

Learning Series: Lease Accounting Changes for Non-accountants

Why did FASB and IASB Change the Guidelines?

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Volume 1

History of the Changes

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While you may hear some grumblings from those having to adhere to the newly mandated guidelines, the changes weren't done to make the

standards, companies were able to bury important operating lease information in footnotes, with each organization phrasing such

This Learning Series is intended to simplify the vast amount of information relating to the latest FASB/IASB lease accounting guidelines. Our goal is to boil down these standards to make them easily understood by CRE professionals who are not accountants by trade. We want to help you understand the concepts and the lingo (with a bit of humor) without having to be a CPA, while also enabling you to hold your own with the newly extended group of stakeholders and executives. We hope you enjoy this series and we look forward to your feedback.

lives of CRE professionals miserable or to ensure auditors are kept gainfully employed (although arguably those may be two of several unexpected side effects).

The goal of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) was to have much more transparency when accounting for leases on organizations' financial statements. Prior to the new

significant data differently. This posed a problem for investors because they're not able to easily compare the financial statements of multiple companies in order to determine where to invest their funds.

Both boards also wanted investors to have the ability to compare financial statements of organizations across countries, so way back in 2006 they joined together to announce their

Buzz Words to Know

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FASB: Financial Accounting Standards Board for the US

IASB: International Accounting Standards Board for pretty much the rest of the world

ASC: Accounting Standards Codification

IFRS: International Financial Reporting Standards

GAAP: In US, the Generally Accepted Accounting Principals

Equipment Leases: Non-real estate leases like airplanes, servers, copiers, etc.

ELM: Equipment Lease Management

partnership in this new accounting re-vamp.

A “short” decade later, they finally released the revised lease accounting guidelines to the world (IASB in January 2016 and FASB the following month). Ironically, they aren’t in complete agreement in the standards, but that’s a topic for another white paper later in this series.

The new standards are named FASB ASC Topic 842 and IASB IFRS Leases 16, or more simply and affectionally referred to as ASC 842 and IFRS 16.

It’s important to note that while we’re focused here on CRE leases, the new standards encompass **all** leases. Everything from airplanes, cars, and server farms to copiers and

phone equipment (collectively referred to as equipment leases). The only exception being leases that are 12 months or less, which continue to be straight-lined under the previous standards (ASC 840/FAS 13 and IFRS 17).

In a nutshell, what does all this really mean to **you** as a CRE professional? No doubt you’ve already been pondering this very question and I’m glad you asked – it’s a perfect segue to the rest of this Learning Series. We will explore (in non-accounting terms) the impacts on CRE of the new accounting standards, help you navigate the changes, and provide you with the knowledge you need to speak with your Steering Committee and Executives.

With the expanded pool of stakeholders, CRE is in the limelight. While this is great news for your CRE department, it also means you need to be well-versed in the basics of the new lease accounting changes and understand how even more impactful CRE is now to the success of your organization. It’s the perfect time to embrace the changes and play a strategic role in helping your company comply with the new guidelines.

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Feel free to share this paper with your friends and co-workers. Below are the upcoming papers in this series.

Upcoming Papers in this Learning Series

Volume 1: Why did FASB and IASB change the guidelines? (CURRENT ISSUE)

Volume 2: Why is moving leases to the Balance Sheet such a big deal?

Volume 3: How do the accounting changes impact my CRE team?

Volume 4: What are the key requirements of FASB ASC 842?

Volume 5: What are the key requirements of IASB IFRS 16?

Volume 6: What are the differences between ASC 842 and IFRS 16?

Volume 7: What comes first – the chicken or the egg?

Volume 8: What do I need to consider when evaluating software systems?

Volume 9: What potential impacts will there be to leasing space?

Arazzo Solutions, LLC is a boutique professional services firm focused on the Commercial and Corporate Real Estate (CRE) industry. Having more than a combined 45 years of CRE experience, our team has a unique combination of expertise in lease administration, lease accounting, project management, and IWMS (Integrated Workplace Management System) support.

We are here to augment your internal CRE teams, assist you with ASC 842 and IFRS 16 compliance, including required data points, data management and governance, evaluation of systems, and best practices, and act as your advocate to manage IWMS vendors. Whether you have seasonal demands or need assistance year-round, we can help you meet your responsibilities and deadlines without the need to hire additional employees.

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