recognition of aircraft maintenance costs

3. One respondent (a lessor to the airline industry) stated that the consensus-for-exposure would create a difference between the accounting for leased aircraft and the accounting for owned aircraft when the owned aircraft are accounted for using the built-in-overhaul method of accounting for maintenance expense. The respondent also stated that the consensus-for-exposure results in an expense recognition pattern that is inconsistent with the use of the aircraft, and it ignores the ultimate-return-condition liability that may develop during the lease.

4. The staff notes that the principal source of guidance on the accounting for planned major maintenance activities is the Airline Guide. The Airline Guide permits three alternative methods of accounting for planned major maintenance activities: direct expense, built-in overhaul, and deferral. Those methods are also widely used by other industries. The discussion below is specific to the airline industry as that was the example cited by the respondent.

5. The built-in-overhaul method is used to account for planned major maintenance when the related property, plant, and equipment are accounted for on a component basis. Under that method, costs of activities that restore the service potential of airframes and engines are considered a component of the asset. The cost of airframes and engines (upon which the planned major maintenance activity is performed) is segregated into those costs that are to be depreciated over the expected useful life of the airframes and engines and those costs that represent the estimated cost of the next planned major maintenance activity. Thus, the estimated cost of the first planned major maintenance activity is separated from the cost of the "remainder" of the airframes and engines and amortized to the date of the initial planned major maintenance activity. The cost of that first planned major maintenance activity is then capitalized and amortized to the next occurrence of the planned major maintenance activity, at which time the process is repeated.

6. The built-in-overhaul method cannot be applied by an airline that does not account for owned aircraft on a component basis. Airlines that account for owned aircraft on an aggregate basis (as opposed to a component basis) utilize either the direct expense method or the deferral method of accounting for planned major maintenance. The respondent asserted that the FASB eliminated a method for an operator to properly account for costs when it eliminated the "accrue in advance" method through the issuance of FSP AUG AIR-1. The respondent stated that the accrue-in-advance method provided similar accounting for maintenance costs recognized by airlines that used component accounting and by airlines that used an aggregate aircraft method of accounting. The respondent noted that aircraft lessees that accounted for maintenance deposits as contingent rent expense (View B in Issue Summary No. 1) achieved an accounting result that was similar to the built-in-overhaul method and the accrue-in-advance method. The respondent

also noted that if a lessee were to fail to perform the required maintenance under the lease, there would be a liability to the lessor upon the return of the plane (reflecting the lessee's obligation to the lessor for failing to perform the required maintenance under the lease agreement). The respondent believes that the consensus-for-exposure ignores that ultimate return condition liability that may develop during the lease.

7. The staff has the following observations on the issues raised by the respondent:

- By its very nature, the built-in-overhaul method cannot be applied by a lessee in an operating lease (there is no asset recorded that the first overhaul can be "built into") regardless of the Task Force's consensus on this Issue.
- The respondent's belief that "the use of the aircraft is the past event that gives rise to the obligation on the part of the lessee to pay for the maintenance of the aircraft," was a proponent view that was provided as a basis for View B of the issue deliberated in Issue Summary No. 1. The staff notes that this view would also result in a lessee expensing *refundable* deposits made to a lessor. Speaking more broadly, the logical extension of this view would presumably require the lessee to expense an amount for maintenance even when no deposit was made to the lessor (as long as the lessee was legally responsible for the maintenance of the leased asset and the lease contained a return condition requirement), which is akin to the accrue-in-advance method that the Board precluded in FSP AUG AIR-1. As stated in View A of the issue deliberated in Issue Summary No. 1,

the lessee contractually has the full responsibility for the maintenance and bears the risk associated with the cost and quality of such maintenance. A cash deposit to the lessor does not change the lessee's obligation to perform the maintenance and should not determine the timing of the recognition of maintenance expense in the lessee's financial statements.

