

Learning Series: Lease Accounting Changes for Non-accountants

What are the differences between ASC 842 and IFRS 16?

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ASC 842 vs. IFRS 16

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Now that we've looked at the key requirements of both the FASB's ASC 842 and the IASB's IFRS 16, let's explore their differences. Although

classifications of leases: Operating and Finance, whereas the IASB did away with multiple classifications, determining all qualified

	FASB	IASB
Current Standards	FAS 13	IAS 17
New Standards	ASC 842	IFRS 16

the two boards made an effort to agree on all aspects, there are some key differences that you should be aware of, especially if you work for a global organization.

First are the slightly different effective dates of the new standards for public (aka listed) companies for annual periods beginning on or after:

ASC 842 December 15, 2018
IFRS 16 January 1, 2019

Second is that the FASB determined there are two

leases are to be considered Finance leases. And while both boards exempt leases that are 12 months or less (short-term leases), the IASB added a further clearly defined exemption for leases on low-value assets of \$5,000 USD or less (see volume 5 of this learning series). Under ASC 842, this value is left to your company's discretion, but most auditors recommend setting this to be similar to the fixed asset capitalization threshold. Be sure

Buzz Words to Know

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Re-measurement: When key lease data points change (e.g., lease term, rents, options, etc.), the lease liability and ROU asset must be adjusted to account for the changes

Variable Rents: Rents based on a rate or index must be included in the lease accounting calculation

Retrospective Reporting:
Full – apply the new standard to each prior reporting period presented; adjust equity at the beginning of the earliest comparative period presented

Modified – does not restate comparative information; recognize the cumulative effect of initial application as an adjustment to the opening balance of equity

Finance and your auditors determine this threshold in a timely manner.

Third, ASC 842 doesn't require a re-measurement (see Buzz Words) solely due to variable rents changing as a result of a rate or index change. For example, if the CPI index changes and you have rents based on CPI, under ASC 842 you do not need to re-measure unless some other key data point in the lease also changes which affects the lease liability and/or ROU asset calculation. However, the IASB does require a re-measurement whenever the rates/indices change.

Both boards also require retrospective reporting (see

Buzz Words). *Warning: this is a bit of a deeper dive into accounting lingo than we usually do in this learning series – brain freeze may result.* There are two options: full or modified. IFRS 16 allows you to select which approach makes sense for your organization, however ASC 842 only allows the modified retrospective approach. Under the modified approach, you can (on a lease-by-lease basis) determine the value of the right of use (ROU) asset: by measuring the asset as if the new standard had been in place since the inception of the lease; or by setting the asset equal to the lease liability adjusted by the amount of any prepaid lease payments, initial direct costs, restoration costs, and lease

incentives (see volume 4 of this learning series).

While “location, location, location” is the key to real estate, the key to the new lease accounting standards is “documentation, documentation, documentation”. Be sure all policy decisions for both ASC 842 and IFRS 16 are clearly documented and stored in a location that is easily accessible by all stakeholders. Prior to being published, these policies should have written approval from your auditors, both internal and external.

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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? (CURRENT ISSUE)

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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