

## GASB 62 TO GASB 87

# Side-by-Side Financial Statement Impact

The new lease accounting standard materially affects the financial statements of most entities, primarily due to the change in the treatment of operating leases. Because it can be easier to understand this significant change with examples, we are offering this side-by-side to show the impact to both the statement of net position and revenue/expense categories.

## Transitioning an Operating Lease

Operating leases changed significantly under the new lease standard. Under GASB 62, lessees recognized an expense as payments are made. Under GASB 87, all leases are booked on the balance sheet with the following entry upon commencement of the lease term:

- A) Lease Liability is the present value of lease payments, and
- B) Lease Asset is the value of the Lease Liability increased by prepayments and reduced by incentives received from the lessor

Concepts like deferred or prepaid rent go away for these leases.

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Under GASB 62, lessors recognized revenue as payments were received. Now, under GASB 87, lessors must book the following entry upon commencement of the lease term:

- A) Lease Receivable is the present value of lease receipts and
- B) Lease Deferred Inflow of Resources is the value of the Lease Receivable increased by prepayments received and reduced for incentives paid to the lessee.

LESSEE	
DR Lease Asset	XXX
CR Lease Liability	XXX

LESSOR	
DR Lease Recievable	XXX
CR Defered Inflow of Resources	XXX

The following shows how operating & capital leases under GASB 62 will appear under GASB 87.

All lease examples have the same start date, term, payments, and discount rate.

Sample Capital/Finance Lease

Start Date	7/1/2021
Term	60
Payment Amount	\$1000/month at BOM
Present Value Lease Payments	\$56,464
Discount Rate	2.5%

Lessee: Operating Lease Under GASB 62

	6/30/2022	6/30/2023
<b>Statement of Net Position</b>		
Assets		
Cash	-\$12,000	-\$24,000
<hr/>		
Liabilities		
{none}	\$0	\$0
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<b>Statement of Activities</b>		
Rent Expense	\$12,000	\$12,000
Interest Expense (none)	\$0	\$0
Expenses Related to Capital Lease	\$12,000	\$12,000

Lessee: Same Lease Under GASB 87

	6/30/2022	6/30/2023
<b>Statement of Net Position</b>		
Assets		
Cash	-\$12,000	-\$24,000
Lease Asset	\$45,171	\$33,878
	\$33,171	\$9,878
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Liabilities		
Interest Payable	\$857	\$885
Lease Liability - ST	\$10,985	\$11,263
Lease Liability - LT	\$34,648	\$23,386
Lease Liability	\$45,728	\$34,721
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<b>Statement of Activities</b>		
Amortization Expense	\$11,293	\$11,293
Interest Expense	\$1,264	\$993
	\$12,557	\$12,286

GASB 87: no deferred rent or prepaid rent; all part of the Lease Asset

Record Interest Payable if payments are not EOM

Lessee: Capital Lease Under GASB 62

	6/30/2022	6/30/2023
<b>Statement of Net Position</b>		
Assets		
Cash	-\$12,000	-\$24,000
Capital Lease Asset	\$45,171	\$33,878
	\$33,171	\$9,878
<hr/>		
Liabilities		
Interest Payable	\$95	\$72
Capital Lease Liability - ST	\$10,985	\$11,263
Capital Lease Liability - LT	\$34,648	\$23,386
	\$45,728	\$34,721
<hr/>		
<b>Statement of Activities</b>		
Amortization Expense	\$11,293	\$11,293
Interest Expense	\$1,264	\$993
	\$12,557	\$12,286

Lessee: Same Lease Under GASB 87

	6/30/2022	6/30/2023
<b>Statement of Net Position</b>		
Assets		
Cash	-\$12,000	-\$24,000
Lease Asset	\$45,171	\$33,878
	\$33,171	\$9,878
<hr/>		
Liabilities		
Interest Payable	\$95	\$72
Lease Liability - ST	\$10,985	\$11,263
Lease Liability - LT	\$34,648	\$23,386
Lease Liability	\$45,728	\$34,721
<hr/>		
<b>Statement of Activities</b>		
Amortization Expense	\$11,293	\$11,293
Interest Expense	\$1,264	\$993
	\$12,557	\$12,286

G/L account names are different

Calculations from a capital lease to GASB 87 are the same.

Lessor accounting is a mirror of lessee accounting for operating leases under GASB 87.

**Lessor: Same Lease Under GASB 87**

	6/30/2022	6/30/2023
<b>Statement of Net Position</b>		
Assets		
Cash	\$12,000	\$24,000
<hr/>		
Liabilities		
{none}	\$0	\$0
<hr/>		
<b>Statement of Activities</b>		
Lease Revenue	\$12,000	\$12,000
Interest Revenue	\$0	\$0
	<u>\$12,000</u>	<u>\$12,000</u>

**Lessor: Same Lease Under GASB 87**

	6/30/2022	6/30/2023
<b>Statement of Net Position</b>		
Assets		
Cash	\$12,000	\$24,000
Interest Receivable	\$95	\$72
ST Lease Receivable	\$ 10,985	\$ 11,263
LT Lease Receivable	<u>\$ 34,648</u>	<u>\$23,386</u>
	\$45,728	\$34,721
<hr/>		
Liabilities		
Deferred Inflow of Resources	\$45,171	\$33,878
<hr/>		
<b>Statement of Activities</b>		
Lease Revenue	\$ 11,293	\$11,293
Interest Revenue	\$1,264	\$993
	<u>\$12,557</u>	<u>\$12,286</u>

GASB 87: no deferred rent or prepaid rent; all part of the Deferred Inflow of Resources

Lessor assets are the same as lessee liabilities

Lessor liabilities are the same as lessee assets

## Transitioning leases when implementing GASB 87

Two additional considerations when an existing lease under GASB 62 is transitioned to GASB 87:

- 1) Operating Leases:** Prepaid lease balances are added to the Lease Asset (for lessees) or Deferred Inflow of Resources (for lessors).
- 2) Lease Capital Leases:** Differences from GASB 62 to GASB 87, such as a reassessment of lease term, are booked as a restatement of beginning net position.

## 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. In addition, 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 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.