

THE **NEW** LEASE STANDARD

a comprehensive guide to ASC 842, GASB 87 & 96, and IFRS 16

AS YOU'D EXPECT, IMPLEMENTING THE NEW LEASE STANDARD MEANS **YOU AND YOUR CLIENTS**

will change how you think about and account for individual leases.

LEASECRUNCH
SIGNIFICANTLY REDUCES THE TIME NEEDED
TO ACCOUNT FOR AND MAINTAIN LEASES

by helping organizations implement the new lease accounting standards.

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INTRODUCTION

THE **NEW** LEASE STANDARD (ASC 842 AND GASB 87 & GASB 96 IN THE U.S.; IFRS 16 INTERNATIONALLY)

is intended to **account for all lease obligations** on financial statements, rather than excluding operating leases as has been the standard.

**THIS CHANGE ENSURES THAT A COMPANY'S FINANCIAL
SITUATION IS REFLECTED AS ACCURATELY AS POSSIBLE**

within the financial statements.

**WITH THE NEW STANDARD, ALL LEASES MUST APPEAR ON
THE BALANCE SHEET**

as a right-of-use (ROU) asset and lease liability.

TIMELINE / UPDATES

IMPLEMENTATION TIMELINE

Updated May 20, 2020

Public And International Companies

must begin using the new lease accounting standard during their fiscal year that occurs after Dec. 15, 2018.

Non-Public Organizations

must comply for their fiscal year after Dec. 15, 2019.

Updated On May 20, 2020

The FASB voted to delay the deadline one year for non-public companies, which would make the new effective date the fiscal year starting after Dec. 15, 2021. This comes after a proposal to delay in April 2020, and a previous vote to delay in October 2019.

WHY THE CHANGE?

UNDER THE **PREVIOUS LEASE STANDARD**, ASC 840, PAYMENT OBLIGATIONS OF “OPERATING” LEASES

are not reflected on the balance sheet even if you have committed to many years of payments.

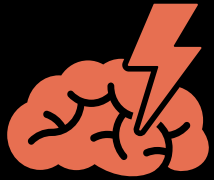
**IN OTHER WORDS, THERE IS A FUTURE DEBT (A LIABILITY)
THAT IS NEARLY INVISIBLE ON FINANCIAL STATEMENTS.**

Those payments are mentioned in the footnotes, but not prominently among other liabilities on the balance sheet.

**MANY ORGANIZATIONS HAVE DOZENS, OR EVEN HUNDREDS,
OF OPERATING LEASES, WHICH CAN RESULT IN A HUGE GAP**

for anyone trying to understand that company's financial situation via their balance sheets.

THIS IS WHY THE FASB MADE THE CHANGE.



The FASB continues to offer [additional guidance](#) regarding the new lease standard based on stakeholder feedback. It's important to watch for ongoing updates about the new lease standard.

WHAT QUALIFIES AS A LEASE UNDER ASC 842?

BECAUSE THIS IS A JUDGMENT-BASED STANDARD

judgment is often required to determine whether a contract qualifies as a lease under the new standard.

**THE JUDGMENT REQUIREMENT MAKES THE NEW STANDARD
AN EXCELLENT AREA FOR FIRMS TO ADD VALUE FOR CLIENTS**

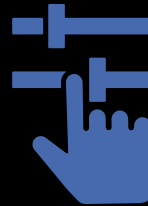
USE THE FOLLOWING GUIDELINES

to determine what qualifies as a lease



One

Must be a physical asset



Two

You must have the right to control or use the asset



Three

The asset must be implicitly or explicitly defined

UNDER ASC 842

EXAMPLES OF LEASES INCLUDE

but are not limited to:



Computers / Servers



Photocopiers



Vehicles



Land



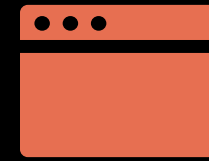
Equipment



Office Space Rentals

EXAMPLES OF WHAT'S NOT

typically considered leases:



Software Subscriptions



Inventory



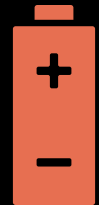
intangible assets



Assets under construction



Exploration or use of non-renewable resources



IT'S ALSO IMPORTANT TO NOTE THAT **NOT ALL COSTS** RELATED TO A LEASE

are included in the leased asset and liability.

**SO PART OF DETERMINING EXACTLY WHAT IS A LEASE WILL
BE SEPARATING LEASE AND NON-LEASE COMPONENTS.**

THERE IS NO HARD AND FAST RULE, AS THE NEW LEASE STANDARD REQUIRES QUITE A BIT OF JUDGMENT

but the key is **thinking about the intent** of a particular payment.

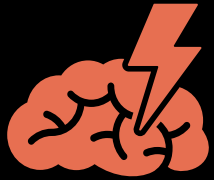
COMMON ITEMS THAT ARE LIKELY TO BE **NON-LEASE** COMPONENTS INCLUDE

common area maintenance and service contracts for the leased asset.

**WHEN REVIEWING LEASE CONTRACTS, IT'S ALSO IMPORTANT
TO DETERMINE IF THERE ARE MULTIPLE LEASE COMPONENTS**

AND, IF SO, WHETHER THOSE COMPONENTS NEED TO BE TRACKED AS SEPARATE LEASES ON YOUR BOOKS,

perhaps because they are **designed to function separately** or they might have **significantly different economic lives** to evaluate.



Don't forget to take advantage of the **portfolio exception**, where separate assets have such similar terms and characteristics that they can be combined into a single lease for reporting purposes.

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