

## Revenue Recognition and Leases: FASB Gives Certain Entities More Time

MAY 29, 2020

Private companies and most nonprofits were supposed to implement updated revenue recognition guidance in fiscal year 2019 and updated lease guidance in fiscal year 2021. In the midst of the novel coronavirus (COVID-19) crisis, the Financial Accounting Standards Board (FASB) has decided to give certain entities an extra year to make the changes, if they need it.

### Expanded Deferral Option

On April 8, the FASB agreed to issue a proposal that would have postponed the effective dates for the revenue recognition guidance for *franchisors only* and the lease guidance for private companies and nonprofit organizations that haven't already adopted them. In a surprise move, on May 20, the FASB voted to extend the delay for the revenue rules beyond franchisors to *all* privately owned companies and nonprofits that haven't adopted the changes. FASB members affirmed a similar delay on the lease rules.

The optional "timeout" is designed to help resource-strapped private companies, the nation's largest business demographic, better navigate reporting hurdles amid the COVID-19 crisis. A final standard will be issued in early June.

### Revenue Recognition

Under the changes, all private companies and nonprofits that haven't yet filed financial statements applying the updated revenue recognition rules can opt to wait to apply them until annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, replaces hundreds of pieces of industry-specific rules with a principles-based five step model for reporting revenue.

FASB members extended the revenue deferral to more private companies and nonprofits to help those that were in the process of closing their books when the COVID-19 crisis hit. Private entities told the board that having to adopt the standards amid the work upheaval created by the pandemic layered on unforeseen challenges. In today's conditions, compliance may need to take a backseat to operational issues.

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## Leases

Last year, the FASB deferred ASU No. 2016-02, *Leases (Topic 842)*, for private companies from 2020 to 2021. This standard requires companies to report - for the first time - the full magnitude of their long-term lease obligations on the balance sheet.

The FASB's recent deferral will allow private companies and private nonprofits that haven't already adopted the updated lease rules to wait to apply them until fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Public nonprofits that haven't yet filed financial statements applying the updated lease rules can opt to wait to apply the changes until fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

## Contact Us

The new revenue recognition and lease accounting rules will require major changes to your organization's systems and procedures. If you haven't yet adopted these rules, we can help facilitate the transition. [Contact us](#) if you have any questions.