

# Changes to Lease Accounting Due to the Coronavirus Disease (COVID-19)

The Financial Accounting Standards Board (FASB) has been actively involved in evaluating the impacts of the Coronavirus Disease 2019 (COVID-19) pandemic on the accounting related to ASC 842, *Leases* (ASC 842). The following summarizes certain recent guidance:

## *One-Year Deferral of Adopting ASC 842 for Private Companies*

On April 8, 2020, the FASB voted to amend the effective date of ASC 842 for private companies and private not-for-profit (NFP) entities to annual reporting periods beginning *after* December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. Therefore, a calendar year-end private company and private NFPs would be able to adopt ASC 842 effective January 1, 2022 for its December 31, 2022 financial statements. For public NFPs the leasing standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The proposal is subject to a 15-day comment period at which point an Accounting Standard Update could be issued.

The FASB said it proposed the change because private companies and NFPs may not have the resources to adopt the standard due to the disruptions related to COVID-19, and will consider additional effective date delays, if necessary.

## *Interpretative Guidance Regarding Concessions*

The FASB has published, [Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic](#), which provides the guidance on the application of the lease guidance in ASC 842 and ASC 840, *Leases* (if ASC 842 has not yet been adopted) for lease concessions related to the effects of the COVID-19 pandemic.

Changes to lease payments (e.g. timing and/or amount of payments) that are not stipulated in the original lease contract (i.e. the changes are beyond the enforceable rights and obligations in the contract) are generally accounted for as lease modifications under both standards. The FASB acknowledges that the recognition of lease concessions related to the effects of the COVID-19 pandemic over the remainder of lease term (as required under modification accounting) may not reflect the economics of those concessions.

Therefore, the FASB staff believes that it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how those concessions would be

accounted for under both standards (i.e. ASC 842 or ASC 840) as though enforceable rights and obligations for those concessions existed (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract). Consequently, for concessions related to the effects of the COVID-19 pandemic, an entity will not have to analyze each contract to determine whether enforceable rights and obligations for concessions exist in the contract and can elect to apply or not apply the lease modification guidance in both standards to those contracts.

This election is available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. For example, this election is available for concessions that result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract.

Some concessions will provide a deferral of payments with no substantive changes to the consideration in the original contract. A deferral affects the timing, but the amount of the consideration is substantially the same as required by the original contract. Such deferrals could be accounted for as follows:

- a) as if no changes to the lease contract were made. Under that accounting, a lessor would increase its lease receivable, and a lessee would increase its accounts payable as receivables/payments accrue. In its income statement, a lessor would continue to recognize income, and a lessee would continue to recognize expense during the deferral period, or
- b) the deferred payments are considered variable lease payments.

In addition, the FASB further clarified:

- An entity may account for lease concessions related to the effects of the COVID-19 pandemic in accordance with the lease modification accounting guidance in ASC 842 and ASC 840;
- In accordance with paragraph ASC 842-10-10-1, entities should apply ASC 842 consistently to leases with similar characteristics and in similar circumstances. Therefore, entities should apply reasonable judgment in applying that paragraph to lease concessions related to the effects of the COVID-19 pandemic, and
- An entity should provide disclosures about material concessions granted (lessors) or received (lessees) and the accounting effects to enable users to understand the nature and financial effect of the lease concessions related to the effects of the COVID-19 pandemic.

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