

# 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.

# WHAT IS THE NEW LEASE STANDARD?

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# INTRODUCTION

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# 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.

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

within the financial statements.

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**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?

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# 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.

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**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.

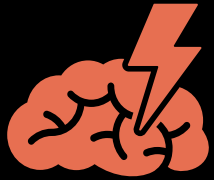
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**MANY ORGANIZATIONS HAVE DOZENS, OR EVEN HUNDREDS,  
OF OPERATING LEASES, WHICH CAN RESULT IN A HUGE GAP**

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

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**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?

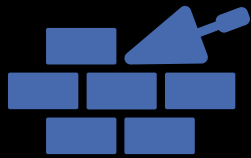
# BECAUSE THIS IS A JUDGMENT-BASED STANDARD

**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**

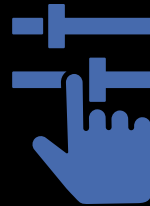
# USE THE FOLLOWING GUIDELINES

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



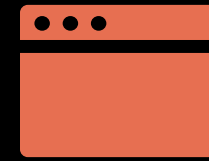
Equipment



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.



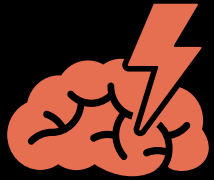
# COMMON ITEMS THAT ARE LIKELY TO BE **NON-LEASE** COMPONENTS INCLUDE

**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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