

THE **NEW** LEASE STANDARD

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

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

by helping organizations implement the new lease accounting standards.

IMPLEMENTATION TIMELINE

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LEASE STANDARD IMPLEMENTATION MATRIX

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KEY DATES IN THE NEW STANDARD

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KEY DATES FOR INDIVIDUAL LEASES

LEASE STANDARD IMPLEMENTATION MATRIX

MANY COMPANIES FIND THAT IDENTIFYING AND ANALYZING THEIR LEASES **REQUIRES MORE RESOURCES AND EXPERTISE**

than they have available. Don't underestimate the requirements for this initial step.

In fact, you may want to [consider engaging outside advisors](#) from the start to avoid errors and higher costs after implementation.

WHEN YOU ARE READY TO IMPLEMENT THE NEW LEASE STANDARD, YOU NEED TO DETERMINE

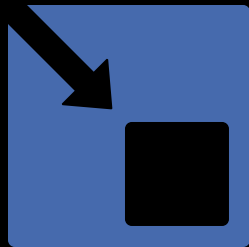
when to start each step and **what** resources are required.

TO HELP YOU WITH YOUR PLANNING EFFORTS, WE HAVE PREPARED A **MATRIX WITH RELATED TIMELINES**

so you **know when you need to begin your implementation** efforts to leave sufficient time for completion before your Initial Application Date.

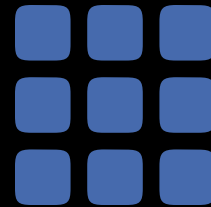
IN OUR NEW LEASE STANDARD IMPLEMENTATION MATRIX

we created the following groupings by number of leases in the portfolio:



