Lease Accounting by Public Utilities in the U.S.A.

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The purposes of this paper are to summarize the difference between lease accounting in GAAP for public utilities and that by other companies, and to examine the features of lease accounting for public utilities in comparison with asset impairment accounting.

Public utility accounting has two purposes — ratemaking purpose and external financial reporting purpose. For external financial reporting purpose, public utilities are required to follow SFAS 71. That standard addresses accounting for leases by public utilities as follows :

(a) In classifying leases, public utilities should apply SFAS 13, which is the same standards that non-public utilities should apply, and
(b) As for amortization of the capital leased assets, public utilities should apply different methods from SFAS 13.

This special accounting treatment for public utilities would be result from the spirit of the public utility law.

Lease accounting by public utilities have two features :

(a) For public utilities, there are two accounting standards for lease — SFAS 13 and SFAS 71, and utilities must apply both. But SFAS 71 prescribes lease accounting as stated above, public utilities practically follow SFAS 71 only.
(b) The rules of regulatory accounting and GAAP become almost same from the second half of the 1980s.

These two features are also applicable to the asset impairment accounting. But examined in detail, there are two different points :

(a) As for lease accounting, SFAS 13 and SFAS 71 are the same in scopes of those standards, but differ in cost allocation methods. As for asset impairment accounting, SFAS 144 and SFAS 71 are different in both scopes and accounting methods.
(b) As for lease accounting, regulatory accounting makes almost same rules as GAAP. As for asset impairment

accounting, GAAP makes almost same rules as regulatory accounting.