



LH Frishkoff & Company
Accounting ▸ Tax ▸ Assurance

Because Experience Matters

Transition Related to ASU 2016-02., Leases (Topic 842) Nonpublic Companies October 2019



546 Fifth Ave, New York, NY 10036 ▸ 212-808-0070
565 Taxter Road, Elmsford, NY 10523 ▸ 914-523-2047
info@lhfcpa.com ▸ lhfcpa.com

ASC 842, *Leases* changes the way all entities will account for leases. The new standard brings numerous changes to the accounting for leases. One of the most important changes is that all leases, including operating leases, will be recognized on the balance sheet as an asset and a liability. Due to the significant impact the new standard has had on many companies and the complexity in implementing it, FASB has recently decided to extend the effective date of the standard by one year for nonpublic companies. This should give nonpublic companies some additional time to understand the standard and take the necessary steps to implement it.

ASC 842 must be applied by all nonpublic entities for periods beginning after December 15, 2020. For a calendar year company the effective date is January 1, 2021. The standard provides for implementation under a modified retrospective approach using either of two methods. Below, we have prepared a chart summarizing the two methods and the practical expedients for your convenience. We suggest you review the methods and discuss with the relevant parties.

Topic 842 must be applied using one of the following two methods:

Question	Effective Date Method	Comparative Method
How are comparative periods, including financial statement disclosures, presented?	In Accordance with ASC 840 (prior lease standard)	In Accordance with ASC 842 transition period guidance (New lease standard)
Do prior year financial statements need to be adjusted?	No	Yes
When is the cumulative effect adjustment of applying ASC 842 recorded?	As of the effective date (January 1, 2021 for a calendar year company)	As of the earliest financial statement period presented
Is early application allowed?	Yes	Yes



Practical Expedients Available Under Either Transition Method:	
Package of Practical Expedients (all must be elected or none):	An entity may elect NOT to reassess: <ul style="list-style-type: none">– Whether expired or existing contracts contain leases under the new definition of a lease;– Lease classification for expired or existing leases; and– Whether previously capitalized initial direct costs would qualify for capitalization under Topic 842.
Use of Hindsight:	<ul style="list-style-type: none">– Hindsight allowed when considering the likelihood that lessee options to extend or terminate a lease or purchase the underlying asset will be exercised.– Elect on its own or with the package of practical expedients.
Land Easements:	<ul style="list-style-type: none">– May elect not to assess at transition whether any expired or existing land easements are, or contain, leases if they were not previously accounted for as leases under Topic 840.– Elect on its own or with the package of practical expedients.

It is imperative that your accounting department become familiar with the new standard and start developing a plan for its implementation. Be on the look out for our firm's future publications on ASC 842. If you would like to discuss how we can help you with implementation or want to be added to our mailing list, please send us an email to info@lhfcpa.com