

## Case 20-5c

### Moving On Inc. — Abandonment of Leased Assets

Moving On Inc. (Moving On) operates several gas stations across the United States. Moving On owns the land on which the gas stations are built, along with the related structures. The fuel pumps at each location are either purchased or leased from different oil companies.

On January 1, 2019, Moving On entered into a lease with Tank Full Inc. for a new fuel pump at one of its gas stations in Fort Worth, Texas, with a noncancelable lease term of 10 years and no renewal options. The gas station already has one fuel pump in operation, which is owned by Moving On.

Because of increasing competition in the region (which results in falling demand) and mounting maintenance costs, on January 1, 2022 (the “Decision Date”), Moving On decided to cease use of the leased fuel pump on January 1, 2024 (the “Cease-Use Date”), before the end of the lease term.

Key facts related to the transaction are as follows:

#### Fuel Pump

- The right to use the new fuel pump is a lease, and there are no other components of the contract.
- The lease is appropriately classified as an operating lease at lease inception and throughout the lease term.
- The right-of-use (ROU) asset balance on the Decision Date is \$1.1 million.
- The ROU liability balance on the Decision Date is \$1.1 million.
- Between the Decision Date and the Cease-Use Date, Moving On plans to continue using the leased fuel pump in the same manner — and as part of the same operation — as it did before the Decision Date.
- Moving On does not have the intent and ability to sublease the fuel pump after the Cease-Use Date.
- Although abandonment is likely, the decision to abandon the fuel pump does not involve a binding commitment, and no substantial costs have been or will be incurred in relation to the abandonment.

#### Gas Station

- As of the Decision Date:
  - The gas station fair value is \$1.9 million.
  - The gas station carrying value is \$2.2 million.
  - The undiscounted cash flows expected to be generated as a result of the gas station’s use and disposal are \$3.4 million.

- The gas station, inclusive of land, fuel pumps (both leased and owned), and related structures, constitutes a single asset group for impairment purposes.

**Required**

1. How should Moving On account for its decision to abandon the leased fuel pump? Discuss the accounting impacts (if any) that occur on the Decision Date and after the Decision Date and Cease-Use Date.
2. What is the impact of abandonment on impairment considerations related to the leased fuel pump and gas station, specifically:
  - Whether the abandonment decision constitutes an impairment trigger?
  - The impact on current asset grouping of the ROU asset as a result of the abandonment decision?
  - The relevance of the ROU asset's relative significance to the asset group?
  - The evaluation of whether an impairment needs to be recorded?