

The New Lease Standard

What You Need To Do Now

Now that the new lease standard has been delayed for non-public organizations, per FASB's proposal in April 2020, many of those non-public companies have put implementation plans on the back burner. However, it is still in your clients' best interest to begin planning for the new lease standard now, and there are several ways your firm can support this process.

BANKING RELATIONSHIPS IMPACTED

Adding operating leases, such as office space rental, vehicles, and even photocopiers, to balance sheets will increase liabilities and potentially affect existing bank debt covenants. According to our research, financial institutions do not have a consistent approach about how they will assess the impact of these "new" liabilities:

- Some already include committed future payments, like operating leases, in their calculations and will include them under the new standard
- Others plan to exclude operating lease liabilities when the new standard is in place
- The remaining institutions will start including them (causing fallout among their clients)



HOW YOUR FIRM CAN HELP

Help your clients analyze the balance sheet impact of the new lease standard. Then, initiate communications with their banks to ensure the lease standard implementation will not have an adverse impact on their banking relationships.

By helping your clients through lease accounting policy decisions now, they can, in turn, quantify the impact on their lease liabilities and debt covenants, including:

- **Discount rate:** utilizing the practical expedient to select a risk-free rate (ASC 842 only) is easier for implementation but increases the liability
- **Lease & non-lease components:** utilizing the practical expedient to combine lease and non-lease components (e.g., common area maintenance) is easier for implementation but increases the liability

COLLECTION OF LEASE INFORMATION

Recently, we met with the CFO of an imaging company about the impact of the new leasing standard. As a lessor, he was curious about the impact that the standard might have on his customers' behavior. Throughout the discussion, he slowly realized that his own leases—as a lessee—were also going to present a challenge to identify.



HOW YOUR FIRM CAN HELP

Your clients are busy. Analyze lease payments and visit client sites to help them identify decentralized leased assets and related documentation. Or, help clients develop a process for reviewing their leases and understanding key lease terms, including new definitions (get started with the “Are You Ready for the New Lease Accounting Standard?” checklist). The sooner this information is collected, the more prepared your clients will be to analyze the impact that the standard will have on their financial statements.



Oh, that's right! Our Pennsylvania office has been leasing cars for its sales team. Are vehicles included in the new standard?" he asked. Until that moment, he hadn't considered the impact on his operating leases, and few organizations have spent the time centralizing this information.

FUTURE PROCESS CHANGES

With the ongoing need for centralized documentation, internal communications must change. Clients should ask themselves:

- Will each location continue to make its own leasing decisions, or will that decision-making process also be centralized?
- By what date do new leases have to be reported to the Accounting department?
- What documentation must be provided? Where will lease information be stored?
- Have renewal and termination clauses been reviewed, and has the business communicated what actions it is 'reasonably certain' to take, especially for those related-party leases that have auto-renewals?



HOW YOUR FIRM CAN HELP

Work with your clients to develop a best-practice approach that eases the transition to the new lease standard. If their internal teams have sufficient time to develop and practice their new processes before the implementation date, you will have helped them avoid difficult complications when they adopt the new standard.

IN CONCLUSION: DON'T LET YOUR CLIENTS BE SURPRISED

While the new lease standard presents numerous challenges with its complexity and scope, it also brings opportunities for your clients to better analyze and understand their committed future payments. At the same time, it brings opportunities to your firm for off-peak and value-added work.



HOW YOUR FIRM CAN HELP

In the second document you downloaded, you'll find a checklist that you can brand to your firm. Provide this list to your clients to ensure they're thinking through each and every consideration of the new lease standard.

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.