Accordingly, the Task Force rejected View B of the Issue Summary No. 1, which would have required lessees to immediately expense all *nonrefundable* maintenance deposits to a lessor. The respondent believes that the maintenance obligation *combined with* the return condition requirements in the lease creates a present obligation of the lessee. The respondent notes that the lessee's deposit (which is based on usage of the aircraft) is essentially a proxy for any potential return condition liability that would exist if the lessee did not perform the

maintenance. The staff acknowledges that the lessee would incur a present obligation (to the lessor) if the lessee did not plan on performing the maintenance required prior to returning the aircraft; however, absent that fact the staff continues to believe that in relation to the regulatory and operational requirements to perform maintenance, a cash deposit to the lessor should not result in the recognition of maintenance expense in the lessee's financial statements.

- The staff does not believe that the consensus-for-exposure "ignores the ultimate return liability that may develop during the lease." The consensus for exposure requires a lessee to expense (or capitalize, depending on its maintenance accounting policy) a deposit when the underlying maintenance is performed *or* when the amount on deposit is not probable of being used to fund future maintenance. If a lessee planned on returning an aircraft without performing the maintenance that was required under the contract, the consensus-for-exposure would require a lessee to expense any amounts on deposit related to that required maintenance activity.

8. The staff appreciates the comments made by the respondent; however, based on the observations above, the staff does not recommend that the Task Force change the consensus-for-exposure that it reached on this Issue.

Timing of expense recognition

9. Paragraph 8 of the draft abstract states, in part, that "once it is determined that an amount on deposit is not probable of being used to fund future maintenance expense, it shall be recognized as additional expense at the time such determination is made."

10. One respondent stated that it was not clear whether that phrase in paragraph 8 meant "less than probable the amount will not be used to fund future maintenance expense" or "probable the amount will not be used to fund future maintenance expense." The staff believes that "less than probable the amount will not be used to fund future maintenance expense" is the correct interpretation of the consensus-for-exposure, and the staff has provided a suggested change to paragraph 8 of the draft abstract to address that comment. [Added text is underlined and deleted text is ~~struck out~~.]

11. The staff notes that the respondent's alternative reading of the consensus-for-exposure (that an amount on deposit should be expensed when it is probable the amount will not be used to fund future maintenance expense) would be appropriate if the Task Force had attempted to require a liability recognition threshold to be met before the lessee could recognize the deposit as an expense. However, consistent with the Task Force's conclusion on a similar issue in Issue 07-3, the consensus-for-exposure focuses on continuing to meet the threshold for asset recognition as the determinant of whether amounts on deposit should be expensed.

12. The respondent's alternative reading of the consensus-for-exposure would require preparers to evaluate the deposit amount as a contingent rent clause for which the contingency is the lessee not performing the maintenance (and, thus, when it was probable that the lessee would not perform the maintenance, the amount on deposit would be expensed). Paragraph 8 of Issue 98-9 requires that a lessee recognize contingent rent expense prior to the achievement of a specified target that triggers the contingent rent when the achievement of that target is considered probable. The staff notes that Issue 98-9 is designed to allow lessees to determine when it is appropriate to accrue a liability based on the probability of costs being incurred in the future (a liability recognition model). The consensus-for-exposure is designed to require lessees to determine when it is appropriate to expense the deposit based on the probability that costs will not be incurred in the future and therefore the deposit will not be refunded (an asset derecognition model). The staff believes that the asset derecognition model is appropriate for the fact pattern discussed in the draft abstract and consistent with the Task Force's consensus-for-exposure.

13. An informal comment indicated that the FASB staff should consider removing the phrase "once it is determined that" from the beginning of paragraph 8 of the consensus-for-exposure. The respondent noted that constituents could interpret that phrase to mean that they could wait to expense an unused deposit amount "until they got around to determining whether the amounts will be used for maintenance." The staff believes that this would have been an unacceptable

interpretation of the consensus-for-exposure; however, the staff believes that the consensus could be clarified to eliminate any confusion and has made a change to the wording in paragraph 8 to address that comment.

