

Center for Plain English Accounting

AICPA's National A&A Resource Center

FASB ASC 842 & Consolidating Schedules Management & Auditor Options

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As noted in our companion report this month titled, *FASB ASC 842: Reporting on Consolidating Information*, the CPEA is receiving and answering questions from our members dealing with related party leases and presenting consolidating information within the context of implementing FASB Accounting Standards Codification (FASB ASC) 842, *Leases*. That companion report presents questions and answers on the topic. In addition to those inquiries, our members are asking about practical options available to management and auditors when:

- a consolidated reporting entity has leases among related parties in the group (lessee and lessor)
- management of the consolidated group would prefer not to adopt FASB ASC 842
- any ROU assets and lease liabilities would eliminate in consolidation
- management would like to present consolidating information
- the auditor is engaged to report on the consolidating schedules under AU-C 725, *Supplementary Information in Relation to the Financial Statements as a Whole*

The CPEA has seen four positions taken by management and auditors, which are detailed below:

1. Management adopts FASB ASC 842 for the related party leases, utilizing the upcoming ASU on common control leases. See the [Exposure Draft](#) of the proposed ASU for detailed information. A final ASU is expected to be issued at the end of March. In adopting the upcoming ASU, management would ensure that the lease agreements are in writing and established to qualify as short-term leases. As a result, the short-term lease exemption could be applied and the lease assets and lease liabilities would not need to be recognized in the consolidating schedules. However, as we [detailed](#) last month, structuring short-term leases for related party arrangements under common control may require a higher level of

administrative diligence than typically seen for related party leases under common control. Keep in mind that this upcoming ASU cannot be adopted until it is issued as a final ASU.

2. Management does not adopt FASB ASC 842 in the consolidating supplementary information. Pursuant to AU-C 725, the auditor reports on the consolidating schedules and whether such consolidating (supplementary) information is fairly stated, in all material respects, in relation to the financial statements as a whole. Assuming the consolidating schedules did not properly reflect the adoption of FASB ASC 842, and assuming it would constitute a material misstatement of the supplementary information, the auditor modifies his or her opinion. In this circumstance, it is not appropriate to issue a modification as a separate report on supplementary information (AU-C 725.13b) and it may be undesirable to have a modification paragraph on supplementary information included in an otherwise unmodified opinion. See the companion CPEA report indicated above for more information on this option.
3. Management prepares the consolidating schedules on a different basis of accounting (i.e., not U.S. generally accepted accounting principles (U.S. GAAP)) than the basic financial statements, assuming the amounts in the consolidating schedules can be reconciled to the basic financial statements and to the underlying accounting records used in preparing the basic financial statements. Using this option provides flexibility in the information presented and also allows the consolidating schedules (supplementary information) to be presented excluding the application of FASB ASC 842. Presenting the supplemental schedules on a different basis of accounting requires that the auditor's opinion on supplementary information describe the basis of accounting used and that it is not in accordance with U.S. GAAP.

This third option is based on guidance in AICPA TQA 9160.27, *Providing Opinion on a Schedule of Expenditures of Federal Awards in Relation to an Entity's Financial Statements as a Whole When the Schedule of Expenditures of Federal Awards Is on a Different Basis of Accounting Than the Financial Statements*. Some believe that accountants can analogize to this TQA as an option when dealing with consolidating schedules and FASB ASC 842.

The CPEA does not take a position on this option. We present it to our members as an approach some believe is acceptable. Others are uncomfortable with this option because they see it as a financial reporting approach that circumvents a modified auditor's opinion but is a disservice to the users of the financial statements. Management and auditors will need to evaluate the nature and needs

of the financial statement users and exercise professional judgment if this option is used.

4. Management does not present consolidating schedules. Consolidating schedules come with preparation and compliance costs. If these costs now exceed expected benefits, management could look to provide consolidating information to users through means other than consolidating schedules that are supplementary information.

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