



## QUICK REFERENCE

# Simplifying the New Lease Standard

*The new lease accounting standard goes into effect in 2022 for private organizations, but it's essential that businesses start planning now if they haven't already.*

## WHAT IS THE NEW LEASE STANDARD?

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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 the new standard, all leases must appear on the balance sheet as a Right of Use Asset and Lease Liability.

## WHEN AM I REQUIRED TO USE THE NEW LEASE STANDARD?

Public and international companies:  
**FISCAL YEAR AFTER DEC. 15, 2018**

Private organizations:  
**FISCAL YEAR AFTER DEC. 15, 2021**

## WHAT QUALIFIES AS A LEASE?

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To qualify as a lease under the new standard:

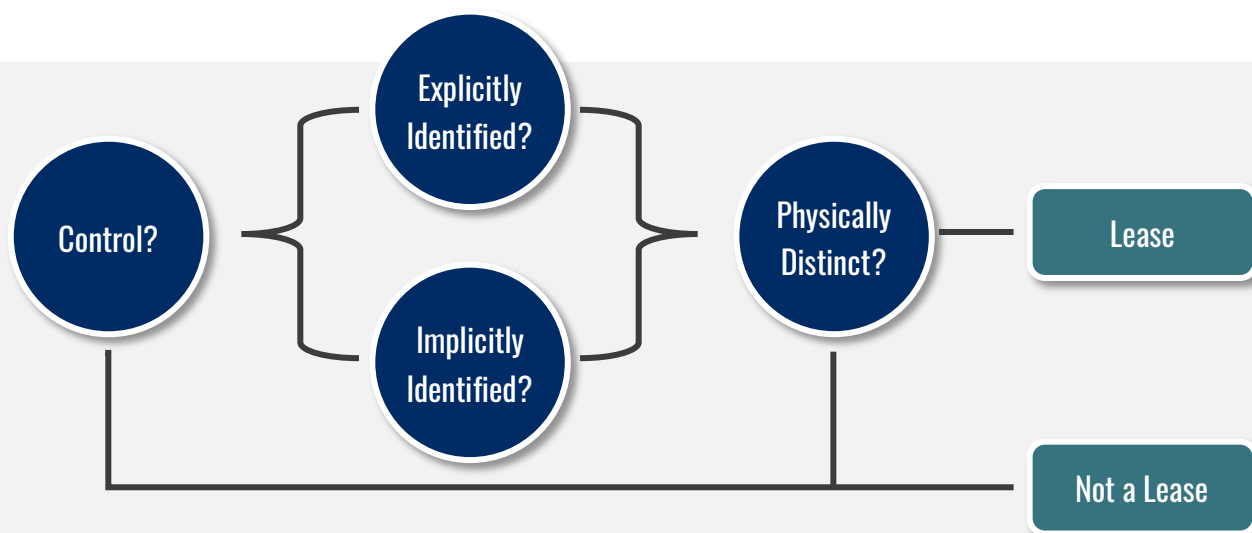
- It must be a physical asset
- You must have the right to control or use the asset
- The asset must be explicitly or implicitly identified

Examples include (but are not exclusive to) office rental, photocopiers, 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 hardline accounting rules that may not apply to every circumstance.

Keep in mind that this analysis and interpretation increase the time it will take to implement the new standard — which is why you should act now.



## WHAT IS THE IMPACT OF THE NEW LEASE STANDARD?

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 as well.

### 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.

*68% of CPA firms say clients are concerned about potentially violating bank loan covenants under the new standard.*

*Source: 2018 LeaseCrunch Survey*



## **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.

## **NEXT STEPS: IT'S TIME TO TAKE ACTION**

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With the time and work required to implement the new lease standard, we strongly recommend you take action as soon as feasible. It's important to assess:

- The size and complexity of your lease portfolio
- The strength and current centralization of your processes for leases
- The policy elections that you will select for the new lease standard
- The scope of your implementation process

**If you have questions, need assistance or resources, please don't hesitate to reach out. Our team is here to support your implementation of the new lease accounting standard. For more information, [visit us online.](#)**