



An Understanding of the New Lease Accounting Standards

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Lead Accounting Manager



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5. For any questions about today's webinar, please contact us at cpeinfo@leasequery.com

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Lead Accounting Manager

Professional Background

- BA and MAcc in Accounting from UGA
- Former KPMG auditor in the public, private, and state government sectors
- Active CPA in the state of Georgia



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Agenda

- 01 | Our Partnership
- 02 | Background on Accounting Requirements
- 03 | Day Two Accounting Complexities

LeaseQuery and Clients First Business Solutions



Founded in **2011**, by George Azih, a leading expert on lease accounting and backed by Goldman Sachs



Partnered in 2022 to deliver best in class lease accounting to Acumatica, Microsoft BC and Microsoft F&O customers



LeaseQuery's HQ is in Atlanta, GA and Clients First Business Solutions is located in Dallas/Fort Worth, TX



Since 2003 Clients First has implemented ERP solutions for Manufacturing, Maintenance, Repair and Overhaul (MRO) and Distribution industries



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Clients First Business Solutions is a Gold Acumatica and Microsoft Dynamics ERP VAR (Value Added Reseller)



Lease Accounting Solutions You Can Trust

From reporting to journal entries, our cloud-based solutions simplify lease accounting and facilitates compliance for organizations across all sectors reporting under FASB, IFRS, and GASB.



2000+

CUSTOMERS



93

COUNTRIES



99%

RETENTION RATE



4.8_{/5}

AVERAGE RATING

Polling Question #1

What is the nature of your entity?



Background on Lease Accounting



Why did the boards change the rules for lease accounting?

Remember the difference between a balance sheet and income statement?

| Balance Sheet | |
|---------------|-----|
| Assets | XXX |
| Liabilities | XXX |
| Equity | XXX |

Financial snapshot as of a
point in time

What you own, who you owe, and your value at the end of the year

| Income Statement (Profit & Loss) | |
|-------------------------------------|-------|
| Revenue | XXX |
| <Expenses> | |
| | <XXX> |
| Net Income | XXX |

Financial performance over a
period of time

How much money you made during the

| DELTA MAINLINE FLEET | |
|--|---|
|  BOEING 777-200ER/LR <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 243'11"; WINGSPAN: 221'0"; SEATS: 366; FUEL: 8,550,000 LBS; RANGE: 8,550 NM</small> |  BOEING 747-400 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 266'0"; WINGSPAN: 224'0"; SEATS: 407; FUEL: 10,600,000 LBS; RANGE: 8,000 NM</small> |
|  BOEING 767-300 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 175'0"; WINGSPAN: 145'6"; SEATS: 269; FUEL: 4,500,000 LBS; RANGE: 7,700 NM</small> |  BOEING 767-300ER <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 175'0"; WINGSPAN: 145'6"; SEATS: 269; FUEL: 4,500,000 LBS; RANGE: 7,700 NM</small> |
|  BOEING 767-400ER <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 224'0"; WINGSPAN: 179'0"; SEATS: 366; FUEL: 8,550,000 LBS; RANGE: 8,550 NM</small> |  BOEING 757-200 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 125'0"; WINGSPAN: 110'0"; SEATS: 169; FUEL: 2,500,000 LBS; RANGE: 4,000 NM</small> |
|  BOEING 757-300 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 135'0"; WINGSPAN: 110'0"; SEATS: 189; FUEL: 2,500,000 LBS; RANGE: 4,000 NM</small> |  BOEING 757-200ER <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 125'0"; WINGSPAN: 110'0"; SEATS: 169; FUEL: 2,500,000 LBS; RANGE: 4,000 NM</small> |
|  BOEING 737-700 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 129'0"; WINGSPAN: 112'0"; SEATS: 149; FUEL: 1,800,000 LBS; RANGE: 3,700 NM</small> |  BOEING 737-800 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 131'0"; WINGSPAN: 112'0"; SEATS: 169; FUEL: 1,800,000 LBS; RANGE: 3,700 NM</small> |
|  BOEING 737-900ER <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 134'0"; WINGSPAN: 112'0"; SEATS: 189; FUEL: 1,800,000 LBS; RANGE: 3,700 NM</small> |  BOEING 717 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 105'0"; WINGSPAN: 90'0"; SEATS: 135; FUEL: 1,200,000 LBS; RANGE: 3,000 NM</small> |
|  AIRBUS A319-100 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 113'0"; WINGSPAN: 107'0"; SEATS: 150; FUEL: 1,500,000 LBS; RANGE: 3,500 NM</small> |  AIRBUS A320-200 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 132'0"; WINGSPAN: 117'0"; SEATS: 180; FUEL: 1,800,000 LBS; RANGE: 3,700 NM</small> |
|  AIRBUS A330-200 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 200'0"; WINGSPAN: 197'0"; SEATS: 300; FUEL: 10,000,000 LBS; RANGE: 11,000 NM</small> |  AIRBUS A330-300 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 233'0"; WINGSPAN: 233'0"; SEATS: 330; FUEL: 10,000,000 LBS; RANGE: 11,000 NM</small> |
|  MCDONNELL DOUGLAS MD-88 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 120'0"; WINGSPAN: 115'0"; SEATS: 150; FUEL: 1,500,000 LBS; RANGE: 3,500 NM</small> |  MCDONNELL DOUGLAS MD-90 <small>QUANTITY: 10; MANUFACTURE: 2014-2017; LENGTH: 120'0"; WINGSPAN: 115'0"; SEATS: 150; FUEL: 1,500,000 LBS; RANGE: 3,500 NM</small> |

