Snapshot

FASB improves leasing guidance

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SNAPSHOT 2019-03

On March 5, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements,* which makes two narrow-scope amendments to the lessor guidance, and clarifies that certain transition disclosures under ASC 250, *Accounting Changes and Error Corrections,* are not required for interim periods.

Fair value of underlying asset for certain lessors

ASU 2019-01 amends the guidance in ASC 842 for lessors who are not manufacturers or dealers by requiring them to use cost, adjusted for any volume or trade discounts, as the fair value of the underlying asset when classifying and measuring their lease contracts. These lessors, which typically include financial institutions or captive finance entities, must use cost, adjusted for volume or trade discounts, as the fair value unless a significant amount of time has passed between the acquisition of the asset and the commencement of the lease. If significant time has elapsed, the lessor must use the definition of fair value in ASC 820, *Fair Value Measurement*.

The guidance in ASC 840, *Leases,* includes a similar exception for establishing cost, as adjusted, as the fair value of the underlying leased asset, so this amendment allows entities to continue using this legacy guidance.

Cash flow presentation for lessors under ASC 942

The amendments in ASU 2019-01 also clarify that lessors who are depository and lending institutions within the scope of ASC 942, *Financial Services – Depository and Lending,* should present all principal payments received from sales-type and direct financing leases within investing activities in the statement of cash flows.

Although ASC 842 originally stated that lessors should present receipts from leases in operating activities on the statement of cash flows, the guidance in ASC 942 includes an illustrative example indicating that lessors should include principal payments received from lessees in investing activities. ASU 2019-01 resolves this conflicting guidance so that depository and lending institutions may continue to follow the guidance in ASC 942.

Certain interim disclosures under ASC 250

ASU 2019-01 further clarifies that the transition disclosures in ASC 250-10-50-3 are not required for interim-period financial information reported after an entity adopts ASC 842.

ASC 250-10-50-3 requires entities to disclose the effect of adopting a new standard on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts for the post-adoption interim periods.

Before ASU 2019-01 was issued, the transition guidance for the new leasing standard required these interim disclosures despite exempting all entities from similar annual disclosure requirements.

Effective date and transition

The amendments related to the fair value exception for lessors who are neither a manufacturer nor dealer and to the cash flows presentation guidance for depository and lending institutions are effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The amendments should be applied at the date when an entity first applies ASC 842 and should use the same transition requirements that are used to apply ASC 842.

The clarification related to interim disclosure requirements amends the transition guidance for ASC 842 and therefore does not have an effective date.

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