

Commonwealth of Virginia Fiscal Fundamentals

Lease Accounting

Department of Accounts

Lease Accounting

- Lease information is an essential element of Virginia's Comprehensive Annual Financial Report (CAFR).
- DOA prepares a CAFR annually, which the Auditor of Public Accounts audits.
- Agency financial statements also must include lease information.

Purpose of LAS

(Lease Accounting System)

DOA maintains LAS, the Commonwealth's web enabled Lease Accounting System to ensure:

- Proper recording and retention of lease data.
- Disclosure of lease activity in the agency's and Commonwealth's financial statements in accordance with GAAP.

Lease Definitions

- A lease is an agreement conveying the right to use property, plant, or equipment, usually for a stated period of time.
- A capital lease transfers ownership rights, risks, and rewards.
- An operating lease does not transfer ownership rights and is similar to a rental.

Capital vs. Operating Leases

The majority of leases in the Commonwealth are lessee leases.

- An asset and liability are recorded for all lessee capital leases.
- Rent expense is recorded for all lessee operating leases. An asset and liability are not recorded for operating leases.

Internal Controls

- Lease input documents must be prepared in a timely and accurate manner.
- Lease input documents must be reviewed and approved by authorized personnel.
- Lease data entered in the system must be reconciled to source documentation (lease agreement).

Recent Developments

- The SEC tackles practices for lease accounting.
- Companies recording leasehold improvements (upgrades to leased property) and depreciating them over the life of the asset rather than the life of the lease.
- Who was approving these transactions?

New Lease System

DOA is developing a new web-based online lease system that will be available for Fiscal Year 2006.

- Agencies will key transactions, so they must have an understanding of lease accounting.
- DOA provided training on the system.

References

- CAPP Manual Topics
 - 31205, Introduction to Lease Accounting
http://www.doa.virginia.gov/Admin_Services/CAPP/CAPP_Topics/31205.pdf
- DOA Directives
 - 2005 Financial Statement Directives
http://www.doa.virginia.gov/Financial_Reporting/Directives/Directives_Main.cfm

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