Research Memorandum

April 30, 2009

TO:

FROM:

SUBJECT:

**Background**

Jay “Crew” Cut established the hair salon, Shear Honesty, in the Mile High Mall located in Balding County. Shear honesty is the only hair salon located in the mall and is able to enjoy the benefits of the high traffic the mall brings. The salon has quickly expanded into 20 other malls throughout the region.

Shear Honesty had disputes with their previous auditor, D.A. & Co, regarding a relocation provision in the salons lease agreement. Under the conditions of the lease the landlord is able to relocate the salon to new premises within the mall that are similar in size and configuration as the layout described in the lease. Additionally, the new premises must have comparable customer traffic and access to parking. The landlord is only able to relocate once during the terms of the lease, and a new lease is not signed or negotiated when the move occurs. The landlord is responsible for all costs associated with moving or replacing leasehold improvements. These improvements can include counters, shelving, and mirrors,

During the current year the landlord required Shear Honesty to move to a new location meeting the requirements stated. The moving company was able to relocate the barber chairs and mirrors without damage to the property. Unfortunately, the counters and shelves were unable to be relocated without significant damage to the property. However, the landlord agreed to install new counters and shelving as stated in the lease agreement.

Previously, the disputes which arose with their previous auditor were concerning how they should account for the original and new leasehold improvements. D.A. & Co. required that the company write-off the original leasehold improvements and take the value of the new leasehold improvements as reductions of rent expense over the remaining life of the lease.

Accordingly, the two issues which will be discussed are as follows:

* How should Shear Honesty account for the original leasehold improvements?
* How should Shear Honesty account for the new leasehold improvements?

This memo documents my view on how Shear Honesty should account for the leasehold improvements.

**Authoritative Guidance**

* ASC 840-10-35-6 (Put where it came from), (EITF 05-06, paragraph DISCUSSION, sequence 23.2.2)
* ASC 840-20-25-3 (came from), (FTB 88-01, paragraph 2, sequence 16)
* ASC 976-330-50 (came from), (FAS 66, paragraph 50, sequence 164)
* ASC 840-10-35-7 (came from), (EITF 05-06, paragraph DISCUSSION, sequence 24.2)
* ASC 952-810-55-2 (came from), (FSP FIN46(R)-3, paragraph 7, sequence 10.2)
* ASC 976-310-50-1 (came from), (FAS 66, paragraph 50, sequence 164)
* ASC 360-20-15-2 (came from), (FIN 43, paragraph 25, sequence 52)
* ASC 360-20-15-3 (came from), (FIN 43, paragraph 2, sequence 12)
* ASC 420-10-15-4 (came from), (FAS 146, paragraph 2, sequence 25.2)
* ASC 840-20-25-6 (came from), (FTB 88-01, paragraph 7, sequence 28.2.2)
* ASC 970-340-40-2 (came from), (FAS 67, paragraph 21, sequence 60.2)