Click to prove you're human



Deloitte asc 842 guide

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more. © 2025. For information, contact Deloitte Latvia. Read the Roadmap. Open a PDF version of the Roadmap. A DART subscription is required for downloading, copying, or printing the Roadmap from their engagement teams. This Roadmap addresses the leasing guidance in ASU 2016-02 (codified in ASC 842). The body of this publication combines the requirements in ASC 842 with Deloitte's interpretations and examples in a comprehensive, reader-friendly format. In addition, the Roadmap highlights (1) the requirements of ASC 842 that significantly differ from those in ASC 840 (the FASB's previous leasing guidance) and IFRS 16 (the IASB's leasing standard) and (2) recent standard-setting developments (through September 15, 2023). The updated edition of this Roadmap includes some new interpretations and certain modifications to previously expressed views to reflect our latest thinking as well as input from standard setters and regulators. Also available is the latest edition of On the Radar, a high-level summary of emerging issues and trends related to the accounting and financial reporting topics addressed in the Roadmap series, our comprehensive, easy-to-understand collection of accounting guides on selected topics of broad interest to the financial reporting community. The FASB Accounting guides on selected topics of broad interest to the financial reporting community. material is copyrighted by the Financial Accounting Foundation, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, and is reproduced with permission. Several economic factors have affected the lease accounting for many commercial real estate entities, including owners, operators, and developers. Explore hot topics, common pitfalls, and more information related to why entities that have adopted ASC 842 should continually monitor, evaluate, and update their lease-related accounting and financial reporting topics addressed in our Roadmap series, bringing the latest developments into focus. \${second-image-title-copy} The current macroeconomic environment has created ongoing challenges and uncertainty in various areas ofaccounting, including the accounting for leases. For example, the U.S. 30-year fixed mortgage rate has nearlydoubled since 2016, the year in which ASC 842 was issued. Source for graphic: Mortgage Rates — Freddie Mac. Many commercial real estate entities have encountered increased costs of capital and tightening lending standards while also dealing with higher levels of maturing debt; reductions in the volume of real estate transactions; and evolving real estate demands and preferences related to the way people work, live, and shop. The actual impact of the current macroeconomic environment on commercial real estate assets will differ on the basis of various factors, including geographic location, tenant-specific operations, and developers, should continually monitor, evaluate, and update their lease-related accounting and reporting. On the Radar: Leases Since the issuance of ASU 2016-02 several years ago, the FASB has released various ASUs to provide additional transition relief and make certain technical corrections and improvements to the standard. Most recently, in March 2023, the FASB issued ASU 2023-01, which amends certain provisions of ASC 842 that apply to arrangements between related parties under common control. ASU 2023-01 allows non-PBEs, as well as not-for-profit entities that are not conduit bond obligors, to make an accounting policy election of using the written terms and conditions of a common-control arrangement when determining whether a lease exists, as well as the accounting for the lease (including lease classification), on an arrangement basis. Accordingly, a non-PBE, as well as a not-for-profit entity that is not a conduit bond obligor, that makes this election may not be required to consider the legal enforceability of such written terms and conditions, as described above. ASU 2023-01 also amends the accounting for leasehold improvements in common-control arrangements for all entities. The FASB continues to evaluate stakeholder feedback on the adoption of ASC 842 offers practical expedients that can be elected by certain entities or in certain arrangements. For a comprehensive discussion of the lease accounting guidance in ASC 842, see Deloitte's Roadmap Series The Roadmap Series The Roadmap Series provides comprehensive, easy-to-understand guides on applying FASB and SEC accounting and financial reporting requirements. Explore the Roadmap library in the Deloitte Accounting Research Tool (DART), and subscribe to receive new publications via email. \${second-image-title-copy} Fullwidth