

April 5, 2018

To: Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Via Email: [director@fasb.org](mailto:director@fasb.org)

From: Tim Chatting

Re: Request for Clarification to Topic 842

I am a preparer of financial statements for a privately owned company in the technology industry with annual revenue of approximately \$2 billion. My current role is focused on accounting policy and implementation of accounting standards updates. The views provided in this comment letter are my own and do not necessarily represent those of my employer.

The purpose of this comment letter is to request clarification of the interaction between Topic 842 and Topic 606 as part of the targeted improvements project for Topic 842. More specifically, it is unclear whether lessors should apply paragraph 842-10-15-40 to the entire variable payment stream or only to the portion of the variable payment stream allocated to the lease component when the variable payments relate specifically to a performance obligation under Topic 606 but the result of allocating the variable payment stream solely to the non-lease component would be inconsistent with the allocation objective in paragraph 606-10-32-28. This comment letter is unrelated to the new lessor practical expedient proposed in paragraph 842-10-15-42A.

This situation is illustrated in Case B of Example 14 in paragraphs 842-10-55-153 through 55-156. I believe that addressing the matters described below as part of the explanation in paragraph 842-10-55-156 would clarify the accounting in this situation and will help preparers consistently apply the new standard.

It would be helpful if paragraph 842-10-55-156 could explain whether the guidance in 842-10-15-40 should be applied in Case B to (a) the entire variable payment stream (originally estimated to be \$21,000) on the basis that the variable payment relates partially to the lease component since a portion of the estimated variable payments was allocated to the lease component or (b) only 86.4% of the total variable payments allocated to the lease component (originally \$18,136) since the portion allocated to the maintenance is subject to Topic 606 rather than Topic 842. The accounting treatment under view A above would be consistent with paragraph BC163, which states that “the Board decided that a lessor should not account for a single variable payment in accordance with two accounting models ...” and would seem to be a similar accounting result as Case A of Example 14 in spite of the fact that the contract consideration would include the variable consideration in Case B. However, it is not clear if view A is the appropriate accounting treatment based on the current explanation provided in paragraph 842-10-55-156.

Furthermore, if view B were the appropriate accounting treatment above, it would be helpful to explain how Subtopic 842-30 would be applied to this fact pattern. For example, would the total lease payments to be recognized on a straight-line basis be \$277,227 or \$259,091 (plus recognize \$18,136 of variable lease payments when and if earned)? Some preparers may view \$277,227 to be the lease payments for this purpose since the variable payments were determined to relate specifically to the maintenance service under the guidance in 842-10-15-39 and the amount allocated to the lease component is less than the total fixed consideration included in the contract. Other preparers may view \$259,091 to be the lease payments for this purpose since the total consideration (fixed and variable) was allocated between the lease and non-lease component in order to achieve a commercially reasonable allocation result and it is unclear how a downward adjustment to the expected variable payments would be handled for the lease component since “a lessor shall not remeasure the lease payments unless the lease is modified ...” under paragraph 842-10-35-6. This distinction would also affect the maturity analysis of lease payments that must be disclosed by lessors.

Lastly, if view A is the appropriate accounting treatment above, it is not clear how companies should handle the transition of existing contracts with lease components and non-lease components, including when the package of practical expedients is elected. It is my understanding that the Board did not intend for lessors to re-assess the transaction price and re-allocate between lease and non-lease components when the package of practical expedients is elected; however, it is unclear whether and how paragraph 842-10-15-40 would be applied to existing contracts on the date the new standard becomes effective since Topic 840 does not preclude lessors from accounting for a variable payment under two accounting models. An illustrative example would be helpful in this regard and could be provided as part of the targeted improvements to Topic 842 or included on the webpage for implementing new standards as supplemental information.

Thank you for any clarification that can be provided for these matters. I believe enhancing the explanation provided in paragraph 842-10-55-156, as discussed above, will be particularly helpful for preparers with similar fact patterns.

Regards,  
Tim Chatting, CPA