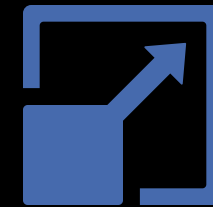
Small

1-100 leases



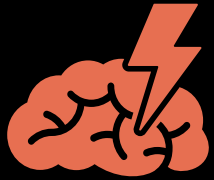
Medium

100-2,000 Leases



Large

Over 2,000 Leases

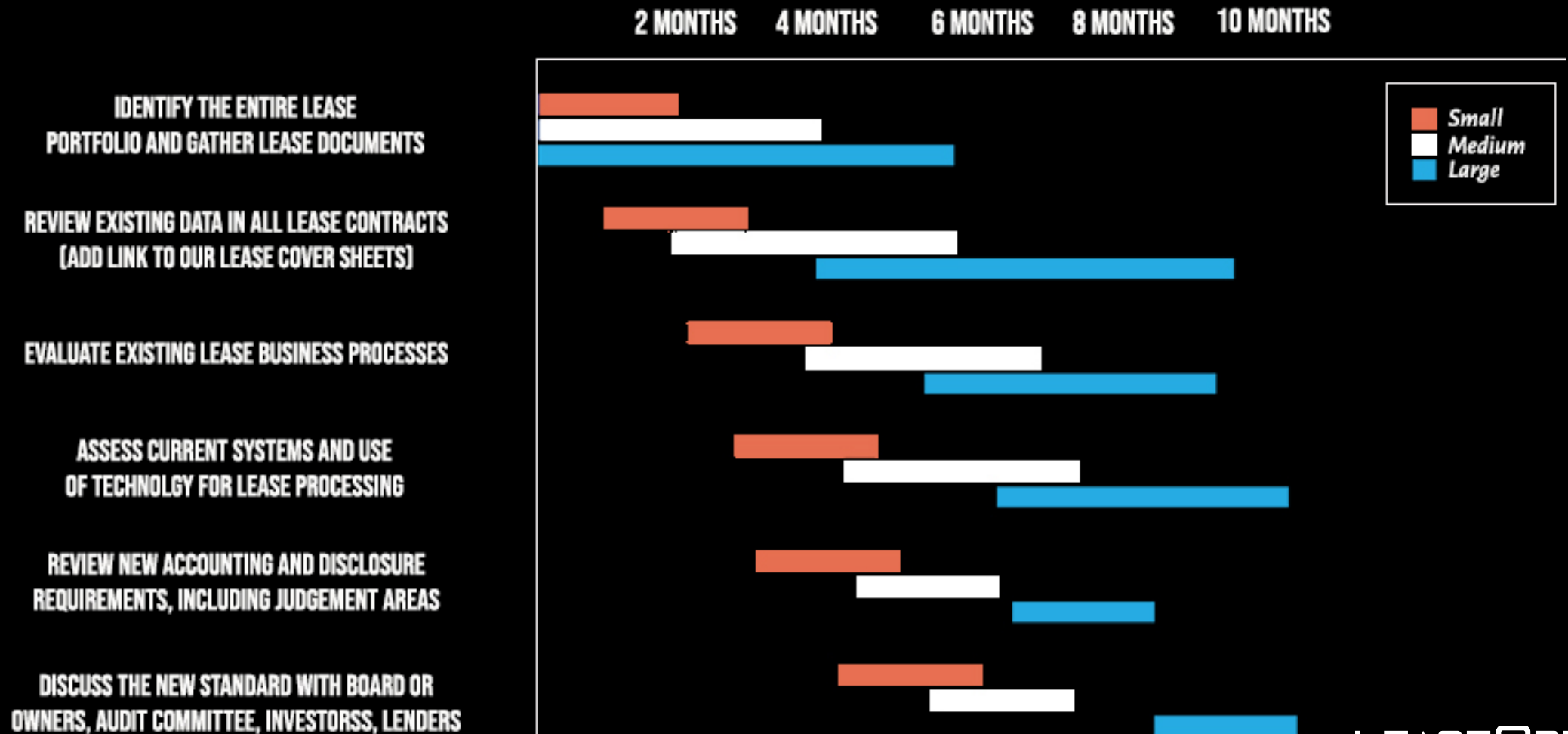


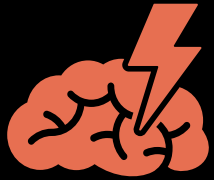
Non-public organizations UPDATE AS OF May 20, 2020:

The FASB voted to delay the effective date one year for private companies. The following chart has been updated to reflect that change.

IMPLEMENTATION MATRIX

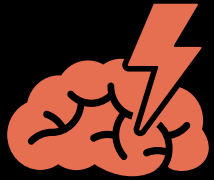
By using this chart, you can estimate how many months you may need for each of the major implementation categories based on your lease population. You can create a timeline of key dates for **the new lease standard** tailored to your company that will **help you to plan and monitor your progress**.





Matrix Details (1/5)

For purposes of this matrix, we treated all types of leases the same, using a common guideline that each lease will take about three hours to analyze (for more information on the time it will take to analyze leases, see page 37 of this [KPMG Presentation](#)).



Matrix Details (2/5)

For your planning, consider the complexity of your contracts as well as how many people can dedicate their time to reviewing your leases. If you have 50 [reasonably straightforward leases](#), it might take one person less than a month's dedicated time to analyze them.



Matrix Details (3/5)

However, if there are 40 straightforward leases and 10 complicated ones, you might need to extend your preparation time by a month or more to allow for the proper conversations and decisions to occur.



Matrix Details (4/5)

Also, your project team's familiarity with the new lease standard can impact the time that this will take.

Companies should expect more time to review leases initially because the team is adjusting to new definitions, processes, systems, and decision considerations (which is why it's so important to start preparing early).



Matrix Details (5/5)

You will notice that we have overlapped the timing of most implementation stages. Depending on your resources, your timeline may be linear—starting at a point in time and adding all the numbers of months in the steps sequentially.

As a result, your overall timeline could be longer.

**USING THE OUTCOME OF THIS SIMPLE ANALYSIS, YOU WILL
HAVE A BETTER INDICATION OF HOW MANY MONTHS**

before your initial application date you must get started to be ready in time.

**IF YOU FIND THAT YOU DO NOT HAVE SUFFICIENT TIME WITH
YOUR EXISTING PLANNED RESOURCES, YOU MAY NEED TO**

involve additional internal resources and/or **hire consultants to help you.**

MANY ORGANIZATIONS ARE ALREADY PLANNING TO OUTSOURCE COMPONENTS OF THE NEW LEASE STANDARD

implementation and **it may be the only way to meet your deadlines.**

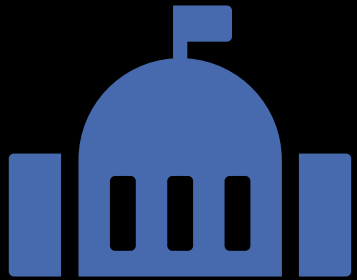
KEY DATES IN THE NEW LEASE STANDARD

Effective Date

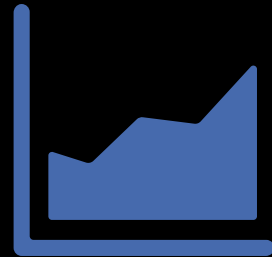
The end of the fiscal year for which you elect to adopt the new lease standard.

For example, if you decide to adopt the new lease standard early for your fiscal year ending 2020 and your fiscal year-end is September 30, then your effective date is September 30, 2020.