SCC. Do not delete! This box/component contains JavaScript that is needed on this page. This message will not be visible when page is activated. Insert Custom HTML fragment. Do not delete! This box/component contains code that is needed on this page. This message will not be visible when page is activated. +++ DO NOT USE THIS FRAGMENT WITHOUT EXPLICIT APPROVAL FROM THE CREATIVE STUDIO DEVELOPMENT TEAM +++ Insert Custom CSS fragment. Do not delete! This box/component contains code needed on this page. This message will not be visible when page is activated. +++ DO NOT USE THIS FRAGMENT WITHOUT EXPLICIT APPROVAL FROM THE CREATIVE STUDIO DEVELOPMENT TEAM +++ When it comes to ASC 842 compliance, you might have to do a little detective work. Identifying contracts that contain embedded leases may call for a closer look. The definition of a lease under the updated standard isn't much different than under ASC 840. And the requirement to search for embedded leases isn't new. But the financial statement impact of failing to appropriately identify a lease under ASC 842 can be more significant. Under ASC 840, operating leases and service contracts that may have contained leases were expensed in a similar fashion. As a result, companies may not have been rigorous about identifying embedded leases. That leads us to where we are today. The Financial Accounting Standards Board's (FASB's) new lease standard requires many leases to be recorded on the balance sheet, which represents a big change in financial reporting. The rules are expected to have an impact on companies in many industries. From manufacturing to telecommunications and financial services to pharmaceuticals, nearly all organizations enter into lease arrangements. The FASB's new lease accounting rules went into effect for public business entities for fiscal years beginning after December 15, 2018 (i.e., January 1, 2022 for calendar year-end entities). Identifying embedded leases: Are leases hiding in your contracts? Where could your leases be hiding? Common areas for embedded leases: Information technology contracts (e.g., servers) Cable and satellite services (e.g., billboards) Contract manufacturing arrangements (e.g., dedicated tooling) Power purchase arrangements (e.g., power purchase arrangements). plants) Complex service contracts (e.g., specified equipment) Joint-operating agreements (e.g., drilling rigs) Identifying and collecting the contracts that may contain embedded leases can be tricky. That's because all contracts that may contain embedded leases can be tricky. That's because all contracts that may contain embedded leases can be tricky. right to control the use of a specified asset (e.g., plant, property, and equipment) over a period in exchange for consideration. It's not uncommon for service contracts to convey to the customer the right to use a specified asset during the contract term. For example, a company enters into a contract to advertise on a billboard. Although this contract could be written as an advertising service contract, the right to use the billboard may meet the definition of a lease. Or a company could enter into an arrangement with an information technology organization to host its data on a dedicated server. Embedded within this IT hosting arrangement may be the company's right to direct the use of a specified server, which may meet the definition of a lease. Although it's possible that some of these contracts may not meet all aspects of the lease definition after considering the specific terms, it's critical that companies engage in a thoughtful analysis to identify and document contracts that may contain embedded leases. Consider consulting with your accounting advisers to help ensure you perform this analysis appropriately, as it can involve significant judgment. Chapter 3 of Deloitte's quide "A Roadmap to Applying the New Leasing Standard" contains additional examples and considerations that may help inform your analysis. What's an embedded lease? Embedded leases are leases contained within larger arrangements. Many companies currently have contracts that contain embedded leases. Identifying these contracts that exist and properly accounting for them requires a diligent approach. Leading practices include: Look closely at all operations. Meet with relevant departments to understand the type of service contracts that exist and properly accounting for them requires a diligent approach. discuss the specific concepts of the ASC 842 definition of a lease. Translate the technical concepts of the rules into language that non-accountants will likely understand. For example, rather than asking if contracts may contain embedded leases, ask whether any service contracts involve