The New Leasing Standards Are Here: Will Your Company Be Ready to Implement Them?

BY KAREN DOJAN, CPA

After several postponements, including a one-year COVID-19 extension, the much-anticipated leasing standards established by Accounting Standards Update (ASU) No. 2016-02, Leases are nearing their effective date for nonpublic companies and non-profits. The new accounting standard will become effective for fiscal years beginning after Dec. 15, 2021, essentially starting with calendar year 2022 financial statements.

The new standard requires all organizations to report essentially all leases of physical property extending beyond one year on the balance sheet as a "right-of-use" asset and a "lease liability." These leases will typically include rental of physical space, land, office and industrial equipment, and vehicles.

With less than a year left before implementation, the time to prepare is now. Key action items required for implementation include the following:

Gather all pertinent lease information: A complete listing of all leases and key terms (effective dates, including all extensions), costs, etc. Examine not only your "lease expense" detail, but also look for hidden leases in other operating agreements such as professional or delivery services and IT software contracts. Lease documents should be kept in a centralized location for ease of reference.

Establish a system to calculate and maintain leases: Once you've determined your lease obligations you will need a system to calculate your ongoing assets and liabilities and the methodology for amortizing them over the life of the lease. For a small number of leases an excel spreadsheet may do the trick. But for a company with a significant number of leases, specialized software may need to be utilized, either as a separate module to your current general ledger system or a standalone program. There are several practical expedients available in determining implementation strategies.

Determine your implementation strategy: Educate all stakeholders of your company. This includes executive management, the board of directors, and your bank or grantor organizations as inclusion of the liability to your balance sheet may have an impact on debt coverage and financial leverage ratios.

Being proactive can avoid unexpected consequences. Now's the time to reach out to your CPA to discuss your implementation options and to develop a plan to make the transition as seamless as possible. I95 Content Marketing

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