THE FOLLOWING ORGANIZATIONS **HAVE ALREADY ADOPTED** THE NEW LEASE ACCOUNTING STANDARD FOR FISCAL YEARS STARTING AFTER DECEMBER 15, 2018:



All organizations following IFRS



Public business entities



Not-for-profits with conduit bonds that are openly traded



Employee benefit plans that file financial statements with the SEC

For example: if you are a publicly held company and your fiscal year end is December 31, then your effective date was December 31, 2018

FOR PUBLIC NON-PROFITS, THE EFFECTIVE DATE IS FISCAL YEARS BEGINNING AFTER DECEMBER 15, 2020.

FOR NON-PUBLIC ORGANIZATIONS, THE EFFECTIVE DATE FOR A COMPANY WITH A CALENDAR YEAR END IS DECEMBER 31, 2021.

For example, if you are a privately held company with a fiscal year end of March 31, your effective date is March 31, 2021.

**FOR ENTITIES FOLLOWING GASB, THE EFFECTIVE DATE IS FISCAL
YEARS ENDING JUNE 30, 2022.**

**NOW THAT YOU KNOW YOUR EFFECTIVE DATE, YOU CAN
DETERMINE YOUR INITIAL APPLICATION DATE.**

Initial Application Date

Following the original guidance, this would be the first day of the first fiscal year represented in your financial statements.



Initial Application Date Examples

1. If your effective date is December 31, 2020 and you have three comparative years in your financial reports, your initial application date is January 1, 2018.
2. If your effective date is March 31, 2022 and you have two comparative years in your financial reports, your initial application date is April 1, 2020.

IT IS IMPORTANT TO NOTE THAT THE **FASB** RECOGNIZED THAT
THIS GUIDANCE **REQUIRES RESTATING PRIOR YEARS**

And therefore is **a significant amount of work.**

THEREFORE, THEY ISSUED ASU 2018-11 IN JULY 2018,
which amends the new lease standard to allow companies to **avoid prior-year restatement.**

**MOST ORGANIZATIONS DO ELECT THIS NEW PRACTICAL
EXPEDIENT.**



ASU 2018-11 Examples

Example 1: if your effective date is December 31, 2020, you have three comparative years in your financial reports, and you elect the new transition option, your initial application date is January 1, 2020.

Example 2: If your effective date is March 31, 2022 and you have two comparative years in your financial reports, and you elect the new transition option, your initial application date is April 1, 2021.

WHY DO YOU CARE ABOUT THE INITIAL APPLICATION DATE?

BECAUSE THE TIME BETWEEN YOUR INITIAL APPLICATION DATE AND THE EFFECTIVE DATE IS CALLED THE **TRANSITION PERIOD.**

During this time, you don't quite follow the old standards nor do you completely move to the new standards.

WHILE THIS IS FAIRLY COMPLICATED TO FIGURE OUT, THE GOOD NEWS IS THAT THERE ARE PRACTICAL EXPEDIENTS

available to **simplify the work** required during the transition period, particularly around whether or not the lessee needs to reassess expired or existing leases, as well as the ability to use hindsight on renewal and purchase options.

IMPORTANT DATES FOR INDIVIDUAL LEASES

**AN IMPORTANT DATE FOR INDIVIDUAL LEASES IS THE
COMMENCEMENT DATE.**

Commencement Date

The date the underlying asset is available for use by the lessee.



It's Important To Note

that this may not be the date when the lessee enters into the agreement with a lessor. Lease classification and measurement should take place at the commencement date.

SOMETIMES LEASES ARE RENEGOTIATED...

**IF THIS RESULTS IN A NEW CONTRACT, RENEWAL, OR OTHER
EXTENSION NOT PREVIOUSLY ANTICIPATED,**

it is **treated as a new lease.**

OTHERWISE, ASSUMPTIONS SUCH AS THE DISCOUNT RATE, FAIR VALUE, AND REMAINING ECONOMIC LIFE,

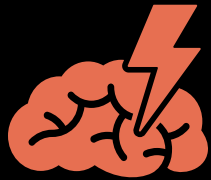
of the underlying asset are reviewed and updated as of the modification effective date, with modification gains and losses also recognized as of the same date.

OTHER TIMES, A TRIGGERING EVENT OCCURS THAT WAS NOT OTHERWISE ANTICIPATED.

Generally, this is something that requires the lessee to reassess the lease term. The date as of which this triggering event occurs is called the **remeasurement date**.

Remeasurement Date

The date as of which a triggering event occurs that requires the lessee to reassess the lease term.



Note: Remeasurement Date

The lessee should also update the discount rate and any variable lease payments as of the remeasurement date.

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