Green
Hasson
Janks
&
Leases

FASB's Accounting Standards Update, ASU 2016-02, *Leases*

Highlight
The core principle is that a lessee should recognize the assets and liabilities that arise from leases.
A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term.
The accounting applied by a lessor is largely unchanged.

Why?
All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases.

How?
1. Initial Measurement

2. Subsequent Measurement
   - Liability is reduced by the difference between cash paid during the year and interest expense
   - Right of Use Asset is reduced annually by the difference between the straight line lease expense and the interest expense
     - Alternatively, Right of Use Asset carrying balance can be derived from Lease Liability

Example
A lessee enters into a two-year lease and agrees to make the following annual payments at the end of each year: $10,000 in year 1 and $15,000 in year 2. The initial measurement of the right-of-use asset and liability to make lease payments is $23,130 at a discount rate of 5 percent.

Year	Lease Liability	ROU Asset	Interest	Lease Payment	Straight-line Lease Expense
Inception	23,130	23,130			
1	14,286	11,786	1,156	(10,000)	12,500
2	0	0	714	(15,000)	12,500

When?
For non-public entities, the standard is effective for annual periods beginning after December 15, 2019.

Your Year End	Effective for Fiscal Year Ende
December 31	December 31, 2020
June 30	June 30, 2021

Early adoption is permitted.

Action Now
- Establish appropriate processes to gather and report lease information
- Be mindful with potential changes to the financial ratios in debt covenants negotiation