Take a company like **Delta** that flies planes all day every day...

...and at any point in time has *hundreds of millions* in outstanding lease commitments to pay for their fleet...

...but under the old standard *you wouldn't know* they owed all this money by looking at their balance sheet...

...because they structured those contracts as *operating leases*, which only impacted the income statement

Under prior guidance (ASC 840 for the U.S. and IAS 17 internationally), **expense** associated with operating leases was recorded on the *income statement* for *period of time* analysis...

| Balance Sheet | | |
|---------------|--|-----|
| Assets | | XXX |
| Liabilities | | XXX |
| Equity | | XXX |

| Income Statement (Profit & Loss) | | |
|-------------------------------------|------------|-----|
| | Revenue | |
| | | XXX |
| | <Expenses> | |
| | <XXX> | |
| Net Income | | XXX |

...but there was **no real trace** of operating leases to be found on the *balance sheet* for *point in time* analysis...

Although you could see the impact of your operating leases for a *period of time* as an expense on your *income statement*...

| Balance Sheet | |
|---------------|-----|
| Assets | XXX |
| Liabilities | XXX |
| Equity | XXX |

| Income Statement (Profit & Loss) | |
|-------------------------------------|-------|
| Revenue | XXX |
| <Expenses> | |
| | <XXX> |
| <hr/> | |
| Net Income | XXX |

...if you were looking at *who you owe* (liabilities) as of a *point in time*, *no real trace* of contractual commitments for operating leases existed on the *balance sheet*

No transparency resulted in *rating agencies, investment banks*, and those who analyze financial statements...



...actually **reconstructing** the financial profiles of lessee companies *to include* off-balance sheet arrangements in order to get **more transparency**...

The problem was they all did it *differently* and there was *no consistency*...



...the accounting boards authored a *uniform way* to account for leases to
increase transparency and level the playing field...

...the boards authored a uniform way to account for leases to
increase transparency and *level the playing field*...

ASC 842

IFRS 16

GASB 87

Transparency

creates market confidence

Polling Question #2

What stage of the lease implementation process is your organization in?

Who writes accounting standards?



Financial Accounting
Standards Board
(**FASB**) is responsible
for authoring U.S.
GAAP



International
Accounting Standards
Board
(**IASB**) is responsible
for authoring IFRS



Governmental
Accounting Standards
Board
(**GASB**) is responsible
for authoring U.S.
GAAP

Who must comply?

Public

ASC 842



Private / Non-Profit

ASC 842



Who must comply? International

IFRS 16



State and Local Governments

GASB 87



What deadlines exist for these companies?

U.S. GAAP – ASC 842

Public Companies: Reporting periods that begin after 12/15/2018

Private Companies: Reporting periods that begin after 12/15/2021

What deadlines exist for these companies?

IFRS – IFRS 16

International Organizations:

Reporting periods that begin on or after

1/01/2019

What deadlines exist for these companies?

GASB – GASB Statement No. 87

State and Local Governments:

Reporting periods that begin after

06/15/2021

Polling Question #3

In the next 12 months, will the number of leases your company manages...



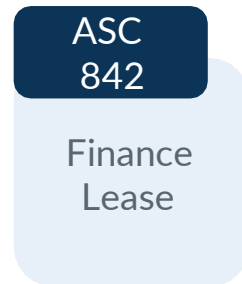
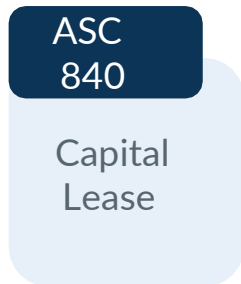
Day Two Accounting Complexities



What's an Operating Lease?

