



FASB Defers the Effective Date for the Revenue Recognition and Lease Accounting Standards in Response to COVID-19

By Matthew J. Boland | Saturday, June 20, 2020



With all of the stress construction contractors are under, many will be relieved that the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) on June 3, 2020. It grants a one-year effective date delay for certain companies and organizations applying the revenue recognition and leases guidance. Early application continues to be permitted.

Stakeholders in the franchise industry raised concerns about the adoption of the new guidance due to COVID-19. FASB reviewed their concerns and decided that certain private companies and not-for-profit (NFP) entities are experiencing the same challenges with finalizing their transition to revenue recognition and lease accounting standards. Entities are operating at a limited capacity due to the COVID-19 pandemic and simply do not have the resources to apply these standards now.

FASB realized that challenges associated with transition to a major update are often magnified for private companies, smaller public companies and NFP entities. Those challenges have been significantly amplified by the current business and capital market disruptions caused by the COVID-19 pandemic.

Revenue From Contracts with Customers

The deferral of the effective date applies to certain entities that have not yet issued their financial statements (or made the financial statements available for issuance) reflecting the adoption of ASU 2014-09 Revenue from Contracts with Customers (Topic 606).

The effective date for a public business entity, an NFP entity that has issued, or a conduit bond obligor for securities that are traded, listed or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the SEC is not affected by the amendments in this update.

The ASU permits private companies and NFP organizations that have not yet applied the revenue recognition standard to do so for annual reporting periods beginning after Dec. 15, 2019, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2020.

The ASU also provides the revenue recognition deferral to certain other private companies and organizations that have not yet issued (or made available) financial statements that reflect adoption of the guidance.

Lease Accounting Standard

For leases, the ASU provides an effective date deferral to private companies, private not-for-profit organizations and public not-for-profit organizations that have not yet issued (or made available) their financial statements reflecting the adoption of the guidance. It is intended to provide near-term relief for certain entities for whom the lease accounting standard adoption is imminent.

Under the ASU, private companies and private not-for-profit organizations may apply the new leases standard for fiscal years beginning after Dec. 15, 2021, and to interim periods within fiscal years beginning after Dec. 15, 2022. Public not-for-profit organizations that have not yet issued (or made available to issue) financial statements reflecting the adoption of the lease accounting guidance may apply the standard for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

Other Deferrals

This is not the first time that FASB has pushed back the effective date for both the revenue recognition and lease accounting standards. The original effective date of the revenue recognition standard was for annual reporting periods beginning after Dec. 15, 2016, including interim periods within that reporting period, for public business entities, certain NFP entities and certain employee benefit plans. FASB deferred the revenue recognition standard in August 2015 for all entities by one year. Public business entities, certain NFP entities and certain employee benefit plans were required to apply the guidance to

annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods within that reporting period. All other entities were required to apply the guidance to annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2019. Early adoption was permitted.

In February 2016, FSAB deferred the application of the lease accounting standard. The new effective date was for fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years for public business entities; NFP entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market (public NFP entities); employee benefit plans that file or furnish financial statements with or to the U.S. Securities and Exchange Commission. For all other entities, the lease accounting standard was effective for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020.

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