

THINGS TO KNOW

When Implementing the New FASB Lease Standard

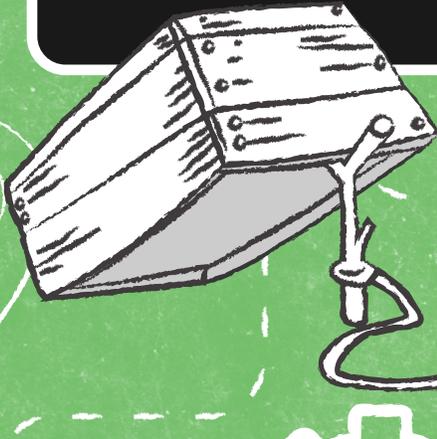
- The updated lease standard is **effective in 2019** for public companies and **2020** for private companies
- **Requires reporting on the balance sheet** the assets and liabilities associated with renting office space, vehicles, and most other rented property or equipment
- Might require **separating leases** from other non-lease components of a single contract
- Calculating values **will not be easy**

QUESTIONS to Ask

- What is a lease?** Some service contracts may have embedded leases, such as the right to use an asset for a period of time.
- Is there a specific asset?** For example, does it cover transportation in general, or a particular truck?
- Do you use **“substantially all”** of an asset?
- Do you **control the asset?**
- Do you have a say in **when and how** the asset is used?
- Does the change to your balance sheet **affect your debt-to-equity ratio** and therefore your debt covenants? If so, negotiate with lenders in advance.



WATCH OUT for Traps



- A **lease may be embedded** in the fine print of a service contract
 - **Commercial accounting software systems** can't capture all of the nuances of lease contracts. Specific lease accounting software is available, and companies with only a few leases might get by using spreadsheets
 - **Renewal options** must be figured into the initial estimate of a lease term if the renewal is likely
 - **Variable lease payments**
 - **Lease incentives**
 - **Option payments**
 - **Lease modifications**
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Some Surprising Examples

OF LEASES

- A **contract manufacturing facility** in China could now be considered to be leased to the company buying substantially all of its production
- A **pipeline**, part of a gathering contract, or even a gas processing facility could be a lease if substantially all of its capacity is dedicated to a single producer
- Dedicated space in a **data center** would be considered a lease (However, if the capacity is shared, then it is a service contract)
- An asset with no other marketable use beyond the lessee's purpose, regardless of lease term, is likely to be considered a **long-term lease**