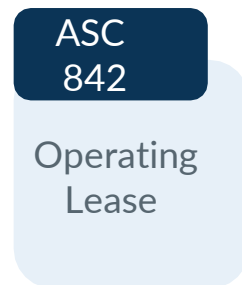
Lease Classification

Was **always** accounted for on the balance sheet



The name changes but **no real change in the accounting** because it's already accounted for on the balance sheet

Was **never** accounted for on the balance sheet

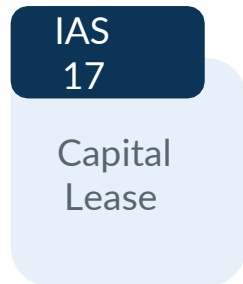


The name stays the same but there is a **major change** in the accounting because these will be added to the balance sheet

IAS 17 ? IFRS 16

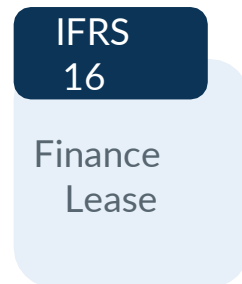
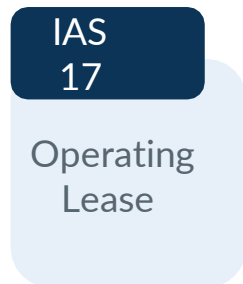
Lease Classification

Was **always** accounted for on the balance sheet



The name changes but **no real change in the accounting** because it's already accounted for on the balance sheet

Was **never** accounted for on the balance sheet



The name becomes one with capital leases but there is a **major change** in the accounting because these will be added to the balance sheet

Topic 842 Operating Amortization Schedule

Topic 842 Amortization Schedule with borrowing rate: 3 % - Total Fixed Payments (USD - US Dollar)

Building - 104 BRIARCLIFF ST NW, FAIRHAVEN, MA

| | | | | | | | | | | | Net Asset | |
|------|-----------|-----------|------|-----------|---------------------|-----------------|----------------|----------------|-----------------|----------|-----------------|-----------|
| Year | Month | Cash | Liab | Lease Exp | Liability Reduction | Total Liability | ST Lease Liab. | LT Lease Liab. | Asset Lease Exp | Balance | Total Lease Exp | |
| 2020 | January | 10,143.90 | = | 6,740.17 | + | 3,403.73 | 2,740,254.78 | 41,164.29 | 2,699,090.49 | 6,165.31 | 2,654,305.32 | 12,905.48 |
| 2020 | February | 10,143.90 | = | 6,508.74 | + | 3,635.16 | 2,736,619.62 | 41,686.77 | 2,694,932.85 | 6,396.74 | 2,647,908.58 | 12,905.48 |
| 2020 | March | 10,143.90 | = | 6,948.30 | + | 3,195.60 | 2,733,424.02 | 41,996.37 | 2,691,427.65 | 5,957.18 | 2,641,951.40 | 12,905.48 |
| 2020 | April | 10,143.90 | = | 6,716.31 | + | 3,427.59 | 2,729,996.43 | 42,303.30 | 2,687,693.13 | 6,189.17 | 2,635,762.23 | 12,905.48 |
| 2020 | May | 10,143.90 | = | 6,931.42 | + | 3,212.48 | 2,726,783.95 | 42,614.47 | 2,684,169.47 | 5,974.06 | 2,629,788.17 | 12,905.48 |
| 2020 | June | 10,143.90 | = | 6,699.93 | + | 3,443.97 | 2,723,339.98 | 42,922.92 | 2,680,417.06 | 6,205.55 | 2,623,582.62 | 12,905.48 |
| 2020 | July | 10,143.90 | = | 6,914.46 | + | 3,229.44 | 2,720,110.54 | 43,235.68 | 2,676,874.86 | 5,991.02 | 2,617,591.60 | 12,905.48 |
| 2020 | August | 10,143.90 | = | 6,906.23 | + | 3,237.67 | 2,716,872.87 | 43,549.23 | 2,673,323.65 | 5,999.25 | 2,611,592.35 | 12,905.48 |
| 2020 | September | 10,346.78 | = | 6,675.01 | + | 3,671.77 | 2,713,201.10 | 43,864.04 | 2,669,337.06 | 6,230.47 | 2,605,361.87 | 12,905.48 |
| 2020 | October | 10,346.78 | = | 6,888.13 | + | 3,458.65 | 2,709,742.45 | 44,183.25 | 2,665,559.19 | 6,017.36 | 2,599,344.52 | 12,905.48 |
| 2020 | November | 10,346.78 | = | 6,657.43 | + | 3,689.35 | 2,706,053.09 | 44,499.63 | 2,661,553.46 | 6,248.06 | 2,593,096.46 | 12,905.48 |
| 2020 | December | 10,346.78 | = | 6,869.91 | + | 3,476.87 | 2,702,576.22 | 44,820.46 | 2,657,755.76 | 6,035.57 | 2,587,060.89 | 12,905.48 |

