

Land Easement Practical Expedient for Transition-Topic 842

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The FASB has issued ASU 2018-01, [Land Easement Practical Expedient for Transition to Topic 842](#), to clarify how entities should apply the new guidance in ASC 842, *Leases*, to land easements. The Board issued the ASU in response to stakeholders' concerns about the cost, complexity, and limited benefits of the requirement to evaluate all existing or expired land easements upon adopting ASC 842.

A land easement, or right of way, is the right to use, access, or cross another entity's land for a specified purpose. In accounting for land easements, some entities currently apply the existing guidance in ASC 840, *Leases*, while others apply the existing guidance in either ASC 350, *Intangibles – Goodwill and Other*, or ASC 360, *Property, Plant and Equipment*.

ASU 2018-01 includes a practical expedient that allows entities to elect not to apply ASC 842 to land easements previously accounted for under guidance other than ASC 840. If an entity elects to use the practical expedient, it is required to apply the expedient to all existing or expired land easements as of the effective date of ASC 842 and should continue to account for the land easements existing as of the adoption date in accordance with guidance other than ASC 842. If an entity does not make the election, it should evaluate all existing or expired land easements on the effective date of ASC 842 to determine whether they meet the definition of a lease under ASC 842.

ASU 2018-01 further requires an entity to apply ASC 842 to all new or modified land easements to determine whether the arrangement should be accounted for as a lease. ASU 2018-01 also amends an example in the implementation and illustration guidance of ASC 350-30, *General Intangibles Other Than Goodwill*, to clarify that an entity should determine whether land easements are leases under ASC 842 before applying the guidance in the example.

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The effective date and transition requirements for ASU 2018-01 are the same as those for ASC 842. If an entity has early adopted ASC 842, it should apply these amendments upon issuance of the ASU.

Board discusses comments received on proposed amendments to ASC 842 *All decisions reached at Board meetings are tentative and may be changed at future meetings.*

On January 24, the Board [met](#) to discuss comments received from stakeholders on Part II of the proposed ASU, [Technical Corrections and Improvements to Recently Issued Standards: Accounting Standards Update No. 2016-02, Leases](#).

As a result of these discussions, the Board tentatively decided that the net adjustment to equity resulting from applying the proposed transition guidance in both ASC 842-10-65-1(h)(3) and in ASC 842-10-65-1(w)(3) would be zero.

In addition, the Board clarified that the guidance in ASC 842-10-15-40 does not override other relevant guidance that a lessor should apply when accounting for the nonlease component(s) of an arrangement that contains a lease. For example, the amount of variable payments allocated to the nonlease component(s) would be recognized in accordance with the guidance in ASC 606, *Revenue from Contracts with Customers*, if this guidance applies to these payments.

The Board directed the staff to draft a final ASU for vote by written ballot, and to document the summary of its public discussion of the Board meeting on the [FASB's leases implementation webpage](#).

See the October 5, 2017 [On the Horizon](#) for a summary of this proposal.

Source:

Grant Thornton, *On the Horizon*, February 1, 2018.

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