Situations in which the lessee does not expect all deposits to be returned (from day one of the lease)

14. One respondent noted that, based on discussions with certain lessors, there are situations at lease inception in which the lessor and lessee do not expect that all maintenance deposits will be returned to the lessee over the term of the lease. The respondent used the following simplified fact pattern to illustrate this situation:

- Lease requires periodic fixed base rent payments.
- In addition to the base rent, the lessee is obligated to pay \$100 per hour of use of the leased asset at each periodic payment date as a maintenance deposit. Amounts deposited with the lessor are refundable to the lessee only to the extent of eligible maintenance costs incurred by the lessee during the lease term.
- Lessee's best estimate at lease inception is that it will have 1,000 hours of use of the leased asset during the lease term, but that it will incur only \$60,000 of eligible maintenance costs during the term of the lease.

15. The respondent stated that they believe the consensus-for-exposure appears to require the lessee to treat the amounts paid to the lessor for the first 600 hours of use as a deposit and then treat all deposit payments after the 600 hour mark as an expense. The respondent stated that they believe, in the above fact pattern, that the lessee should bifurcate the \$100 per hour payment between a maintenance deposit (\$60 per hour) and a contingent rent payment (\$40 per hour).

16. The staff does not disagree with the respondent's analysis of the fact pattern (that is, that the appropriate accounting would be to bifurcate the payment into the amount that is substantively related to maintenance and the amount that is not substantively related to maintenance); however, the staff believes that the appropriate application of paragraph 6 in the Scope section of the consensus-for-exposure would result in the same conclusion. Paragraph 6 states that "deposits that are not substantively and contractually related to maintenance of the leased asset

are not within the scope of this Issue." The staff has made a minor clarification to paragraph 6 of the consensus-for-exposure to help address the concern raised in this comment.

17. The staff is hesitant to make further clarifications to the consensus-for-exposure related to the substance of the deposit payment. Preparers and auditors are always expected to assess whether the portion of a rent payment designated as an executory cost appears substantive and reasonable. The staff does not believe that this Issue should provide additional guidance to tell preparers and auditors how to perform that analysis. Just as an analysis was performed by the comment letter respondent, the staff would expect a similar analysis to be performed by preparers and auditors.

Changes in estimate

18. One respondent recommended that the draft abstract address the lessee's accounting for any changes in estimates related to maintenance deposits paid to a lessor. Consider an example similar to the one presented in paragraph 12 above:

- Lease requires periodic fixed base-rent payments.
- In addition to the base rent, the lessee is obligated to pay \$100 per hour of use of the leased asset at each periodic payment date as a maintenance deposit. Amounts deposited with the lessor are refundable to the lessee only to the extent of eligible maintenance costs incurred by the lessee during the lease term.
- Lessee's best estimate at lease inception is that it will have 1,000 hours of use of the leased asset during the lease term, and that it will incur \$100,000 of eligible maintenance costs during the term of the lease (so the lessee anticipates that all maintenance deposits will be recoverable through future maintenance activities).
- Half way through the lease term the lessee has \$50,000 on deposit with the lessor; however, the lessee's current best estimate is that they will pay \$50,000 more in deposits, but incur only \$80,000 of eligible maintenance costs.

19. The staff believes that there are two methods a lessee could use to handle the change in estimate in this fact pattern:

- *Cumulative Catch-Up Method:*¹ The lessee would expense \$10,000 immediately so the total deposit asset would equal \$40,000. Prospectively, the lessee would expense \$20 and capitalize \$80 (as a maintenance deposit) of the \$100 per hour maintenance deposit.
- *Prospective Method:* The lessee would leave their deposit asset at \$50,000. Prospectively, the lessee would expense \$40 and capitalize \$60 (as a maintenance deposit) of the \$100 per hour maintenance deposit.

