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Lease Standard Tightened Up as Deadline Approaches

FASB provides practical expedients along with minor technical tweaks

The long anticipated new lease accounting standards (IFRS16 and ASU 2016-2, Topic 842) finally become effective for public companies at the beginning of 2019. Non-public entities have until 2020 to comply. Considering that the Financial Accounting Standards Board (FASB) last issued a major lease accounting standard in 1976, and the joint IASB/FASB project on reforming lease accounting standards commenced in 2005, this new milestone is significant.

The broadest change is the requirement that most leases will now need to be reported on the balance sheet as assets with corresponding liabilities. In response to implementation concerns, the FASB in 2018 has issued several Accounting Standard Updates to ease the burden and to incorporate technical corrections.

In January, 2018, ASU 2018-01, **Leases - Land Easement Practical Expedient for Transition to Topic 842**, was issued. According to the FASB, this ASU reduces the cost of adopting the new leases standard by “providing an optional transition practical expedient that, if elected, would not require an organization to reconsider their accounting for existing land easements that are not currently accounted for under the old leases standard and clarifying that new or modified land easements should be evaluated under the new leases standard, once an entity has adopted the new standard.”

ASU 2018-11, **Leases - Targeted Improvements**, issued July 30, 2018, “provides

- An option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements, and
- A practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are met.”
- Other practical expedients are included as well, an important one being that “an entity need not reassess whether any expired or existing contracts contain a lease.” Also, “an entity need not

reassess the lease classification for any expired or existing leases”, nor the “initial direct costs for any existing lease.” Additionally, the entity may “use hindsight in determining the lease term... and in assessing impairment of the entity’s right-of-use assets.”

Continuing the efforts directed at “assisting stakeholders with implementation questions and issues as organizations prepare to adopt the new lease requirements,” the FASB released a proposed ASU for comment on August 13, 2018. That proposal, **Leases - Narrow-Scope Improvements for Lessors**, “addresses the following issues facing lessors when applying the Leases standard:

- Sales taxes and other similar taxes collected from lessees. The guidance would permit lessors, as an accounting policy election, to not evaluate whether these taxes are costs of the lessor or costs of the lessee. Instead, the lessor would account for them as costs of the lessee and exclude the amounts from lease revenue and the associated expense.
- Certain lessor costs paid directly by lessees. The guidance requires lessors to exclude those costs from variable payments, and, therefore, from variable (lease) revenue and the associated expense when the amount of those costs is not readily determinable by the lessor.
- Recognition of variable payments for contracts with lease and non-lease components. The guidance requires lessors to allocate (rather than recognize as currently required in the new Leases standard) certain variable payments to the lease and non-lease components when the changes in facts and circumstances on which the variable payment is based occur. After the allocation, the amount of variable payments allocated to the lease component would be recognized in accordance with the new Leases standard, while the amount allocated to non-lease components would be recognized in accordance with other accounting guidance (such as revenue from contracts with customers).”

The comment period for this proposal ends on September 12, 2018.

Finally, on July 19, 2018, in order to clean up minor technical issues not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities, the FASB issued ASU 2018-10, **Codification Improvements to Topic 842, Leases**. Topics covered include:

- Residual value guarantees
- Rate implicit in the lease
- Lessee reassessment of lease classification
- Lessor reassessment of lease term and purchase option
- Variable lease payments that depend on an index or rate
- Investment tax credits
- Lease term and purchase option
- Transition guidance or amounts previously recognized in business combinations
- Certain transition adjustments
- Transition guidance for leases previously classified as capital leases under Topic 840

- Transition guidance for modifications to leases previously classified as direct financings or sales-type leases under Topic 840
- Transition guidance for sales and leaseback transactions
- Impairment of net investment in the lease
- Unguaranteed residual asset
- Effect of initial direct costs on rate implicit in the lease
- Failed sale and leaseback transaction

For small companies where a single primary lease is in place for the building used by operations, the new standard may not be daunting. But for larger companies having dozens, hundreds or even thousands of leases spread far-flung across multiple locations, implementation may require extensive machinations, once a workable plan is devised that will get the job done effectively and on time. If such companies are not well along the way in the process of implementation, difficulty may be encountered completing the sizable task. A number of options are available for assistance. One of them, Integra International member, Swenson Advisors, has developed a turnkey system, including software supplemented by accounting and leasing professionals, that can take the arduous project from start to finish in an efficient manner. Information on this solution, known as AccountLease, can be found at <http://www.accountlease.com/>.

Further details on the new leasing standards can be found at the [FASB](#) and [IASB](#).

(<https://www.fasb.org/home>) and (<https://www.ifrs.org/>).