

NEW LEASING ACCOUNTING STANDARD

On February 25, 2016, a new accounting standard was released to change financial reporting on leasing transactions. The following is meant to give a brief overview of the new standard and how it might affect your organization.

Who Will Be Affected?

The new standard affects all companies and other organizations – whether public, private, or not-for-profit – which lease assets such as real estate, office equipment, construction and manufacturing equipment, and vehicles.

What Are The Changes To Accounting Principles?

The new standard will require organizations which lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations create by those leases. Unlike current Generally Accepted Accounting Principles (GAAP), the new standard will require this treatment for all leases, both capital (financing) and operating.

What Does This Mean For You?

Since all leases will be required to be reported on the balance sheets, certain financial ratios may be affected. Since the current portion of any lease (due within 1 year) is reported as a current liability, working capital may be reduced. Additionally for financial debt covenants, debt to equity may increase due to the lease being recorded as debt on the balance sheet. Both of these will affect obtaining financing and meeting covenants for debt agreements.

When Does The New Standard Go Into Effect?

For the majority of organizations, the new standard would be effective starting January 1, 2020 for fiscal year end December 31, 2020. Early adoption is permitted for all entities.

What Should You Do Now To Prepare?

There are 3 things you should start to do now to prepare for the new standard in 2020.

1. Start to quantify your leases and the impact it will have on debt covenants.
2. Talk to your banker to start negotiating terms on debt agreements.
3. Call Gray, Gray & Gray at (781) 407-0300 to discuss how to implement this new standard and how it will affect your company.

Where Can You Find More Information?

For more information, talk to your CPA or visit <http://www.fasb.org/jsp/FASB/Page/BridgePage&cid=1351027207574>.

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