Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

The Lease Standard is Coming: Here is What We're Learning from Early Adopters

September 10, 2020 - In response to the Coronavirus Pandemic, the Financial Accounting Standards Board has proposed the deferral of the lease accounting standard effective date for private companies to fiscal years beginning after December 15, 2021 (calendar year 2022 or fiscal years 2022/2023). As a result of implementing the new standard companies can expect to see a significant potential impact on their financial statements and disclosures. Both a right of use asset in addition to short-term and long-term lease liability will be recorded on the balance sheet, while companies will also recognize interest expense and amortization expense related to the lease.

The countdown is on and companies must start planning now to change their processes and internal controls to comply with the new guidance. In order to make your transition seamless, we have done the research and assisted with implementations and urge you to consider the following as you prepare for your implementation:

- Although a required disclosure for most financial statements, leases have not historically been a focal point. When it comes time to implement, you may find yourself searching for agreements, extensions and amendments to lease contracts in an attempt to reconcile them to your lease disclosure. Start searching now as you may find yourself needing to go through several steps in order to locate the contracts.
- Engage your lenders about the impact of the lease standard. Putting new assets and liabilities on the balance sheet is bound to skew your ratios and could cause you to fail a debt covenant.
- Evaluate the administrative burden of calculating the present value of leases, recording amortization expense, recording payments against your liability and the associated interest expense. If this raises concern, consider options for lease software.
- Draft an accounting policy for your company to assure that proper controls exist related to the initial recording of leases. These decisions will have a direct impact on balance sheets and companies will want to establish a policy that best suits their business. Some questions you may want to consider include:
    - Is your team prepared to analyze contracts and determine a finance vs operating lease?
    - Have you considered materiality thresholds and interest rates?
    - Do we have leases under 12 months or less in term or leases with opt out clauses that could qualify the lease for short-term treatment?
- Have you considered restructuring lease contracts to avoid having them on your balance sheet? Leases under 12 months in term and opt out clauses in contracts may allow for short-term treatment.
- Don't forget to assess extension clauses, treatment of security deposits, related party leases and leases with multiple components.
- If you're a Not-for-Profit agency, Discuss the treatment of interest expense and amortization expense related to leases with your funding sources so that you can maximize your reimbursement rates.

Don't find yourself scrambling to implement this new lease guidance. Given our experience with early adopters, we encourage you to start your process now as the scope of the guidance and impact on your financial statements could be significant. If you have any questions or would like to discuss best practices for implementation at your company, please contact your trusted advisor at Dopkins & Company, LLP.

For more information, please contact William Craven at wcraven@dopkins.com.