the use of specific assets as part of the service delivery. Surveys also provide a useful tool for identifying embedded leases. Assess areas of risk. Perform a risk assessment to identify areas where embedded leases are more likely to exist. Does your organization contract with third parties to manufacture a specialized product line? Is your company subject to regulations (e.g., Food and Drug Administration regulations or the Health Insurance Portability and Accountability Act) that may require dedicated equipment? Do you lease property that includes a maintenance contract? Review expense activity to identify expenses that require analysis. Payments that recur on a monthly or quarterly basis may signal a need for review. Perform a physical inspection. Walk through offices or manufacturing locations to identify leased assets that might not appear on an asset listing or registry, such as a large-format printer or medical testing device. Examine contracts. Ask the legal department to help review and identify contracts that should be evaluated Uncovering the embedded lease: real-world examples Railcars: A company enters into an arrangement to transportation contract. Contract manufacturing: A large retailer contracts with an entity to manufacture shoes for the retailer. The contract is so large that the manufacturer has a specific facility that only manufacturer shoes for the physical manufacturing space and equipment to produce the shoes. IT services: A hospital subject to Health Insurance Portability and Accountability Act (HIPAA) regulations engages an information technology (IT) service provide the services. To ensure patient privacy rights are not violated, the contract requires a dedicated server be used to provide the services. To ensure patient privacy rights are not violated, the contract requires a dedicated server is used based on its instructions to the IT service. provider. The contract contains an embedded lease of the dedicated server. Outside of the implementation effort, organizations will likely capture information that may trigger reassessment (and remeasurement) or modification of existing contracts that contain embedded leases. Prefer to read this article in PDF format? Download Identifying embedded leases hiding in your contracts? *The videos contain general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services, nor should it be used as a basis for any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this video. The services described herein are illustrative in nature and are intended to demonstrate our experience and capabilities in these areas; however, due to independence restrictions that may apply to audit clients (including affiliates) of Deloitte & Touche LLP, we may be unable to provide certain services based on individual facts and circumstances. Fullwidth SCC. Do not delete! This box/component contains JavaScript that is needed on this page. This message will not be visible when page is activated. Previous Section Next Section 2 For more information about leasing topics discussed at the 2019 AICPA Conference on Current SEC and PCAOB Developments, see Deloitte's December 15, 2019, Heads Up. 4 Note that the requirement to disclose assumptions and judgments about the allocation of consideration in a contract is not applicable if the entity elects the practical expedient of not separating lease and nonlease components. Entities should ensure that allocation assumptions and judgments are appropriately disclosed for any class of underlying assets for which the practical expedient was not elected. 5 The reference to lease costs can include amounts that are recognized in other line items in the income statement besides line items in which lease expenses are recorded. For example, it may be common in a contract manufacturing arrangement for an entity to record costs associated with the use of a manufacturing line as capitalizable inventory costs. Those costs would ultimately be reflected in cost of goods sold within the income statement rather than in lease expense. 6 Although we expect that most entities will find respite in the "one month or less" exclusion, entities may sometimes find it more burdensome to extract leases with a term of one month or less and may prefer to disclose expenses related to all short-term leases. Therefore, we believe that an entity may elect to include all expenses related to leases with a term of one month or less. or less (or all short-term lease expenses by class of underlying asset) in the short-term lease expense disclosure (despite the explicit exclusions). For further discussion and Analysis of Financial Condition and Results of Operations." 8 FASB Accounting Standards Update No. 2018-11, Leases (Topic 842): Targeted Improvements. Copyright © 2025 Deloitte Development LLC. All rights reserved. Read more in Deloitte Insights 1. We're not what you may think We're no longer your traditional accounting firm - we've moved far beyond our auditing and accounting roots. We focus on everything from cyber security and virtual reality through to digital marketing and tech integration across a range of industries including healthcare, retail, transport and banking. Explore careers at Deloitte. 2. Flexible working We recognise that everyone has different personal circumstances and preferences, and that success at work is empowered by support for life outside of work. We've reviewed and re-shaped our DeloitteFlex framework to give our people more flexibility to make balanced choices between physical connection and remote productivity. Did you know: we offer 12 different ways you can flex! Learn more about our Deloitte Experience (DX) here. Making use of DeloitteFlex with an early morning swim 3. Inclusive parental leave We value you as more than just a working professional. That means that your lifetime milestones such as starting a family, should be celebrated, not compromised! We also recognise that families come in all shapes and that we each define our family differently - whether it be a partner (including same-sex and de facto), a parent, child, sibling, friend or pet, our policies are inclusive parental leave over three years to suit each family's unique needs Superannuation contributions continue during unpaid parental leave. Our DeloitteDads enjoying those moments that matters. You will have the opportunity to work on purpose-led projects across a variety of industries that help make a difference to our people, clients and communities. Learn more about our purpose. Some of our favourite projects: Proudly sponsoring Sydney WorldPride 2023 in Sydney as the first time in the event's history. Challenging the laws of GRAVITY Deloitte is helping to activate the space ecosystem and support Australia's civil space priority to inspire the nation's use of space technology and capability. One initiative we've actively participated in is the GRAVITY Challenge. Helping Belong go carbon neutral Teams from Deloitte Risk Advisory, Financial Advisory and Consulting's Deloitte Digital helped Belong, Telstra's challenger brand, to become the first certified carbon neutral Australian telecommunications provider; and created the concept of a Carbon Thumbprint to position them as an ICT leader in the climate risk space. Choice in how we make an impact that matters 5. Volunteering The Deloitte Foundation is an integral part of our culture, where you can explore volunteering, pro-bono and mentoring opportunities. Our annual Impact Day is a popular Deloitte tradition, providing time for our people including our CEO Adam Powick, to give back. In FY21 we worked with national community partners Oxfam, The McGrath Foundation, Many Rivers and The Smith Family with over 2,800 participants taking part in 297 events. Find out more about our responsible business. Some of the rewarding ways we've supported our communities so far: Supporting students living with disadvantage Helping to streamline breast cancer care Sharing critical virtual knowledge with educators Reconnecting fire-affected families with clean water Did you know: Deloitte received Silver in the best Pro Bono and Workplace Giving Excellence Awards. 6. Diverse career paths You are the driver of where you want to go in your career here at Deloitte. Our people each have a personal career coach, to guide, inspire and empower them to create pathways which will take them up and across Deloitte. View our benefits. 7. Be yourself It's our similarities as much as our unique differences that make Deloitte one of the best places to work. challenge the status-quo. Read more here. Strong connections through our people networks 8. Global opportunities Have you ever wanted to work in another part of Australia or overseas? Here at Deloitte, we provide you with the chance to travel the world, learn new cultures and broaden your skills, knowledge and expertise, whilst working on projects with our other member firms. 9. Unique office spaces Our offices are filled with dedicated spaces for collaboration to enable connectivity, flexibility and mindfulness. With impressive panoramic views of city skylines and iconic landmarks such as the Sydney Opera House, coupled with unique pieces of Australian art, some of which are designed by our talented people, we feel confident that our office spaces are truly special. Explore our office locations. 10. Health & wellbeing We support your physical, mental, spiritual, financial and social wellbeing, so that you can bring your best self to work. A range of interactive workshops, fun initiatives and exclusive Deloitte discounts help support, encourage and engage our people to take time out of their day to benefit. Did you know: Our national 10k daily step challenge saw Deloitte drives progress. Our firms around the world help clients become leaders wherever they choose to compete. Deloitte invests in outstanding people of diverse talents and backgrounds and empowers them to achieve more than they could elsewhere. Our work combines advice with action and integrity. We believe that when our clients and society are stronger, so are we. Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more. The content on this page contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services. Before making any decision or taking a responsible for any loss whatsoever sustained by any person who relies on content from this page. Primary Get directions 30 Rockefeller Plaza New York, NY 10112, US Get directions 88 Queensway Central & Western, Hong Kong, HK Get directions 185 Avenue Charles de Gaulle Neuilly-sur-Seine, IdF 92200, FR Get directions Gredu Str. 4a Riga, LV-1019, LV Get directions Roosikrantsi 2 Tallinn, 10119, EE Get directions Calle Rosario Norte 407 Santiago, Santiago, Metropolitan, CL Get directions Rruga Faik Konica, Ndërtesa nr. 6 Hyrja nr 7, 1010 Tirana, AL Get directions Florida 234 Piso 5° CABA, Buenos Aires C1005AAF Argentina Buenos Aires, AR Get directions Av. Dr. Chucri Zaidan, 1.240 From 4th to 12th floors - Golden Tower (Mall of Sofia) Sofia, BG Get directions Carrera 9 # 78 - 31 Bogotá DC, Colombia Bogotá, CO Get directions Heredia Edificio Deloitte Centro Corporativo El Cafetal La Ribera de Belén, Heredia, CR Get directions Deloitte d.o.o. Zagreb, HR Get directions Vanja od Bosne 12c Sarajevo, BA Get directions Vanja od Bosne 12c Sarajevo vanja od Bosne 12c S Piantini Santo Domingo, DO Get directions Avante Penthouse Building Offices 10-01 and 10-03. San Salvador, SV Get directions Dózsa György street 84/C Budapest, HU Get directions Marunouchi Nijubashi Building 3-2-3 Marunouchi, Chiyoda-ku (Reception 17F) Tokyo, JP Get directions Jogailos st. 4 4th floor Vilnius, LT Get directions Deloitte Place, Triq L-Intornjatur, Central Business District, CBD 3050 Valletta, MT Get directions Paseo de la Reforma 505 Piso 28 Colonia Cuauhtémoc Mexico City, MX Get directions 15/F, ICC Tower, Jamiyan-Gun Street 1st Khoroo, Sukhbaatar District Gefinor Center, Block D Clemenceau Street Beirut, Ulaanbaatar, MN Get directions al. Jana Pawła II 22 Warszawa, Mazowieckie Warsaw, PL Get directions Deloitte Hub Av. Eng. Duarte Pacheco, 7 Lisbon, PT Get directions 6 Shenton Way, OUE Downtown 2 #33-00 Singapore, SG Get directions Digital Park II Einsteinova 23 851 01 Bratislava Bratislava, SK Get directions Dunajska cesta 165 1. nadstropje B objekta Rotonda Ljubljana, SI Get directions Deloitte Centre Levels 12-18 80 Queen Street Auckland, 1010 Auckland, NZ Get directions The Deloitte Place Plot No. 71, Off George Walker Bush Highway North Dzorwulu P.O. Box GP 453 Accra, GH Get directions One Capital Place (OCP) 136 Shedden Road George Town P.O. Box 1787 Grand Cayman, KY Get directions 48, 50A, Zhylyanska Street, Kyiv, 01033 Kyiv, UA Get directions Almaty Financial District, 36 Al Farabi Ave, 5 floor Almanty, KZ Get directions Baku White City Office Building, 25E Nobel Avenue Baku, AZ Get directions Churchill I Italská 2581/67 Prague, CZ Get directions The Mark Tower, 82 - 98 Calea Grivitei, 14th Floor, District 1 Bucharest, RO Get directions Av. Blandín. Torre BOD Piso 21. La Castellana. Caracas, VE Get directions Rue 102 Guinkomey Immeuble face ex-collège la Flèche Cotonou, BJ Get directions 63 boulevard du 13 janvier Nyékonakpoè Lome, TG Get directions Rue du Lac Oubeira Immeuble Illiade, 1053 Tunis, TN Get directions 8 Adelaide St W Suite 200 Toronto, CA Get directions Plaza Pablo Ruiz Picasso, 1, 28020 Madrid, ES Get directions 8 Adelaide St W Suite 200 Toronto, CA Get directions Rue du Lac Oubeira Immeuble Illiade, 1053 Tunis, TN Get directions 8 Adelaide St W Suite 200 Toronto, CA Get directions Plaza Pablo Ruiz Picasso, 1, 28020 Madrid, ES Get direct 225 George St Sydney, New South Wales 2000, AU Get directions 10 Darcy St Parramatta, New South Wales 2150, AU Get directions 24 Mitchell St Darwin City, Queensland 4000, AU Get directions 11 Waymouth St Level 17 Adelaide, South Australia 5000, AU Get directions 170 Fullarton Rd Level 2 Dulwich, South Australia 5065, AU Get directions 22 Elizabeth Street Hobart, Tasmania 7000, AU Get directions 477 Collins St Melbourne, Victoria 3000, AU Get directions 123 St Georges Ter Level 7 - 9 Brookfield Place, Tower 2 Perth, Western Australia 6000, AU Get directions