

February 6, 2019

ASC 842 Expected to Impact Natural Resource Sector

[AUDIT, ENERGY & RESOURCES](#)

BY [BRIAN MATTHEWS](#)

SHARE WITH A COLLEAGUE



DOWNLOAD PDF



Accounting Standard Codification (ASC) Topic 842- Leases, the new FASB lease accounting standard aimed at closing a major concern of stakeholders in lease accounting in accordance with ASC 840, went live for public companies this past January 1 and will be effective for nonpublic companies beginning January 1, 2020. Although the new standard scopes out leases for the exploration of minerals, oil, natural gas and other non-regenerative resources subject to the guidance of *FASB ASC 930, Extractive Activities - Mining* and *ASC 932, Extractive Activities - Oil and Gas*, companies in the natural resource sector are paying particular attention to the implementation rules.

Under ASC 842, more arrangements are expected to meet the definition of a lease compared with previous accounting standards. In accordance with the new guidance, a contract is or contains a lease if it conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. That means agreements for processing and pipelines, gathering and transportation, and drill rig contracts may meet the definition of a lease under ASC 842.

Additionally, many lease arrangements include both lease and non-lease components as part of the consideration a company pays throughout a contract. In accordance with ASC 842, unless a company adopts a practical expedient to combine them, companies are now required to allocate a portion of the consideration paid to the different components based on standalone selling prices. Drill rig contracts deemed to be within the scope of ASC 842 could require such a review of the various components.

The new lease accounting standard is a significant change from the prior accounting rule. Assessing the impact will be important for companies as they communicate the changes to stakeholders.

SHARE



You've heard our thoughts... We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and

individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2019 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).

OUR THOUGHTS ON

[ENERGY & RESOURCES](#) BY [LOGAN KOWCHECK](#)

8.15.2019

Is Your Royalty Check Correct?

[READ MORE >](#)

Register to receive our weekly newsletter with our most recent columns and insights.

[SUBSCRIBE FOR UPDATES](#)

MOST RECENT

The Stages of Wealth

[401\(K\) PLANS, WEALTH MANAGEMENT](#)
BY [ALISSA SHAWL](#) | 8.15.2019

Although everyone's situation is different, most people will go through various stages of wealth development throughout their lifetime. Over the ...

[READ MORE](#)

MOST POPULAR

Tax Treatment of Deferred Revenue in a Taxable Stock Acquisition

MERGERS AND ACQUISITIONS, TAX
BY GARY SLIMAN | 6.1.2016

The general rule under Internal Revenue Code §451 is that an item of income shall be included in gross income for the taxable year or receipt unless ...

[READ MORE](#)



Have a question? Ask us!

We'd love to hear from you. Drop us a note, and we'll respond to you as quickly as possible.

[ASK US](#)

[CONTACT US](#)



PITTSBURGH

One PPG Place, Suite 1700
Pittsburgh, PA 15222

contactsd@schneiderdowns.com
p:412.261.3644 f:412.261.4876



COLUMBUS

65 East State Street, Suite 2000
Columbus, OH 43215

contactsd@schneiderdowns.com
p:614.621.4060 f:614.621.4062



WASHINGTON, D.C.

1660 International Drive, Suite 600
McLean, VA 22102

contactsd@schneiderdowns.com
p:571.380.9003



An Association of
Independent Accounting Firms

FOLLOW US



CLIENT PORTAL



SUBSCRIBE FOR UPDATES

E-mail

SUBMIT



[PRIVACY POLICY](#)

LEGAL INFORMATION

SITE MAP

Schneider Downs is a Top 60 independent Certified Public Accounting (CPA) firm providing accounting, tax, audit and business advisory services to public and private companies, not-for-profit organizations and global companies. We also offer Internal Audit; Technology Consulting; Software Solutions; Personal Financial Services; Retirement Plan Solutions and Corporate Finance Services. Schneider Downs is the 13th largest accounting firm in the Mid-Atlantic region and serves individuals and companies in Pennsylvania (PA), Ohio (OH), West Virginia (WV), New York (NY), Maryland (MD), and additional states in the United States with offices in Pittsburgh, PA and Columbus, OH.

© 2019 Schneider Downs & Co., Inc. Maryland license number 35239