



Instructions for GASB Lite Modification

When to Modify a Lease

Several scenarios may necessitate the modification of a lease. For example:

- The lessee and lessor may agree to change the length of the lease, the price, or the underlying asset(s).

The lessee and lessor need to factor into the lease term the likelihood of extension and termination options being exercised.

- If the likelihood of these options being exercised becomes more or less reasonably certain after the original determination, the lease **term** is adjusted, which triggers a **remeasurement**.
- A remeasurement consists of **recalculating the existing lease liability or receivable** based on the new facts and **making the necessary adjustments** to the related lease asset or deferred inflow of resources.

How to Modify the Terms of a Lease

Should you need to modify the terms of a lease, there are a few accounting transactions you’ll need to complete in your financial statements.

We’ve outlined the steps below, using the following scenario as an example:

- The original lease term is 4 years, with annual payments of \$100,000, using a 6% interest rate at the end of each year.
- At the end of the first year, the parties agree to extend the lease for an additional year, with annual payments increasing to \$150,000, using the original interest rate.

Step 1: Copy the Lease Liability repayment schedule for the original lease from our GASB Lite tool and paste it into your spreadsheet. Look at the original lease liability amount (the most current figure before modification).

Original Lease Liability, pre-modification (Cell I6)

Original lease - Lease liability repayment schedule by period							
Payment Number	Date	Payment	Interest Calculated	Interest Paid	Principal Paid	Remaining Interest Accrued	Balance
							\$ 350,471.03
1	2023-12 - 2024-11	\$ 100,000.00	\$ 21,028.26	\$ 21,028.26	\$ 78,971.74	\$ -	\$ 271,499.29
2	2024-12 - 2025-11	\$ 100,000.00	\$ 16,289.96	\$ 16,289.96	\$ 83,710.04	\$ -	\$ 187,789.25
3	2025-12 - 2026-11	\$ 100,000.00	\$ 11,267.35	\$ 11,267.35	\$ 88,732.65	\$ -	\$ 99,056.60
4	2026-12 - 2027-12	\$ 105,000.00	\$ 5,943.40	\$ 5,943.40	\$ 99,056.60	\$ -	\$ -

Step 2: Copy and paste the Lease Liability repayment schedule for the modified lease from our GASB Lite tool. Look at the **modified lease liability** amount (the updated figure after modification).

Modified Lease Liability (Cell I14)

Modified lease - Lease liability repayment schedule by period

Payment Number	Date	Payment	Interest Calculated	Interest Paid	Principal Paid	Remaining Interest Accrued	Balance
							\$ 519,765.84
1	2024-12 - 2025-11	\$ 150,000.00	\$ 31,185.95	\$ 31,185.95	\$ 118,814.05	\$ -	\$ 400,951.79
2	2025-12 - 2026-11	\$ 150,000.00	\$ 24,057.11	\$ 24,057.11	\$ 125,942.89	\$ -	\$ 275,008.90
3	2026-12 - 2027-11	\$ 150,000.00	\$ 16,500.53	\$ 16,500.53	\$ 133,499.47	\$ -	\$ 141,509.43
4	2027-12 - 2028-12	\$ 150,000.00	\$ 8,490.57	\$ 8,490.57	\$ 141,509.43	\$ -	\$ -
Intangible right-to-use lease asset						\$ 248,266.55	
Lease Liability - Long-term Portion							\$ 248,266.55

Step 3: Use a simple formula to calculate the difference between the original and modified lease liabilities [$(=+I14-I6)$ in this case, or $\$519,765.84 - 271,499.29 = \$248,266.55$]. The **difference** is the number you'll post to your financial statements to increase your lease liability. The offset amount is the corresponding adjustment to your lease asset.

Step 4: Copy the Lease Asset amortization schedule for the original asset from our GASB Lite tool and paste it into your spreadsheet. Look at the original lease asset amortized amount (the most current figure before modification).

Original lease - Lease asset amortization by period

Period Number	Date	Amortization	Balance
			\$350,471.03
1	2023-12 - 2024-11	\$ 87,617.76	\$262,853.27
2	2024-12 - 2025-11	\$ 87,617.76	\$175,235.51
3	2025-12 - 2026-11	\$ 87,617.76	\$ 87,617.76
4	2026-12 - 2027-12	\$ 87,617.76	\$ -

Original asset value (pre-modification)

Step 5: Add the modification value to the original asset value.

Modified lease - Lease asset amortization by period				
Period Number	Date	Modification	Amortization	Balance
				\$350,471.03
1	2023-12 - 2024-11		\$ 87,617.76	\$262,853.27
		\$ 248,266.55		\$511,119.82
1	2024-12 - 2025-11		\$ 127,779.96	\$383,339.87
2	2025-12 - 2026-11		\$ 127,779.96	\$255,559.91
3	2026-12 - 2027-11		\$ 127,779.96	\$127,779.96
4	2027-12 - 2028-12		\$ 127,779.96	\$ -

Original asset value

Adjusted asset value = sum of original asset value + modification value

Annual amortization value = quotient of adjusted asset value/periods in lease term

Step 6: Divide the adjusted asset value, (262.853.27 + \$248,266.55 = **\$511,119.82**) by the remaining number of periods in the lease term (in this case, **4**) to get your annual amortization value.

$$\text{\$511,119.82} / 4 = \text{\$127,779.96}$$

Step 7: Copy your Lease Asset note disclosure schedule for the original lease from our GASB Lite tool. Then update with the recalculated amortization following the modification (Step 5).

Original lease - Lease asset amortization disclosure			UPDATED - Lease asset amortization disclosure		
Year	Amortization		Year	Amortization	
2023	\$	87,617.76	2023	\$	87,617.76
2024	\$	87,617.76	2024	\$	127,779.96
2025	\$	87,617.76	2025	\$	127,779.96
2026	\$	87,617.76	2026	\$	127,779.96
			2027	\$	127,779.96
Future Total	\$	262.853.27	Future Total	\$	511.119.82

Step 8: Copy your Lease Liability note disclosure schedule for the original lease from our GASB Lite tool. Then update with the recalculated principal and interest following the modification (Step 2).

Original lease - Lease liability repayment disclosure				UPDATED - Lease liability repayment disclosure			
Year	Principal Paid	Interest Paid	Total	Year	Principal Paid	Interest Paid	Total
2023	\$ 78,971.74	\$ 21,028.26	\$ 100,000.00	2023	\$ 78,971.74	\$ 21,028.26	\$ 100,000.00
2024	\$ 83,710.04	\$ 16,289.96	\$ 100,000.00	2024	\$ 31,185.95	\$ 118,814.05	\$ 150,000.00
2025	\$ 88,732.65	\$ 11,267.35	\$ 100,000.00	2025	\$ 24,057.11	\$ 125,942.89	\$ 150,000.00
2026	\$ 99,056.60	\$ 5,943.40	\$ 105,000.00	2026	\$ 16,500.53	\$ 133,499.47	\$ 150,000.00
				2027	\$ 8,490.57	\$ 141,509.43	\$ 150,000.00
Future Total	\$ 271,499.29	\$ 33,500.71	\$ 305,000.00	Total	\$ 80,234.16	\$ 519,765.84	\$ 600,000.00