



Contact:

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Q: What are the FASB’s New Leases Standards

A: In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard replaces the current guidance regarding accounting for leases found in Leases (Topic 840) and will be effective for public companies beginning in 2019 and in 2020 for private companies.

Q: How does the New Lease Standards impact the treatment on an income statement and balance sheet?

A: Generally, there will be little impact to the income statement treatment for lessee finance leases and operating leases. However, there will be significant balance sheet impact for lessees for operating leases.

The new lease accounting guidance will apply to all leases except for:

- Leases of intangible assets;
- Leases to explore for or use minerals, oil, natural gas and similar resources;
- Leases of biological assets, including timber;
- Leases of inventory; and
- Leases of assets under construction.

Q: What are the significant changes made in the final standard?

A: The most significant changes are best summarized in the table below:

Topic	Guidance	Impact
Definition of a lease	A contract that conveys a right to control an identified asset.	Greater emphasis on the concept of control in determining whether a lease exists.
Lease classification	Removal of bright lines for classification of leases as financing or operating by lessees.	Greater use of judgment in determining lease classification.
Balance sheet presentation	Recognition of a right to use asset and related lease liability for all leases for lessees.	Currently, only capital leases require balance sheet recognition for lessees.
Income statement presentation	For lessees, the recognition measurement, and presentation of expenses and cash flows should not change significantly. Recognition of selling profit for lessor sales-type leases may change under the control model.	Right of use asset representing operating lease will not be subject to impairment testing for lessees.
Inception vs. commencement date	Lease classification, recognition and measurement are done at the lease commencement date, the date which the lessor makes the underlying asset available for use by the lessee.	Under ASC 840, assumptions relevant to classification and measurement are determined at the lease inception. Recognition begins at the commencement date.

Q: How does a Company transition to using the New Lease Standards?

A: A lessee will apply a modified retrospective transition approach for capital and operating leases existing at, or entered after, the beginning of the earliest comparative period presented in the financial statements (the date of initial application). There are slight differences in the approach between *capital* leases and *operating* leases. Topic 842 explains the differences and provides step-by-step guidance on how to account for the different types of leases.