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Proposed Accounting Standards Update: Leases (Topic 842) *Targeted Improvements*

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee agrees with the need for the two proposed changes to Topic 842, and has a suggestion to make the proposal for separating components of a contract more operable. Responses to the questions in the proposal and our recommendation follow.

Transition—Comparative Reporting at Adoption

Question 1: Would the proposed optional transition method to apply the new lease requirements through a cumulative-effect adjustment in the period of adoption reduce the costs and complexity associated with implementing Topic 842? If not, please explain why.

The Committee believes that the proposed optional transition method will reduce the costs and complexity associated with implementing Topic 842. Further, it does not believe that the lack of comparability between the periods reflecting accounting under Topic 842 and prior periods is a significant issue; it is transitory and will disappear within several years and the cost of avoiding that lack of comparability is not justified by its benefits.

Question 2: Is the proposed transition method, as written in this proposed Update, operable? If not, please explain why.

Yes, the Committee believes the proposed transition method, as written, is operable.

Separating Components of a Contract

Question 3: Would the practical expedient in this proposed Update for lessors to not separate nonlease components from the related lease components and, instead, to account for those components as a single lease component reduce the costs and complexity associated with applying Topic 842 by lessors? If not, please explain why.

The Committee believes that the proposed practical expedient for lessors will reduce the costs and complexity associated with applying Topic 842 by lessors.

However, we suggest that the criterion in proposed paragraph 842-10-15-42A a. be modified to require that the pattern of revenue recognition for the lease component and nonlease components associated with the lease component be “substantially the same” rather than “the same.” This would simplify meeting the objective of the practical expedient by avoiding ambiguity over whether “the same” means identical and removing the need to quantify potentially minor differences to determine if the expedient is available.

Question 4: Is the proposed practical expedient, as written in this proposed Update, operable? If not, please explain why.

Yes, the Committee believes the proposed practical expedient, as written, is operable. However, see our response to Question 3; adopting our proposed change would increase the operability of the proposed practical expedient.

Question 5: Would the information in the financial statements, including disclosures, provided by lessors electing the practical expedient in this proposed Update be decision useful? If not, please explain why.

The Committee is uncertain that the proposed disclosures provide any decision useful information, and suggests that the proposed disclosure be deleted. The proposal has no effect on the balance sheet, nor does it affect the amount of periodic expense recognition, so it is unclear whether the proposed disclosure is at all useful.

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We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants