

# IS YOUR COMPANY PREPARED FOR THE *NEW LEASE STANDARDS?*



On February 25, 2016, the FASB issued an Accounting Standards Update intended to improve financial reporting on leasing transactions. The new standard will impact companies and other organizations that lease assets such as real estate, vehicles, airplane manufacturing equipment and office equipment.

The new standards require companies to recognize the rights and obligations created by certain leases as assets and liabilities on the balance sheet. By impacting the balance sheet, the new standards may also impact the ability to acquire capital, debt covenants and lease versus buy decisions.

The standard is effective for public companies for fiscal years beginning after December 15, 2018, and fiscal years beginning after December 15, 2019, for private companies. Companies are permitted to adopt the new standard prior to the effective date.

**Although the end of 2018 or 2019 might seem far away, preparation may take considerable time and effort depending on the number and complexity of your lease arrangements and access to existing data.**

**Here are three initiatives you can begin now to ensure your company is ready:**

**ONLY 10% OF  
FINANCE AND  
ACCOUNTING  
PROFESSIONALS  
BELIEVE THEIR  
COMPANIES ARE  
PREPARED TO  
COMPLY WITH  
THE NEW LEASE  
ACCOUNTING  
STANDARDS.**

Source – "New Lease Accounting Standards: Are companies ready to comply?" Deloitte Poll, March 15, 2016



## REVIEW & EDUCATE

- Review existing contracts to identify lease arrangements under the new standards.
- Consider potential impacts on company operations.
- Determine if IT systems can capture appropriate information and perform required calculations.
- Educate accounting staff on the new requirements and impacts.



## EVALUATE THE FINANCIAL IMPACTS

- Estimate first year impact on the balance sheet.
- Analyze contracts for possible accounting treatment revisions.
- Review debt covenants for potential compliance issues.
- Identify internal controls and update accounting policies and procedures.



## BEGIN TO IMPLEMENT

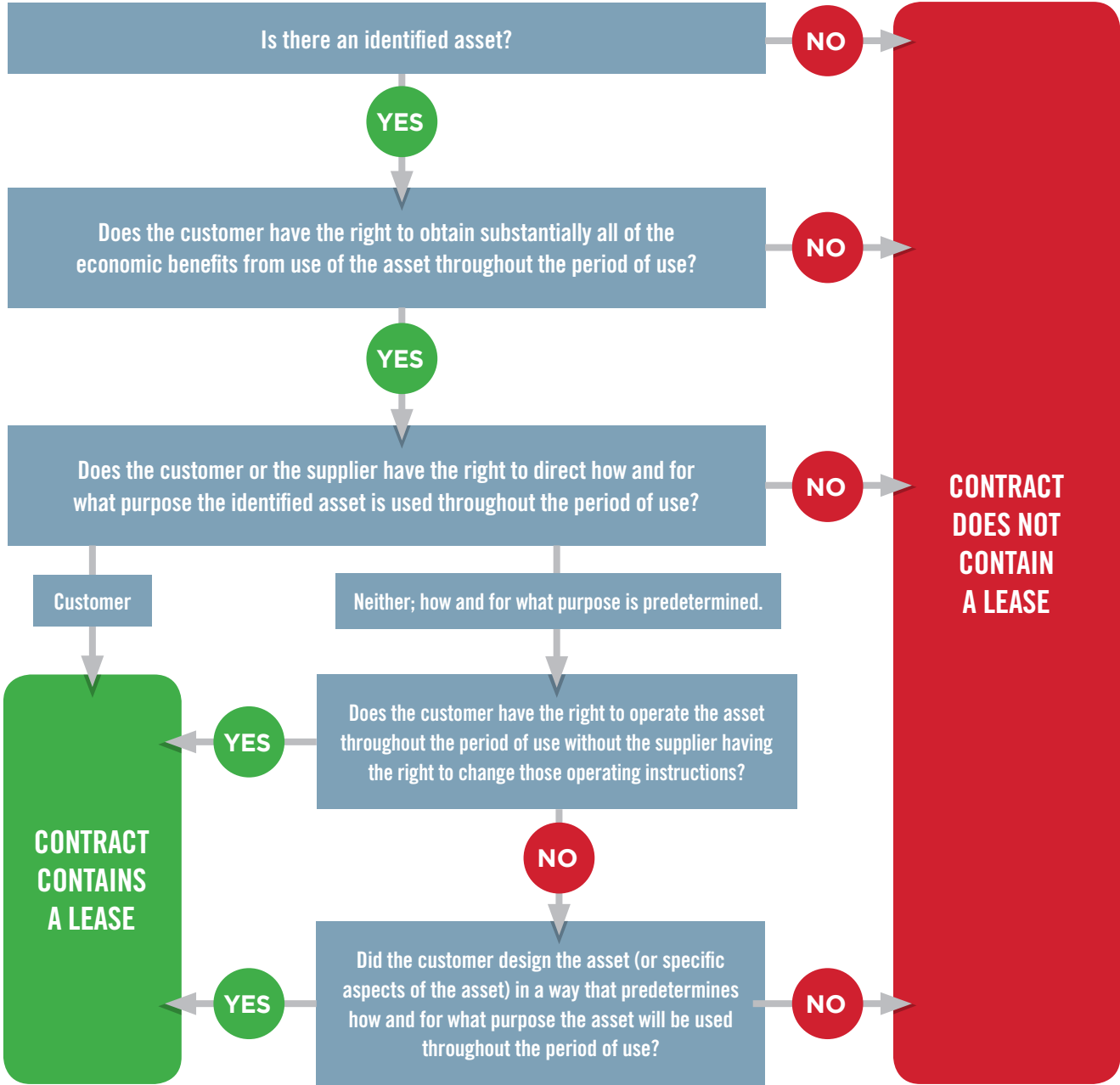
- Plan IT system changes required to capture data and properly record leases to financial statements.
- Work with legal counsel to revise contracts, where necessary.
- Communicate with internal and external stakeholders.
- Update financial reporting, including required disclosures.

# HOW TO IDENTIFY AND RECORD LEASES UNDER THE NEW STANDARD

## STEP 1

### Determine whether or not a contract contains a lease.

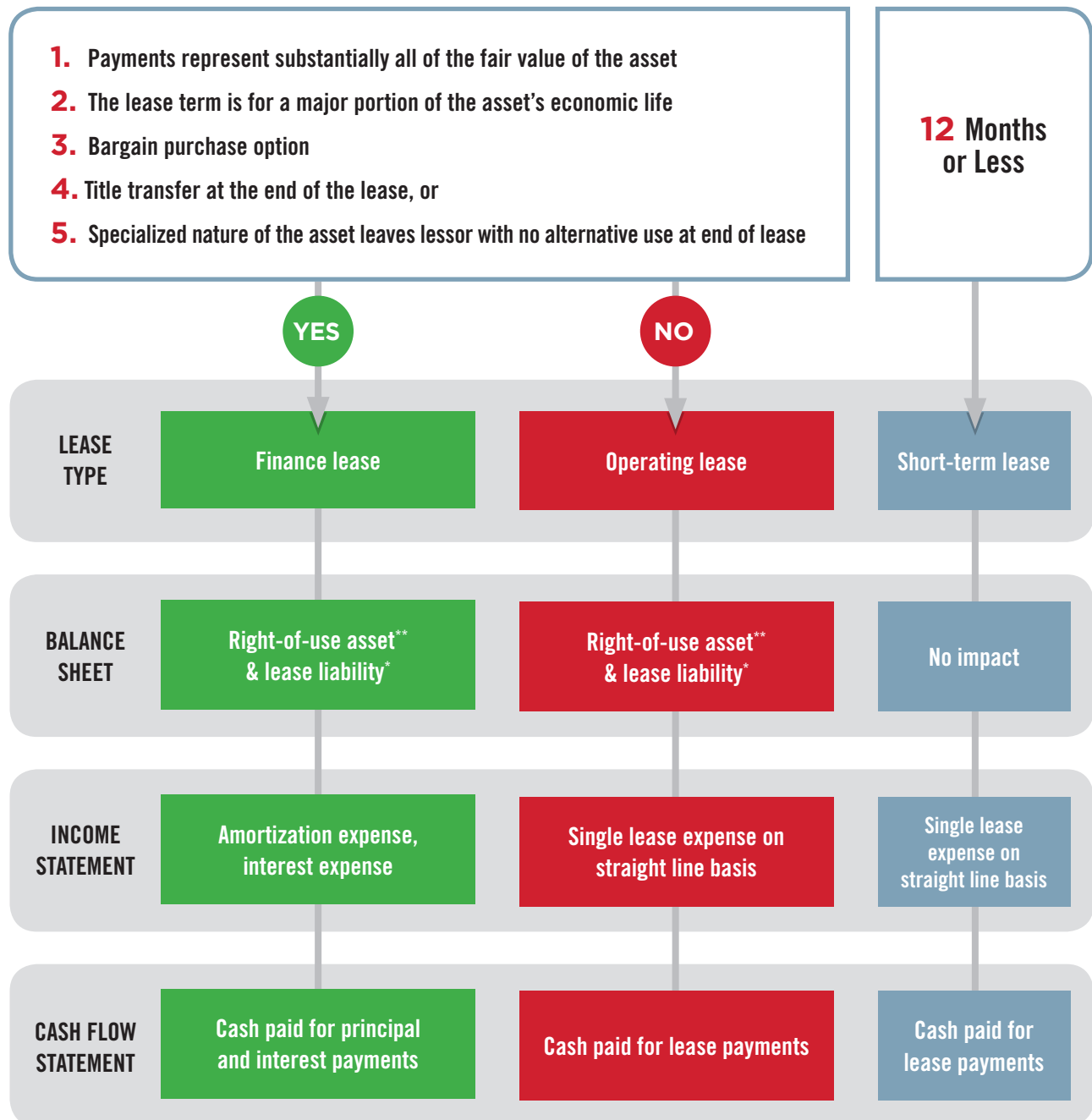
The new standard redefines what constitutes a lease. With the new definition, evaluation of whether a contract is (or contains) a lease is very important.



# STEP 2

## Record the lease based on the appropriate classification.

Lessees will recognize finance, operating, or short-term leases.



\*Lease Liability = Present value of unpaid lease payments

\*\*ROU Asset = Lease liability + Initial direct costs + Prepaid lease payments – Lease incentives received