↑
Cash
Payment

↑
Lease
Liability

↑
ROU
Asset

↑
Income
Statement

| (In millions) | | |
|--|----|---------|
| June 30, | | 2018 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ | 11,946 |
| Short-term investments | | 121,822 |
| Total cash, cash equivalents, and short-term investments | | 133,768 |
| Accounts receivable, net of allowance for doubtful accounts of \$377 and \$345 | | 26,481 |
| Inventories | | 2,662 |
| Other | | 6,751 |
| Total current assets | | 169,662 |
| Property and equipment, net of accumulated depreciation of \$29,223 and \$24,179 | | 29,460 |
| Operating lease right-of-use assets | | 6,686 |
| Equity and other investments | | 1,862 |
| Goodwill | | 35,683 |
| Intangible assets, net | | 8,053 |
| Other long-term assets | | 7,442 |
| Total assets | \$ | 258,848 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ | 8,617 |
| Short-term debt | | 0 |
| Current portion of long-term debt | | 3,998 |
| Accrued compensation | | 6,103 |
| Short-term income taxes | | 2,121 |
| Short-term unearned revenue | | 28,905 |
| Other | | 8,744 |
| Total current liabilities | | 58,488 |
| Long-term debt | | 72,242 |
| Long-term income taxes | | 30,265 |
| Long-term unearned revenue | | 3,815 |
| Deferred income taxes | | 541 |
| Operating lease liabilities | | 5,568 |
| Other long-term liabilities | | 5,211 |
| Total liabilities | | 176,130 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock and paid-in capital – shares authorized 24,000; outstanding 7,677 and 7,708 | | 71,223 |
| Retained earnings | | 13,682 |
| Accumulated other comprehensive income (loss) | | (2,187) |
| Total stockholders' equity | | 82,718 |
| Total liabilities and stockholders' equity | \$ | 258,848 |

Balance Sheet Example

- ROU Asset
 - Includes pre-transition balances of:
 - (a) Prepaid Rent
 - (b) Deferred Rent
 - (c) Unamortized Lease Incentive Liability
- Operating Lease Liability

Quantitative Disclosures

Amounts segregated between finance and operating leases for the following items:

- **Cash paid** for amounts included in the measurement of lease liabilities, segregated between **operating** and **financing** cash flows
- Supplemental **non-cash information** on lease liabilities arising from obtaining right-of-use assets
- Weighted-average remaining **lease term**
- Weighted-average **discount rate**



FASB Required Disclosures Example

| | Year Ending December 31, | | |
|--|--------------------------|--------------|-------------------|
| | 20X2 | 20X1 | |
| Lease cost | | | |
| Finance lease cost: | \$XXX | \$XXX | Lease costs |
| Amortization of right-of-use assets | XXX | XXX | |
| Interest on lease liabilities | XXX | XXX | |
| Operating lease cost | XXX | XXX | |
| Short-term lease cost | XXX | XXX | |
| Variable lease cost | XXX | XXX | |
| Sublease income | (XXX) | (XXX) | |
| Total lease cost | <u>\$XXX</u> | <u>\$XXX</u> | |
| Other information | | | |
| (Gains) and losses on sale and leaseback transactions, net | \$(XXX) | \$XXX | |
| Cash paid for amounts included in the measurement of lease liabilities | XXX | XXX | Cash flow |
| Operating cash flows from finance leases | XXX | XXX | |
| Operating cash flows from operating leases | XXX | XXX | |
| Financing cash flows from finance leases | XXX | XXX | |
| Right-of-use assets obtained in exchange for new finance lease liabilities | XXX | XXX | |
| Right-of-use assets obtained in exchange for new operating lease liabilities | XXX | XXX | |
| Weighted-average remaining lease term—finance leases | XX years | XX years | Weighted averages |
| Weighted-average remaining lease term—operating leases | XX years | XX years | |
| Weighted-average discount rate—finance leases | XX% | XX% | |
| Weighted-average discount rate—operating leases | XX% | XX% | |

Day Two Accounting

- Multiple types of lease modifications
 - Increase in the ROU Asset (New Lease)
 - Decrease in the ROU Asset (Partial Termination)
 - Amendment to consideration/term (Lease Modification)
- ROU Asset Impairment
- Lease Classification/Borrowing Rate Reassessment
- Early Terminations

1

Benefits of the LeaseQuery and Clients First Business Solution partnership

2

Understand the nature of lease accounting requirements and what drove the change in financial reporting standards

3

What quantitative complications exist upon transitioning to the new lease accounting standards

4

Compliance complexities beyond the initial transition calculations

TURN INSIGHTS INTO ACTION

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\$500 OFF

Request a free demo by **April 7th** to receive offer

<http://leasequery.com/request-a-demo-500-webinar/>



Polling Question #4

Would you like a demo of LeaseQuery?

THANK YOU

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TURN INSIGHTS INTO ACTION

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