20. The respondent noted that changes in lease payments for operating leases are often recognized on a prospective basis over the remainder of the lease term. The respondent cited changes in estimates related to lessee payments for residual value guarantees and the additional lease expense due to an income tax indemnity payment as examples of changes in lease payments that are handled on a prospective basis. Question 12 of Issue 96-21 requires that when expected deficiencies under a residual value guarantee become probable, the expected deficiency is accrued by the lessee over the remaining term of the lease. Issue 86-33 requires lessees to account for tax indemnification payments made to a lessor over the remaining term of the lease (that is, on a prospective basis).

21. Although the staff acknowledges the leasing references cited by the respondent, the staff notes that both the cumulative catch-up method and the prospective method are used in practice to account for a change in accounting estimate under paragraph 19 of FAS 154, which states, "A change in accounting estimate shall be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both."

22. The staff has presented common alternatives for how a change in estimate under the consensus-for-exposure may be handled; however, the staff does not recommend that this Issue provide additional guidance related to changes in estimates. The staff believes that this is an area in which accounting guidance already exists and providing additional guidance to handle changes in estimate specific to this Issue would be overly prescriptive.

¹ The cumulative catch up method described herein accounts for the change in estimate in the period of change so that the balance sheet at the end of the period of change and the accounting in subsequent periods are as they would have been if the revised estimate had been the original estimate as described in paragraph .83 of SOP 81-1. This does not result in an adjustment of opening retained earnings.

Lessor accounting

23. At the March 12, 2008 EITF meeting, certain Task Force members stated that there was diversity in practice among lessors when accounting for maintenance deposits received from lessees. The staff was instructed to determine whether there is diversity in practice and to determine whether the lessor issue should be addressed as part of this Issue. In addition, one of the respondents to the draft abstract stated that accountants will apply the consensus-for-exposure to lessors by analogy if the scope is not expanded to include lessors' accounting. The respondent recommended that the consensus-for-exposure explicitly address lessors' accounting for those deposit arrangements.

24. Based on a review of public filings, and based on information submitted by one of the respondents to the draft abstract, the staff notes that there is diversity in practice among lessors in accounting for maintenance deposits received from lessees. The staff has identified six different methods used in practice by lessors to account for the deposits:

- Treat all amounts received as rental revenue. When deposits are returned to the lessee the amounts paid to the lessee are capitalized as property, plant, and equipment of the lessor.
- Treat all amounts received as rental revenue. At the same time the deposits are received (and recorded as revenue) an expense is booked for any estimated reimbursements to be made to the lessee. The reserve for reimbursements and the reimbursement rate is evaluated periodically.
- Treat all amounts received as a deposit liability until the deposit liability equals the amount of expected maintenance expenditures over the term of the lease. Amounts received in excess of the expected maintenance expenditures for the term of the lease are recognized as revenue when "accruable."
- Prorate all payments received based on the difference between (a) the amount expected to be returned to the lessee and (b) the amount expected to be retained by the lessor. Amounts expected to be returned to the lessee are recognized as a deposit liability and amounts expected to be retained by the lessor are recognized in income as accrueable.
- Treat all amounts received as a deposit liability until all maintenance expenditures for the

term of the lease have been incurred. Once all maintenance expenditures for the term of the lease have been incurred, recognize any remaining deposit liability as revenue. Amounts received subsequent to all maintenance expenditures for the term of the lease being incurred are recognized as revenue.

- Treat all amounts received as a deposit liability until the end of the term of the lease. At the end of the term of the lease, recognize nonrefundable amounts received as revenue.

25. The staff has not performed a detailed accounting analysis of the different approaches listed above, and, therefore, their inclusion in this list does not indicate that the staff has assessed or deemed any of the approaches acceptable.

