



## What is the new lease standard?

The new lease standard is intended to account for all lease obligations on financial statements, rather than excluding operating leases as has been the standard. This change ensures that a company's financial situation is reflected as accurately as possible within the financial statements.

With the new standard, all leases must appear on the balance sheet as a Right of Use **ASSET** and Lease **LIABILITY**.

### What qualifies as a lease?

- It must be a physical asset
- You must have the right to control or use the asset
- The asset must be explicitly or implicitly defined

#### Included

- office rent
- computers, copiers, servers
- vehicles and equipment

#### Excluded

- inventory
- assets under construction
- intangible assets
- exploration / non-renewable resources

## What is the impact of the new lease standard?

There is a potentially significant impact to your organization's balance sheet.

### BALANCE SHEET

Adding lease liabilities can impact your compliance with debt covenants.

### POLICY ELECTIONS

The new lease standard requires companies to make policy decisions about how they will handle leases. Early on, your organization needs to review and decide on the policies that are right for you.

### PROCESS AND CONTROLS

The new lease standard requires these decisions to be documented and available for accounting, which introduces a need for new systems, processes and controls.

## HOW WE CAN HELP

The steps to implementing the new lease standard are complex. We are here to help.

This process will take time, and CBM plans to begin the process by mid 2022.

CBM will help create the scope of your implementation process and execute:

- Policy elections for your lease portfolio
- Present value of future lease payments based on
  1. Rate implicit in the lease, if N/A then
  2. Borrowing rate of organization, if N/A then
  3. Risk free rate
- Monthly journal entries based on complex calculations
- Create required footnote disclosure on the financial statements

### Accounting Advisory

Our goal is to make running the back end of your business look easy, so that you can focus on what matters most. Our experts in business strategy, markets, audit and tax will partner with you to set and exceed your organization's goals.

To view other Quick References, [click here](#).