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Preparing for the new lessor accounting standards

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The FASB issued a proposed ASU, Leases (Topic 842): Narrow-Scope Improvements for Lessors, to address certain issues raised by lessors when implementing the new leases guidance in ASU 2016-02, Leases (Topic 842). The amendments in the proposed ASU would:

- permit lessors to elect not to evaluate whether certain sales taxes and other similar taxes are costs of either the lessor or the lessee, but instead to account for those amounts as if they were costs of the lessee and to exclude them from lease revenue. Lessors making this accounting policy election would be required to make additional disclosures in the financial statements.
- require lessors to exclude certain lessor costs paid directly by lessees to third parties on behalf of the lessor from variable payments (and from variable lease revenue) if the lessor cannot readily determine the amount of those costs.
- require lessors to allocate (rather than recognize, as currently required) certain variable payments to the lease and nonlease components of a contract when the changes in facts and circumstances that trigger the variable payments occur. As a result, in a contract with lease and nonlease components, lessors would recognize the portion of the variable payments allocated to the lease component under the guidance in ASC 842, and the portion of the variable payments allocated to the nonlease component using the guidance in other Codification topics, such as ASC 606, Revenue from Contracts with Customers.

The effective date and transition requirements for the proposed amendments for entities that have not adopted ASC 842 when the proposed amendments are finalized would be the same as the effective date and transition requirements for ASC 842. The Board will determine the effective date and transition requirements for the proposed amendments for entities that have already adopted ASC 842 before the proposal is finalized after it considers stakeholder feedback on the proposal.

Comments on the proposed ASU were due on September 12.

Source:

Grant Thornton, On the Horizon, August 16, 2018.

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