



HOT TOPIC

# Leases

## 2025 Leases Handbook updates

August 2025



**Taking a look at some of the most impactful updates in our updated edition of the KPMG Leases Handbook.**



### Introduction

KPMG Handbook, [Leases](#), is our comprehensive guide to applying Topic 842. The August 2025 edition of our Handbook includes many new and updated interpretations and examples. These come from our experiences with companies applying Topic 842; discussions with industry, preparer and peer groups; and discussions with the FASB and SEC staffs.

The Leases Handbook now stands at well over 1,000 pages, and our newest edition contains more than 20 updates (new and amended interpretive guidance). Therefore, we have produced this Hot Topic to summarize the current-year updates we believe have the broadest applicability to and/or reflect current 'hot topics'. Our summaries of each update include reference to our full guidance in the updated Handbook.

For the complete list of updates to the 2025 edition of the [Handbook](#), see the Index of Changes (page 1279) therein.



### Applicability

All entities that are lessees, lessors or enter into sale-leaseback transactions.



### Acquired impaired ROU assets

If an entity acquires an ROU asset that was previously impaired, there may be reluctance to assign a value to it in purchase accounting that in essence reverses the prior impairment charge. However, the mechanical operation of purchase accounting related to acquired leases often requires an entity to do so.

A reversal can occur because purchase accounting requires measuring an acquired ROU asset at the same amount as the newly remeasured lease liability, subject *only* to adjustment for the effect of lease terms that are off-market as of the acquisition date (e.g. for favorable or unfavorable rent payments

versus market rent payments). The fact that there might be a 're-impairment' of the ROU asset post-acquisition does not change this initial measurement as of the acquisition date. [805-20-30-24]

See Question 11.1.215 in the updated [Handbook](#).

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## Sale-leaseback substitution rights

In recent years, we have observed an uptick in sale-leaseback transactions that permit, in some form or fashion, the seller-lessee to substitute one transferred asset for another, substantially equivalent asset. These rights *generally* pertain to real estate properties (i.e. land and building versus equipment), but that may not always be the case.

Our updated handbook addresses three substitution scenarios.

### Scenario 1: Full substitution right

Under this scenario, the seller-lessee sells and leases back one or more properties and is permitted to substitute each one.

A seller-lessee's right to substitute a different asset for the transferred asset is substantively no different than a repurchase option except that the repurchase consideration is noncash, instead of cash, consideration. Accordingly, this right causes the sale-leaseback transaction to fail if the originally transferred asset is real estate.

*However*, a substitution right does not by itself cause a sale-leaseback transaction involving equipment to fail if that right requires that any substitutions be of nearly identical assets of equivalent fair value on the substitution date.

### Scenario 2: Partial substitution right

Under this scenario, the seller-lessee sells and leases back multiple properties and is permitted to substitute only *one or some* of those properties, but not all of them. For example, a seller-lessee in a sale-leaseback transaction transfers 10 real estate properties to a buyer-lessor and is permitted to substitute up to five of those properties.

Additional complexity arises in this scenario (as compared to Scenario 1). There is no specific guidance on whether all the asset transfers fail sale/purchase accounting or just those subject to the substitution right.

- If the substitution right permits the seller-lessee to choose which transferred assets to substitute, we believe the entire transaction fails until the substitution right expires or is fully exercised (through the substitution of the permitted number of assets). In this case, the buyer-lessor does not control any of the assets the seller-lessee has the unilateral right to substitute.
- By contrast, if the seller-lessee is only permitted to select certain of the transferred assets to substitute, the remaining asset sales are not affected by the partial substitution right.

### Scenario 3: Substitution request

We have encountered situations in which the seller-lessee has the right to *request* substitution of a transferred asset. We believe a true substitution request – i.e. one the buyer-lessor can contractually and practically refuse – does not by itself preclude sale/purchase accounting. A true request, unlike a substitution *right*, does not constrain the buyer-lessor's ability to 'control' the transferred asset.

See Questions 9.1.35, 9.1.36 and 9.1.37 in the updated [Handbook](#).

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## Reassessing asset grouping of ROU assets

Our guidance on when to reassess Topic 360 asset grouping for groups that include ROU assets has been updated to reflect that, in some situations, it may be an *aggregate* or *accumulation* of lessee actions that will trigger a reassessment, instead of any single action.

