

# Land Easement Transition Relief Finalized

In January, the Financial Accounting Standards Board issued updates to clarify that land easements entered into—or existing land easements modified on or after the new leasing standard’s effective date—must be assessed under Accounting Standards Codification (ASC) 842 to determine whether the arrangements are, or contain, leases. Today, many entities consider land easements to be intangible assets accounted for under Topic 350 or components of other property, plant and equipment accounted for under Topic 360, *e.g.*, the cost incurred to bring a pipeline asset to the condition and location necessary for its intended use.

Most awaited, the amendments to Topic 842 in Accounting Standards Update ([ASU 2018-01](#)) provide transition relief in the form of a practical expedient to entities with existing and expiring land easements not previously accounted for as land easements. An entity electing the practical expedient would not evaluate under ASC 842 land easements that exist or expired when transitioning to the new leases standard. Instead, it would continue applying its policy on accounting for land easements that existed before the entity’s adoption of Topic 842—until they “run out” or are amended.

The update addresses feedback received on the 2017 Proposed Update regarding the practical expedient’s scope. The proposed amendments applied to land easements that were not previously “assessed” in accordance with ASC 840—instead of not previously “**accounted for**,” as in the final standard. The change alleviates concerns that arrangements assessed under Topic 840 and determined not to contain a lease would be ineligible for the expedient simply because the entity appropriately performed an assessment.

The update also amends Subtopic 350-30, *Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill*, Example 10, to clarify that an entity should determine whether perpetual land easements are leases in accordance with Topic 842 before accounting for them as intangible assets. This clarifies the incorrect presumption some took from this example—that all land easements should be accounted for as intangible assets.

An entity that elects the lease easement practical expedient should apply the practical expedient consistently to all existing or expired land easements not accounted for as leases under Topic 840. The entity would apply Topic 842, upon adoption, prospectively to all new or modified land easements to determine whether the arrangement should be accounted for as a lease. Disclosure of the entity’s use of this practical expedient is required.

For land easements currently accounted for as leases, the entity would continue to account for them as leases under Topic 840 until its adoption of Topic 842. That means the entity is not eligible to elect the practical expedient for these land easements, and existing land easements accounted for as operating leases under Topic 840 generally will go on the balance sheet when the entity adopts Topic 842.

## **Practice Point**

- Land easements already deemed to be leases under Topic 840’s scope would be subject to the same transition provisions as all other arrangements accounted for under Topic 840, including the available package of practical expedients in 842-10-65-1(f).
  - If the package of practical expedients is not elected, the entity would evaluate all expired and existing land easements in connection with the adoption of ASC 842’s new lease requirements to assess whether they meet the definition of a lease.
  - If the package of practical expedients is elected, it is important to note that it does not grandfather an incorrect assessment determined under ASC 840. It only grandfathers the guidance on identifying a lease for expired or existing contracts in Topic 840.

The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Update 2016-02, *Leases*. An entity that early adopted Topic 842 should apply the amendments now, upon ASU 2018-01’s issuance.

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