

QUICK REFERENCE GUIDE

Simplifying the New Lease Standards

What is ASC 842?

The new lease standard is intended to account for all lease obligations on financial statements, rather than excluding operating leases as has been the standard. This change ensures that a company's financial situation is reflected as accurately as possible within the financial statements. With ASC 842, all leases must appear on the balance sheet as a Right of Use Asset and Lease Liability.

What qualifies as a lease?

To qualify as a lease under the new standard:

- It must be a physical asset
- You must have the right to control or use the asset
- The asset must be explicitly or implicitly defined

Examples include (but are not exclusive to) office rental, copiers, computers and servers, vehicles and equipment. Examples of what is typically not considered a lease under this standard are software subscriptions, leases for intangible assets, leases for exploration or use of non-renewable resources and leases of inventory or assets under construction.

Some judgment will be necessary for analyzing existing leases and implementing the new standard. The good news of a judgment-based standard is that the facts behind your contracts drive the numbers on your financial statements, rather than implementing hard line accounting rules that may not apply to every circumstance.

Keep in mind that this analysis and interpretation increases the time it will take to stay compliant with ASC 842.

What is the Impact of ASC 842?

As you'd expect, implementing the new lease standard means you will change how you think about and account for individual leases. There are a few additional considerations to keep in mind.

+ Debt Covenants

Changing accounting methods doesn't change your organization, but it can affect the way your financial results are viewed by outside parties. In particular, adding significant lease liabilities can impact your compliance with debt covenants. It's critical that you get a handle on the potential impact and start conversations with your bank as early as possible.

+ Policy Elections

The new lease standard requires organizations to make policy decisions about how they will handle leases. Many of these policies make implementation easier, but often will result in a larger asset and liability on the books. Early on, your organization needs to review and decide on the policies that are right for you.

+ Process and Controls

In most organizations, operating lease decisions are fairly decentralized, especially when multiple locations are involved. The new lease standard requires these decisions to be documented and available for accounting, which introduces a need for new systems, processes and controls. The good news is that organizations are often finding efficiencies and cost savings with this new approach.



How can we help?

Navigating the complexities of lease accounting can be challenging, but as your CPA firm, we offer advice and support for questions related to the implementation process or lease standard interpretation. We recommend considering a software solution like LeaseCrunch for efficient data tracking, monthly journal entries, and financial statement disclosures. Our experienced team is ready to assist in collecting, analyzing, and entering lease data, ensuring a timely implementation. Alternatively, if you prefer, we can handle the ongoing maintenance of your lease portfolio, allowing you to focus on your core business applications.

We are committed to providing resources and assistance throughout this journey. Let us know how we can support your organization in implementing the new lease standard.

Try LeaseCrunch today for FREE at leasecrunch.com/request-a-demo.