26. The staff notes that from the perspective of the lessor, if all of the deposits are returned to the lessee, then no service has been provided by the lessor related to the deposit amounts. When the lessor believes that there is uncertainty about whether the deposit will be returned to the lessee (based on the lessee not performing certain maintenance activities), some believe that SAB Topic 13A provides revenue recognition guidance for contingent rental income that could be applied either directly or by analogy. SAB Topic 13A.4(c) states, in part, "The staff believes that contingent rental income 'accrues' (i.e., it should be recognized as revenue) when the changes in the factor(s) on which the contingent lease payments is (are) based actually occur." In addition, SAB Topic 13A.4(c) states, "The staff does not believe that it is appropriate to recognize revenue based upon the probability of a factor being achieved. The contingent revenue should be recorded in the period in which the contingency is resolved." Others assert that the accounting literature is unclear and that recording revenue when a deposit is received is appropriate. The input the staff received on whether lessor revenue guidance is necessary was mixed; accordingly, the staff will ask the Task Force whether that guidance should be provided.

Accounting Issues and Alternatives

Issue 1: Whether the Task Force agrees with the staff's recommended changes to paragraphs 6 and 8.

Issue 2: Whether the Task Force agrees with the staff's recommendation to not provide additional guidance related to changes in estimate.

Issue 3: Whether the Task Force would like to provide revenue recognition accounting guidance for the lessor, either as part of Issue 08-2 or in a separate Issue.

View A: No, this Issue should not provide accounting guidance for the lessor.

Proponents of View A believe that SAB Topic 13-A.4(c) provides clear accounting guidance for a lessor to follow (either directly or by analogy) in this fact pattern. From the lessor's point of view, they will only be able to retain the deposit amount if the lessee does not perform the required maintenance. Because the amount the lessor will earn as revenue is entirely contingent on the actions of the lessee, the contingent rent guidance in SAB Topic 13 should be applied by lessors.

View A proponents note that Issue 08-2 was added to the agenda because revenue recognition guidance for lessors providing maintenance services did not exist in Statement 13 (or elsewhere in the accounting literature). In contrast, View A proponents believe in this fact pattern the accounting literature already contains guidance that addresses this situation (additional rent to a lessor contingent on the actions of a lessee).

View A proponents do not believe that a lessor would attempt to apply the guidance in this consensus-for-exposure by analogy. Although Issue 98-9 allows a lessee to recognize contingent rental expense utilizing a probability threshold, SAB Topic 13 is clear that a lessor would recognize contingent rental income only when the contingency has been met. Because of that differentiation in the recognition threshold for lessees and lessors, View A proponents do not believe lessors would attempt to apply the guidance in the consensus-for-exposure, nor do View A proponents believe that it would be appropriate for a lessor to apply the guidance by analogy.

View A proponents also believe that any view that would allow a lessor to consider probability when determining when to recognize contingent rental income would inevitably lead to requests

to expand that notion to fact patterns outside of the one presented in the consensus-for-exposure.

View A': No , this Issue should not provide accounting guidance for the lessor; however, the consensus-for-exposure should include a reference to Issue 98-9 and SAB Topic 13 for the lessor's accounting for maintenance deposits received from a lessee.

Proponents of View A' acknowledge all the arguments made in View A; however, proponents of View A' are still concerned that a lessor would attempt to apply the guidance in the consensus-for-exposure by analogy (as indicated by one of the comment letters). As such, View A' proponents believe that there should be a direct reference to Issue 98-9 and SAB Topic 13 for the lessor's accounting.

View B: No, this Issue should not provide guidance for the lessor, but the staff should further explore the accounting analysis for each of the views observed in practice and prepare a separate analysis for agenda consideration.

Proponents of View B point to the diversity in practice identified by the staff as evidence that additional guidance is needed in this area. View B proponents believe that the fact that the staff identified six different methods used by lessors to account for these deposits is ample support to indicate that the Task Force needs to provide guidance from the lessor's point of view. View B proponents also believe that if an amount is not substantively related to maintenance, then perhaps there is also no substantive contingency related to the lessor being able to retain that portion of the deposit paid by the lessee. Proponents of View B believe that these types of fact patterns, with the lessor's accounting in mind, should be further explored by the staff and the Task Force when considering what revenue recognition guidance is appropriate for the lessor.

