

Accounting for Lease Concession Related to COVID-19

[Topic 842](#) and [Topic 840](#) of the Financial Accounting Standards Board (FASB): The FASB staff has been informed that because of the business disruptions and challenges severely affecting the global economy caused by the COVID-19 pandemic, many lessors are, or will be, providing lease concessions to lessees for a significant number of lease contracts. Stakeholders have noted that while the concessions could vary in form, payment forgiveness and deferral of payments are expected to be the most common types of concessions granted.

Subsequent changes to lease payments that are not stipulated in the original lease contract are generally accounted for as lease modifications under Topic 842 or Topic 840. Some contracts may contain explicit or implicit enforceable rights and obligations that require lease concessions if certain circumstances arise that are beyond the control of the parties to the contract. If a lease contract provides enforceable rights and obligations for concessions in the contract and no changes are made to that contract, the concessions are not accounted under the lease modification guidance in Topic 842 or Topic 840. If concessions granted by lessors are beyond the enforceable rights and obligations in the contract, entities would generally account for those concessions, in accordance with the lease modification guidance in Topic 842 or Topic 840.

To provide clarity in response to the crisis, the FASB staff has provided the following interpretation as an acceptable approach in accounting for lease concessions related to the effects of the COVID-19 pandemic.

The FASB staff has been made aware that, given the unprecedented and global nature of the COVID-19 pandemic, it may be exceedingly challenging for entities to determine whether existing contracts provide enforceable rights and obligations for lease concessions and, if so, whether those concessions are consistent with the terms of the contract or are modifications to a contract.

To provide clarity in response to the crisis, 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 Topic 842 and Topic 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 Topic 842 and Topic 840 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 that required by the original contract. The staff expects that there will be multiple ways to account for those deferrals, none of which the staff believes are more preferable than the others.

ACT recommends to all our clients the following accounting for deferral of lease payments:

Account for the concessions 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.

An entity may also account for lease concessions related to the effects of the COVID-19 pandemic in accordance with the lease modification accounting guidance in Topic 842 and Topic 840.

Based on existing disclosure requirements in Generally Accepted Accounting Principles (GAAP), 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.

If you have any questions or need assistance with the accounting for deferrals, please contact your ACT representative or one of these knowledgeable partners:



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