

FASB proposes amendments to new leasing standard

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Aida Ramirez

Partner Head of Audit
Kevane Grant Thornton
T (1) 787 754 1915
E aida.ramirez@pr.gt.com

The FASB has issued a proposed ASU, Leases (Topic 842): Targeted Improvements, to provide entities with an additional transition method when applying ASC 842, Leases, and to provide lessors with a practical expedient when separating non-lease components from lease components under the new leasing guidance.

The Board issued the proposal in response to stakeholder inquiries about the following requirements of the new lease guidance:

- comparative reporting upon initial adoption
- separating lease and non-lease components in a contract and allocating consideration to separate components

Under the proposed amendments, entities could elect to apply the transition requirements in ASC 842 on its effective date instead of at the beginning of the earliest period presented.

In addition, lessors could elect to use a practical expedient, by class of underlying asset, to account for non-lease components with the related lease components as a combined single lease component, instead of separating the non-lease components from the lease components, if both of the following conditions are met:

- the timing and pattern of revenue recognition for the non-lease component(s) and the related lease component are the same.
- the combined single lease component is classified as an operating lease.

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A lessor that elects to apply the practical expedient would be required to disclose this election, as well as the class or classes of underlying assets to which the expedient applies and the nature of the non-lease components included within the single lease component.

The effective date and transition requirements for the proposed amendments would be the same as those for ASC 842.

Comments on the proposal are due February 5.

Source:

Grant Thornton, On the Horizon, January 11, 2018.

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