It remains the case that a plan alone (e.g. to sublease an underlying asset), in the absence of substantive action(s), is unlikely to have changed the independence of cash flows for the original asset group.

See updates to Question 6.5.60 and new Example 6.5.25 in the updated [Handbook](#).

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## Onerous lease contracts

A lease may be an onerous contract (e.g. the lease payments exceed the expected benefits to be derived from the lessee using the asset) between lease inception and lease commencement. In that case, the ASU that created Topic 842 suggests the lessee should consider Topic 450 (contingencies), consideration of which may require recognition of a liability before the lease commencement date. [ASU 2016-02.BC117]

However, in the years since Topic 842 was adopted, the question has arisen about whether entities *are* or *should be* recognizing loss contract accruals for leases that are, or become, onerous between lease inception and when they commence. The question arises because the discussion in the leases ASU is not authoritative (i.e. it appears only in the ASU's basis for conclusions) and US GAAP does not contain comprehensive, general guidance on accounting for loss (or onerous) contracts; entities recognize contract loss accruals only in specific circumstances.

We are not presently aware of circumstances in which entities have recorded an onerous lease contract liability. In addition to what is described in the preceding paragraph, we believe that may be because:

- a contract-specific evaluation would run contrary to evaluating ROU assets for impairment at the asset group level in accordance with Topic 360 (property, plant and equipment); and
- it is unclear how an onerous lease contract liability would be treated once the lease commences. For example, should that liability be netted against the ROU asset or remain separately presented, and how should that liability be treated if the asset group to which the ROU asset, recognized at lease commencement, belongs is not impaired? Topic 842 specifies the items to include in the initial ROU asset (i.e. lease prepayments, initial direct costs, lease incentives), and those do not include onerous lease liabilities.

In the absence of additional, *authoritative* guidance from the FASB, we do not believe entities should record onerous lease contract liabilities.

See Question 6.3.11 in the updated [Handbook](#).

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## Lease incentives balance sheet presentation

Assume a lessee will receive a \$100 lease incentive *on the 12-month anniversary* of the related lease's commencement. The lease incentive receivable exceeds an \$84 current portion of the related lease liability.

How should the lease incentive receivable be presented on the balance sheet when, as here, it exceeds the current portion of the lease liability?

We believe it is acceptable, applied consistently, to either:

- **Present the lease incentive receivable and lease liability on a gross basis** – i.e. present the lease incentive receivable as a current asset, while presenting the current and noncurrent portions of the lease liability in the same manner as if there was no lease incentive receivable.
- **Present the lease incentive receivable net against the current portion of the lease liability only to the extent of that current liability.** Applied to this scenario, the lessee nets \$84 of the lease incentive receivable against the current portion of the lease liability, but presents the remaining \$16 net against the *noncurrent* portion of the lease liability.

We do not believe it is acceptable to present the entire \$100 lease incentive receivable net against the \$84 current portion of the lease liability, even if the lessee has other current lease liabilities to prevent the aggregate current portion balance from being negative.

See Question 6.9.11 in the updated [Handbook](#).

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## Energy initiatives

Many of the questions recently and currently arising in lease accounting stem from entities' renewable energy and environmental sustainability initiatives. The 2025 [Handbook](#) edition includes new Examples 3.3.19, 3.3.56, and 4.1.40 around carbon sequestration, energy-as-a-service, and battery energy storage system arrangements, respectively. These new examples are not summarized herein because the full facts and circumstances are important to the illustrations.

These new examples add to our *existing* discussions and examples related to renewable energy fact patterns in Questions 3.3.40 and 3.3.160 on renewable energy credits and evaluating customer design involvement in renewable energy power purchase agreements, respectively; Example 3.2.15 on rooftop solar arrangements; and Example 3.2.40 (Scenarios 3 and 4) on wind farm development.

We encourage entities to consider these detailed Questions and Examples if they have similar fact patterns to evaluate.

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## For further information

This document summarizes key updates to KPMG Handbook, [Leases](#).

For additional information about these and other updates to the Leases Handbook, or to discuss how KPMG can assist you with your lease accounting, please contact:

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