View B proponents believe that the lessor's accounting could be addressed either as part of a separate Issue or as part of Issue 08-2, which is a project already on the EITF agenda dealing with lessor revenue recognition.

Appendix 08-3A

EITF ABSTRACTS (DRAFT*)

Issue No. 08-3

Title: Accounting by Lessees for Nonrefundable Maintenance Deposits

Dates Discussed: March 12, 2008; [June 11–12, 2008]

References: FASB Statement No. 5, *Accounting for Contingencies*
FASB Statement No. 13, *Accounting for Leases*
FASB Statement No. 29, *Determining Contingent Rentals*
FASB Statement No. 154, *Accounting Changes and Error Corrections*
FASB Interpretation No. 19, *Lessee Guarantee of the Residual Value of Leased Property*
FASB Staff Position, AUG AIR-1, *Accounting for Planned Major Maintenance Activities*
International Accounting Standard 17, *Leases*

Objective

1. The objective of this Issue is to clarify how a lessee shall account for a nonrefundable maintenance deposit under an arrangement accounted for as a lease.

**All paragraphs in this Issue have equal authority.
Paragraphs in bold set out the main principles.**

Background

2. Under certain equipment lease agreements, a lessee is legally or contractually responsible for repair and maintenance of the leased asset throughout the lease term. Additionally, certain lease agreements include provisions requiring the lessee to make deposits² to the lessor in order to financially protect the lessor in the event the lessee does not properly maintain the leased asset.
3. Under a typical arrangement, those deposits are calculated based on a performance measure,

^{*}**This draft abstract is being exposed for a public comment period that will end on May 5, 2008.**

² Lease agreements often refer to these deposits as "maintenance reserves" or "supplemental rent." However, the lessor is required to reimburse the deposits to the lessee upon the completion of maintenance activities that the lessee is contractually required to perform under the lease agreement.

such as hours of use of the leased asset, and are contractually required under the terms of the lease agreement to be used to reimburse the lessee for required maintenance of the leased asset upon the completion of that maintenance. The lessor is contractually required to reimburse the lessee for the maintenance costs paid by the lessee, to the extent of the amounts on deposit.

4. In some cases, the total cost of cumulative maintenance events over the term of the lease is less than the cumulative deposits, resulting in excess amounts on deposit at the expiration of the lease. In those cases, some lease agreements provide that the lessor is entitled to retain such excess amounts (nonrefundable maintenance deposit); whereas other agreements specifically provide that, at the expiration of the lease agreement, such excess amounts are returned to the lessee (refundable maintenance deposit). Refundable maintenance deposits are accounted for as a deposit but diversity has developed on the accounting for nonrefundable maintenance deposits.

Scope

5. **The scope of this Issue is limited to nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease.**

6. Deposits (or portions thereof) that are not substantively and contractually related to maintenance of the leased asset are not within the scope of this Issue.

Recognition

7. **Nonrefundable maintenance deposits shall be accounted for as a deposit asset.**

8. When the underlying maintenance is performed, the deposit shall be expensed or capitalized in accordance with the lessee's maintenance accounting policy. Lessees should continue to evaluate whether it is probable that an amount on deposit will be used to fund future maintenance expense. Once it is determined that When an amount on deposit is not less than probable of being used to fund future maintenance expense, it shall be recognized as additional expense at the time such determination is made.

Transition

9. This Issue is effective for fiscal years beginning after December 15, 2008, including interim periods within those fiscal years. Earlier application is not permitted.

10. Entities shall recognize the effect of the change as a change in accounting principle as of the beginning of the fiscal year in which this consensus is initially applied for all arrangements existing at the effective date. The cumulative effect of the change in accounting principle shall be recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately. The cumulative-effect adjustment is the difference between the amounts recognized in the statement of financial position before initial application of this Issue and the amounts recognized in the statement of financial position at initial application of this Issue.

11. The transition impact of applying this Issue shall comply with the disclosure requirements of Statement 154 for changes in accounting principles.

The provisions of this Issue need not be applied to immaterial items.