New Leases Accounting Standard—Learning and Implementation Plan

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under the new ASU, lessees will be required to recognize lease assets and liabilities for all leases, with certain exceptions, on their balance sheets.

Public business entities[1] are required to adopt the standard for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. That means an effective date of January 1, 2019 for public entities with a December 31 year end.

Nonpublic entities have an extra year to adopt. All entities may elect to early-adopt.

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a leases or to purchase the underlying asset.

An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-to use (ROU) asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum lease payments that were tracked and disclosed under previous GAAP.

[1] The term "public business entity" also includes a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and an employee benefit plan that files or furnishes statements with or to the SEC.

There is also specific transition guidance for sale and leaseback transactions, build-to-suit leases, leveraged leases, and amounts previously recognized in accordance with business combinations guidance for leases.

Accounting for leases was a joint project of the FASB and the IASB. There are some significant differences between the two boards' final standards, however. This Learning and Implementation Plan focuses on the FASB's standard; the AICPA Financial Reporting Brief *Leases* highlights significant differences between the two standards.

Use this "roadmap" to ensure that your company as well as its management team and staff do the following:

1. Understand the changes to current GAAP based on FASB ASU 2016-02, *Leases.*
2. Understand the transition requirements and determine how your company will adopt the new standard.
3. Find resources to help train your professional staff to ensure effective and efficient implementation of the leases standard.
4. Educate users and other stakeholders about the changes they can expect in your company's financial statements.

Visit the AICPA's Financial Reporting Center at www.aicpa.org/leases to access tools and resources to support your company as well as its management and staff in their journey. The page will be updated regularly as new resources are made available.

The following table provides a suggested timeline for public entities to implement the new leases standard (nonpublic entities have an additional year to adopt the new guidance).

Step	Action	Description and Considerations	Recommended Timing	Tools and Resources (links to be included if available)
1	Assign individual company staff or form a task force to become experts and take the lead on understanding and implementing the new leases standard. Input may be needed from a wide range of functions, including finance, accounting, and legal personnel.	The core principle is that lessees should recognize the assets and liabilities arising from leases on the balance sheet. The new standard retains the distinction between finance leases and operating leases, based on criteria that are substantially similar to the criteria for distinguishing capital leases from operating leases under current GAAP.	Now 2016	**AICPA's Financial Reporting Center** • Financial Reporting Brief: *Leases* • Introduction to the New Leases Standard video clip **Web Event** • Understanding the New Leases Standard **CPE** • The Bottom Line on the New Lease Accounting Requirements (Coming soon) Interpreting the New Leases Recognition Standard: What All CPAs Need to Know (Coming soon)
2	Update lease inventories.	Gaining a handle on all of the company's leases, wherever records of those leases are kept in the company, is necessary for compliance.	Now 2016	
3	Decide on transition method.	Decide whether or not to elect the optional practical expedients for applying the modified retrospective approach.	Now 2016	
4	Review legal agreements and debt covenants	Changes to the balance sheet may affect contractual agreements or debt covenants. Organizations should work with lenders through the normal course of business to amend debt agreements, if necessary, before the standard is adopted to avoid losing access to financing.	Now 2016	
5	Consider IT needs.	Consider whether improvements to the company's IT system are	Now 2016	

		needed. Companies may be able to leverage their existing IT systems to perform the necessary accounting and reporting, or the company may decide that efficiencies may be gained by investing in technology.		
6	Discuss with stakeholders.	Recognizing assets and liabilities for operating leases can have a significant effect on the balance sheet. Having early conversations with stakeholders such as the board of directors, investors, and lenders about the potential effects of the new standard may ease the transition.	Now 2016	Audit Committee Primer (Coming soon)