Temperature: 0.1

how are variable payments considered and are they always associated with nonlease components?

**Response:**

Variable payments in a lease contract can be associated with either lease components or nonlease components. The first step in accounting for variable lease payments is to determine whether the payments relate, even partially, to a lease element. This determination involves analyzing the factors that drive the variability of the payments. These factors can be physical, such as machine hours or equipment usage time, or economic, such as sales revenues and profits.

If the variable payments relate partially or fully to the lease component, they are excluded from the allocation for initial measurement. Instead, they are subsequently allocated between the lease and nonlease components when the underlying event occurs. On the other hand, if the variable payments are exclusively related to the nonlease component and allocating them entirely to the nonlease component is consistent with the transaction price allocation objective in ASC 606, then they should be allocated entirely to the nonlease component.

In the scenario where variable payments are specifically related to an outcome from the lessor's performance of maintenance services, the lessor evaluates the variable payments in accordance with the variable consideration guidance in ASC 606. The allocation of variable payments should be done on a relative standalone price basis to ensure that the consideration is allocated appropriately between the lease and nonlease components.

References:

* ASC 842-10-55-153 to 55-156
* ASC 606-10-32-28, 606-10-32-29, 606-10-32-40
* EY Financial Reporting Developments Lease Accounting, section 2-38, page 56
* KPMG Leases Handbook, section 15-40, page 198