

Accounting & Auditing Update

FASB Issues Practical Transition Guidance for Land Easements

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The Financial Accounting Standards Board (FASB or Board) recently issued Accounting Standards Update (ASU) 2018-01—Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842.

As preparers and users (stakeholders) of financial statements plan for the upcoming implementation of accounting for leases as set forth in ASU 2016-02, the FASB offers in ASU 2018-01 an alternative method to reduce the burden associated with transitioning lease agreements with related land easements.

Stakeholder Concerns

Land easements are agreements that provide one entity the right to cross the land of another entity for a specified purpose. ASU 2016-02 requires all existing or expired land easements be assessed as to whether they meet the definition of a lease or affect other existing leases. Stakeholders expressed their concerns about applying the new leasing standards to existing easements.

Among the concerns noted by the stakeholders as to ASU 2016-02 is the cost and complexity to evaluate all existing and expired land easements because of either the numbers that exist or the age of the easements. Furthermore, stakeholders informed the Board there would be limited benefit relative to the cost to evaluate their land easements because either (a) they would not meet the standards for a lease, or (b) the easements have been prepaid and, therefore, are already recognized on the balance sheet (or statement of financial position).

Optional Practical Expedient

The amendments in ASU 2018-01 provide an optional practical expedient for transitioning to the new lease standard with respect to land easement: entities would not have to evaluate existing or expired land easements that were not previously accounted for as leases. Entities that elect this practical expedient will still need to evaluate all new or modified land easements under Topic 842 beginning as of the date the entity adopts the new lease accounting standards.

Any entity that elects this practical expedient:

- must continue to account for their existing land easements under their accounting policy for land easements that was in place prior to their adoption of Topic 842;
- must apply the elected option to all existing or expired land easements; and,
- must disclose the election to use the practical expedient in the notes to the financial statements.

Entities that do not elect this practical expedient will be required to evaluate all existing or expired land easements in accordance with Topic 842 directives.

Clarification

ASU 2018-01 also clarifies that an entity should determine whether land easements are leases in accordance with Topic 842 before applying the guidance in Subtopic 350-30, *Intangibles—Goodwill and Other —General Intangibles Other Than Goodwill*, to the land easement.

Effective Dates

ASU 2018-01 would be effective as of the effective date of ASU 2016-02, namely:

- Public entities: for annual reporting periods beginning after December 15, 2018.
- Other entities: for annual reporting periods beginning after December 15, 2019.

Early adoption of ASU 2016-02 and ASU 2018-01 is permitted.

Contact Us

Should you have any questions regarding this matter, please feel free to reach out to your PKF O'Connor Davies partner or Robert Rollmann, CPA, CGMA, Partner at rrollmann@pkfod.com or 914.421.5605.

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