Case 20-2
Snack That Sale and Leaseback

Snack That Inc. ("Snack That") is a snack food and bakery product company with a large manufacturing and distribution facility in Evansville, Indiana. Snack That frequently sends employees from its smaller manufacturing and distribution facilities to Evansville for training opportunities, as well as employees from its corporate office to perform quality checks and test controls.

To manage travel expenses for hotel and vehicle rentals, Snack That owns a corporate housing facility and shuttle to lodge and transport its employees to and from the manufacturing and distribution facility.

In 2018, Snack That launched a corporate initiative to free up cash to fund a new snack product line. As a result, on July 1, 2018, Snack That entered into a sale-and-leaseback arrangement with Rent That Inc. ("Rent That") for both its corporate housing facility and its shuttle. Assume the agreement meets the definition of a contract under ASC 606-10-25-1 through 25-8 and that certain of the indicators related to the transfer of control of a point-in-time performance obligation (i.e., the housing facility and the shuttle being transferred from Snack That to Rent That) in ASC 606-10-25-30 have been met. Further assume that the inception of the contract and the commencement of the lease are both on July 1, 2018. Note that the Company adopted ASC 842 prior to July 1, 2018.

Key facts related to sale-and-leaseback transactions are as follows:

- Corporate housing facility:
  - Carrying amount of the asset — $600,000.
  - Fair value of the asset — $900,000.
  - Remaining economic life of the asset — 28 years.
  - Sales price of asset — $900,000.
  - The lease term is 10 years and there are no options to renew.
  - The lease payments are paid annually and are fixed at $70,000 per year.
  - The present value of the lease payments is based on Snack That’s incremental borrowing rate and equals $540,521.
  - Ownership does not transfer to Snack That at the end of the lease.
  - The agreement contains an option for Snack That to repurchase the housing facility at the end of the lease term for the then fair market value. At lease commencement, Snack That concludes that exercise of the purchase option is not reasonably certain.
  - The facility is not specialized and will have alternative use to Rent That at the end of the lease.
There are many corporate housing facilities in the area that frequently come up for sale.

- Shuttle:
  - Carrying amount of the asset — $40,000.
  - Fair value of the asset — $50,000.
  - Remaining economic life of the asset — 8 years.
  - Sales price of the asset — $50,000.
  - The lease term is 7 years with no renewal options.
  - The lease payments are paid annually at a fixed amount of $7,000 per year.
  - The present value of minimum lease payments based on Snack That’s incremental borrowing rate and equals $40,504.
  - Ownership does not transfer to Snack That at the end of the lease.
  - The shuttle is not specialized and will have alternative use to Rent That at the end of the lease.
  - Snack That has an option to repurchase the shuttle at the end of the lease for the then fair market value. At lease commencement, Snack That concludes that exercise of the purchase option is not reasonably certain.
  - There are many similar shuttles that are readily available in the marketplace.

**Required:**

1. How much gain on derecognition of the corporate housing facility should Snack That, as seller-lessee, recognize as a result of the sale?

2. How much gain on derecognition of the shuttle should Snack That, as seller-lessee, recognize as a result of the sale?

3. How should Rent That, as buyer-lessee, account for the purchase of the corporate housing facility and shuttle?