

**Case 09-4**  
**NeedsSpace**

NeedsSpace has entered into a lease agreement with WeHaveIt to rent space for its corporate offices. The lease is classified as an operating lease in accordance with ASC 840, *Leases* (FASB Statement No. 13, *Accounting for Leases*.)

The lease entered into between NeedsSpace and WeHaveIt has a 10-year lease term (as defined by the Glossary in ASC 840 (paragraph 5(f) of Statement 13)), and there is no option to renew nor is the ability to negotiate for renewal provided in the lease agreement.

In addition, the lease agreement contains certain provisions that may require NeedsSpace to undertake certain activities and incur certain costs at the end of the lease term. Such provisions include the following:

1. “Lessor may require the lessee to perform general repairs and maintenance on the leased premises.”
2. “Lessor may require the lessee to remove all leasehold improvements such that the premise is reinstated to original condition.”

Within the leased premise, NeedsSpace has placed into service various leasehold improvements (e.g., temporary walls, HVAC, carpeting) that have economic useful lives of 10 years.

**Required:**

- How should NeedsSpace account for the two obligations noted as provisions in the lease agreement?