

Anticipating the New Lease Standard

New Guidance on Lease Accounting

In February 2016, the FASB released its much anticipated lease standard, ASU No. 2016-02. This lease standard may significantly impact your business if you have contracts that are leases or contain leases that support your business operations.

Hanging in the Balance

Historically, operating leases have been “off the balance sheet,” but the new standard will require all leases with lease terms exceeding one year to be recognized as both a “right-of-use” asset and a lease liability on the balance sheet. There will be two types of leases:

- ▶ **Finance Leases** – Currently known as capital leases, the accounting is essentially the same as current U.S. GAAP. Lease-related expenses are reported in two components:
 1. Amortization of the “right-of-use” asset
 2. Interest expense on the lease liability
- ▶ **Operating Leases** – This term is likely familiar to most, but the accounting under the new standard is different. Like capital leases previously, operating leases are required to separately present both a “right-of-use” asset and a lease liability on the face of the balance sheet. Lease related expenses are combined and reported as one lease expense amount and are recognized on a straight-line basis over the lease term.

Impact to Your Business

With more leases on the balance sheet, consider the following:

- ▶ **Compliance** – Changes to financial statement amounts may impact compliance with debt agreements.
- ▶ **Operations** – Policies and controls will need to be updated to ensure new and existing leases are recorded correctly.
- ▶ **Resources** – Additional resources may be needed to implement the new policies and procedures, evaluate leases, update financial statement disclosures, and maintain the calculations going forward.

How We Can Help You

Cherry Bekaert understands the impact of the new lease standard on your company could be significant. We know this is not a one-time implementation issue; therefore, we have developed the following service offerings to assist with compliance and a long-term business solution. We offer:

- ▶ General diagnostic discussion with management.
- ▶ Access to a cloud-based, third-party software to input lease data.
- ▶ Consultation and interpretive guidance, including FASB, GASB and AICPA interpretations.
- ▶ Checklists and other tools for ASC 842 implementation.
- ▶ Assistance with tool identification and vendor evaluation.
- ▶ Assistance to management with identification of unknown or embedded leases.
- ▶ Assistance in identifying additional disclosures.
- ▶ Assistance in identifying additional reports and data needed.
- ▶ Review of your management's ASC 842 GAAP policies and practices.
- ▶ Compare and contrast reviews for the ability of your Company's current processes and controls and IT systems to meet the requirements of ASC 842.
- ▶ Analysis of potential impact on debt covenants.
- ▶ Analysis of potential impact on compensation agreements.
- ▶ Reviews of public company filings for comparable companies in similar industries.

We can also assist with implementation and IT system changes if necessary through Cherry Bekaert's IT system partners.

Next Steps

For private companies, the lease standard is effective for fiscal years beginning after December 15, 2021 - now is a good time to start preparing by:

- ▶ **Performing an inventory of all leases** - Begin gathering all lease related documents to identify the key assumptions necessary to implement the new standard.
- ▶ **Evaluating the impact** - Recast your historical financial statements using the new lease model so you can consider the impact on compliance with agreements tied to your company's financial statements.
- ▶ **Proactively work with your bank** - Talk with your bank to discuss the impact on loan covenants and consider whether new or amendments to existing debt agreements are required.

Feeling Overwhelmed?

Cherry Bekaert's dedicated team of professionals can help you navigate these changes and assist with your approach to implementing the new standard.

Now is the time to plan and adequately prepare for changes that will impact your business.

Let us be your guide forward



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