

ASC 842 – ADOPTING THE NEW LEASE STANDARD



What is the New Lease Standard?

The objective of the new lease standard is to include all lease commitments in financial statements, as opposed to the previous practice of excluding operating leases. This change ensures that the financial statements appropriately reflect a company's financial status. With the new standard, all leases must appear on the balance sheet as a right-of-use asset and a lease liability.

The new standard will be effective for all companies with a fiscal year beginning after December 15, 2021 (effectively the 2022 fiscal year).

Where could your business feel the impact?

Internal Analysis and Decision Making

Key financial metrics may change as a result to new additions to the balance sheet. This might change how businesses evaluate their own financial performance (asset ratios and debt/equity ratios, leverage ratios, etc.)

Debt Covenants

It may affect how outside parties view your financial results. In particular, adding significant leasing commitments can impact your ability to comply with the debt

covenants.

Policy Elections

The new lease standard requires lessees to make certain policy elections. Many of these policies facilitate implementation, but often will result in a larger asset and liability on the books. Your organization needs to consider such elections and agree on the elections that you decide to utilize.

Tax Planning

The new assets recognized for operating leases may alter how companies' compute their book/tax difference and could affect certain state and local tax apportionment calculations and transfer pricing.

How can you prepare now?

- Take an inventory of ALL leases and assess the complexity of your lease portfolio
- Identify internal stakeholders/task force, including real estate, accounting, etc.
- Initiate dialog with your BMF advisors
- Consider how financial statements, ratios and debt covenants may be impacted
- Assess system & third-party provider readiness
- Implement controls and centralize your lease process and data management

Is there any assistance available?

Collaborate

Your CPA firm can answer questions on the process or lease standard interpretation. Implementing the standard will take some work and collaborating can ease that burden.

Technology

Given the complexity involved in adopting the new standard, we strongly advise

seeking a software solution. We have partnered with LeaseCrunch, which offers a simple solution for generating journal entries, amortization schedules and quantitative footnote disclosures. Contact your [BMF Advisor](#) to learn more about this program.