

ASC 840 TO ASC 842:

Side-by-side Financial Statement Impact

Because a new accounting standard can materially impact financial statements, its implementation can lead to questions and uncertainty. With a change as pervasive as the new lease accounting standard, with all of its nuances and additional processes, many accountants are seeking further guidance. In this article, we show the side-by-side impact to both the balance sheet and income statement for capital (now finance) and operating leases. In addition, we'll point out some specific areas that are unique or causing confusion.

TRANSITIONING A CAPITAL LEASE TO A FINANCE LEASE

As you know by now, capital leases are now referred to as finance leases. The main difference you'll notice here is that everything now goes through the right-of-use (ROU) asset, rather than equity, which is more common for new accounting standards. It's rare to see equity affected when transitioning these leases under the new standard.

Capital Lease Under 840

	12/31/22	12/31/23
Balance Sheet		
Assets		
Capital Lease Asset	\$3,628	\$2,739
Liabilities		
ST Capital Lease Liability	\$857	\$885
LT Capital Lease Liability	\$2,823	\$1,938
Capital Lease Liability	\$3,680	\$2,823
Income Statement		
Interest Expense	\$118	\$103
Amortization Expense	\$814	\$888
Expenses Related to Capital Lease	\$932	\$991

Different systems might have slightly different calculation methodologies that are generally immaterial to most leases.

Sample Capital/Finance Lease

Capital/Finance Lease = Computer Server

Start Date	2/1/22
Payments	60
Present Value Lease Payments	\$4,530
Discount Rate	3.2%

Finance Lease Under 842

	12/31/22	12/31/23
Balance Sheet		
Assets		
ROU Asset - Finance	\$3,628	\$2,739
Liabilities		
ST Capital Lease Liability	\$857	\$885
LT Capital Lease Liability	\$2,823	\$1,938
Capital Lease Liability	\$3,680	\$2,823
Income Statement		
Interest Expense	\$118	\$103
Amortization Expense	\$814	\$888
Expenses Related to Capital Lease	\$932	\$991

Only the naming conventions are changing for finance leases.

TRANSITIONING AN OPERATING LEASE

The significant change with the new lease standard comes with the operating lease. Companies must book an ROU asset and lease liability to the balance sheet, while concepts like deferred or prepaid rent go away for these leases. The following lease shows how different the operating lease looks under ASC 840 vs. ASC 842.

Sample Operating Lease

Start Date	1/1/22
Term	10
Every January, no rent due	
Monthly payments start at \$1,000 and increase by \$25 each year	

Operating Lease Under 840 = Office

	12/31/22	12/31/23
Balance Sheet		
Assets		
{none}		
<hr/>		
Liabilities		
Deferred Rent	\$1,238	\$2,200
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Income Statement		
Operating Lease Expense	\$12,238	\$12,238

Note that the expense is the same each year because it has been straight-lined over the life of the lease.

Operating Lease Under 842 = Office

	12/31/22	12/31/23
Discount Rate		4.2%
Balance Sheet		
Assets		
ROU Asset	\$90,960	\$82,430
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Liabilities		
ST Lease Liability - Operating	\$7,567	\$8,172
LT Lease Liability - Operating	\$84,630	\$76,459
	\$92,197	\$84,630
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Income Statement		
Operating Lease Expense	\$12,238	\$12,238

There is no concept of deferred rent or prepaid rent under ASC 842. Instead, these now flow through the ROU Asset.

The ST and LT lease liability for operating leases should be kept in separate accounts from the ST and LT lease liability for finance leases.

Operating lease expense doesn't change under ASC842 despite the addition of an asset and liability.

While the operating lease expense doesn't change, the new asset and liability can be a material addition to the balance sheet.

MAKE IT EASIER ON YOURSELF (AND YOUR CLIENTS)

Navigating the new lease standard can be complex and time-consuming, especially for organizations that have more than a handful of leases. Managing the process manually on spreadsheets becomes quite risky, introducing a significant potential for error as well as complicating the audit process.

LeaseCrunch® is an easy-to-use, yet powerful software platform that simplifies the implementation of the lease standard for you and all your clients. The platform handles the initial and ongoing journal entries for you - along with quantitative footnote disclosures, amortization schedules, and more. Learn more or request a demo now.

ABOUT LEASECRUNCH®

LeaseCrunch® provides cloud-based lease accounting software for CPA firms, designed to help organizations implement the new lease accounting standards, ASC 842 and IFRS 16. Designed by CPAs, former Big 4 public accounting auditors, software development veterans and a former member of the FASB, LeaseCrunch® is easy enough for anyone to use, with simple screens, wizards and tooltips along the way.

Familiar with the tremendous fee pressure placed on CPA firms, our solution was designed with their specific needs in mind, essentially 'audit in a box' for lease accounting. We work exclusively with CPA firms-never competing for their client relationships. Our interface allows the CPA firm to either act in a bookkeeping capacity on behalf of their clients or to hand off lease management directly and operate in a support role for their clients. LeaseCrunch® is designed to accommodate organizations with large, complex portfolios, while still being a cost-effective solution for organizations with as few as 1-5 leases.