

Lease Accounting Overview

WHAT IS LEASE ACCOUNTING?

Lease accounting is the method by which organizations account for their leasing contracts – whether lessors or lessees. The guidance for lease accounting is maintained by the Financial Accounting Standards Board (**FASB**) in the United States, the International Accounting Standards Board (**IASB**) internationally, and the Governmental Accounting Standards Board (**GASB**) for state and local entities in the United States.

The goal behind the new lease standards is to increase transparency and comparability across organizations, while also disclosing important leasing arrangement information to investors. Leases have long been a blind spot in financial reporting and now each of the major accounting boards require companies to bring most leases onto their balance sheet.



ASC 842

In 2016, the FASB issued ASC 842, a new lease accounting standard. Public entities under ASC 842 have already complied, but private companies and not-for-profit entities must comply for annual reporting periods beginning after December 15, 2021. This new standard still uses a two-model approach, classifying each lease as either a finance (to replace the term capital) lease or an operating lease, but now both types are capitalized.



IFRS 16

IFRS 16 Leases was issued by the IFRS Foundation in 2016. Compliance to this new standard was required for annual reporting periods beginning after December 15, 2018. It introduces a single lessee accounting model which means all leases are treated as finance leases and lessees are required to record a right-of-use asset and liability for each.



GASB 87

In 2017, the GASB issued a new standard: GASB Statement No. 87, Leases. Similar to IFRS, all leases are classified as finance leases and lessees are required to recognize an asset and a liability for each lease agreement. One difference with this standard is that it requires all lessors to recognize a deferred inflow of resources and a lease receivable.

For more information on each of these standards, take a look at our **Summary of ASC 842, IFRS 16, and GASB 87**.

While the compliance deadlines were recently delayed, we strongly encourage you to begin your transition to compliance now. For any questions, please email us at partners@leasequery.com