

February 25, 2016

New Guidance for Lease Accounting - Finally!

[CONSTRUCTION, MANUFACTURING, TRANSPORTATION & LOGISTICS](#)
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On February 25, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02, Leases (“ASU 2016-02”). This guidance comes approximately ten years after FASB and the International Accounting Standards Board (“IASB”) embarked on a joint project intended to improve the financial reporting of leasing transactions in 2006. Since then, FASB and IASB have issued three documents for public comment, generating more than 1,700 comment letters, and conducted extensive public outreach activities. IASB issued its final standard on leases (“IFRS 16”) on January 12, 2016.

FASB ACCOUNTING STANDARDS UPDATE NO. 2016-02, LEASES (“ASU 2016-02”)

ASU 2016-02 affects every organization that leases assets (“Lessee”) such as construction and manufacturing equipment, tractors and trailers, airplanes, and even real estate. The Lessee will be required to recognize on its balance sheet a right-of-use asset and a lease liability for all leases in which the lease term exceeds one year. The accounting requirements for the organization that owns the assets leased by the Lessee (“Lessor”) will remain mostly unchanged.

ASU 2016-02 is not nearly as onerous to the income statement as was long feared by many organizations. Consistent with current U.S. generally accepted accounting principles (“U.S. GAAP”), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a Lessee will generally depend on its classification as a finance lease or an operating lease. (There is no concept of operating leases in IFRS 16, representing the primary difference between the two standards.) However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, the new guidance requires both types of leases to be recognized on the balance sheet.

For public companies, ASU-2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, the new guidance is effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all organizations.

Please contact us with questions about how the lease accounting standard may affect your organization and subscribe to our weekly newsletter, *Our Thoughts On*, for future lease accounting updates, reports and webinars.

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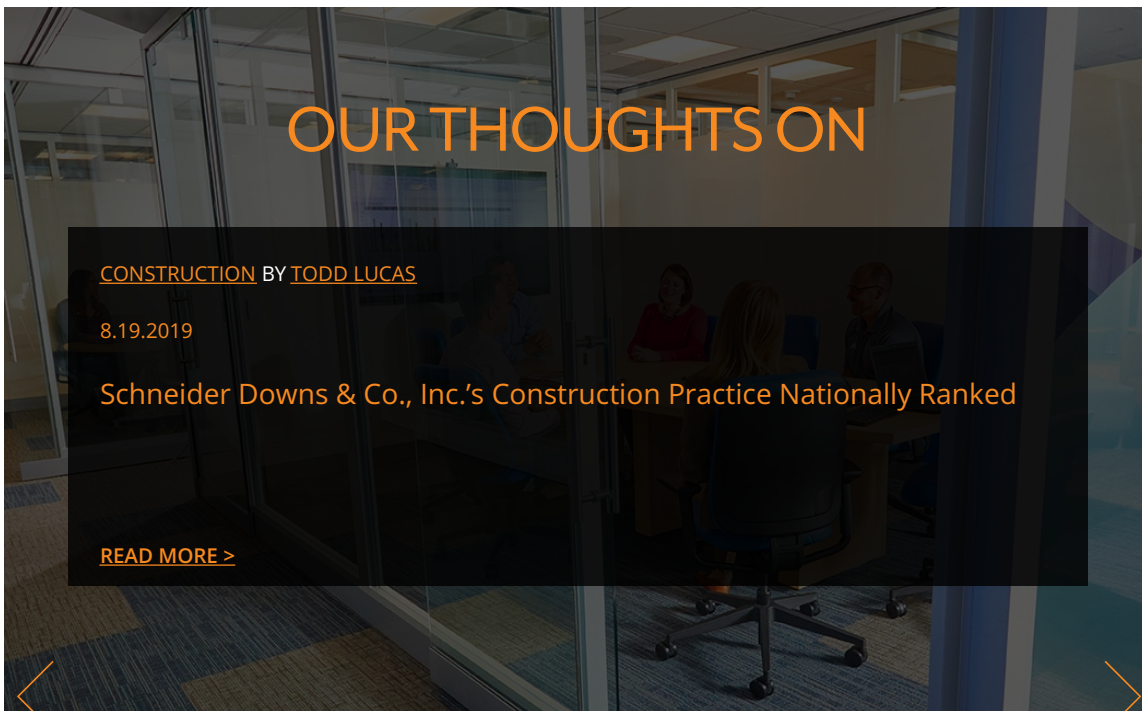


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