THE NEW LEASE ACCOUNTING STANDARDS

9 Questions Property Accounting Managers and CFOs Should Ask Now

With the lease accounting standard changes from the US Financial Accounting Standards Board (FASB) & The International Accounting Standards Board (IASB), there will be a growing responsibility for leases within accounting departments. Based on research with several companies, here are the top questions your team should consider as you prepare for compliance:

1) **How do you plan to start tracking leases differently?**
   Now that FASB and IASB have released new Lease Accounting Standards, operating leases, which previously accounted for the vast majority of lease agreements, will come onto the balance sheet. This means you will need to start tracking depreciation, amortization, liabilities, and interest for leases the way you currently track fixed assets and asset retirement obligations.

2) **Have you determined the financial impacts of the standards?**
   Forecasting the impacts for your organization's balance sheet, debt covenants, income statement, and three to five year financial plans are crucial. These changes will be an adjustment for a variety of stakeholders, and you should account for the time it will take for your organization to adapt.

3) **Have you considered the number of leases you will need to start tracking?**
   Because most companies expect to add hundreds or thousands of leased assets to the balance sheet, their tracking and management will add a lot of work for the accounting department. In our experience, customers have uncovered more than twice the number of leases than they expected on average. In addition, an organization's leases may be a small portion of their overall asset base, but there are many downstream ripple effects that should be considered as a result of the leasing standard in the asset accounting, budgeting, tax, and regulatory departments.

4) **How will your accounting group manage expense distributions and budgeting for numerous departments when the number of leases vastly increases?**
   Today, it is common practice to budget and track leases within individual departments. With more leases on the balance sheet, accounting departments will likely be responsible for managing leases. As such, accounting will face complexities with other departments to ensure that necessary details are synchronized for proper expense distributions.

5) **Will you need to increase headcount or implement new systems?**
Organizations need to plan how they are going to manage the volume of leases moving forward and budget accordingly. Most companies won't be able to transition to the new standards with spreadsheets and their current staff. Planning ahead is key so that your team isn't caught in a tight spot.

6) **What contract review processes are in place to identify the lease information you will need for accounting and compliance?**
Many companies are reviewing contracts to determine if they are leases or if they contain embedded leases. These contracts contain facts and data points your accounting team will need, in order to manage the leased assets. Details for accounting are often overlooked in this process, where as capturing all the relevant data points up-front can save your organization time and money.

7) **What are your process requirements for entering new leases?**
You probably have processes and approvals in place for building and purchasing capital assets. Looking forward, your capital approval process should account for leases. Adding leased assets to the balance sheet means you will need to review and approve them in a similar manner.

8) **Have you considered the potential complexities of reporting to different regulatory bodies?**
If you are a regulated entity, there is still a lot of uncertainty about how regulators will handle these changes, especially with the diversity in practices regarding whether capital leases are included in rate base. Regulators are expected to determine whether income statement treatment will follow these changes in GAAP or if the expense will follow the lease payments. FERC/ GAAP difference, for example, would result in a regulated asset. It is possible that regulators may wait until the last minute to decide how they will treat the lease changes, so it is important proactively discuss the potential impacts with them.

9) **Are you prepared for the first comparative period, which begins January 1, 2017?**
While adoption isn't required until 2019, there will be a 2-year lookback for most corporations. This means that you must have all necessary lease data available from 2017 forward as if the standard had been in effect.
