ANSWERS

1. **YES –** *but don't wait.* The time to make the transition to the new lease accounting standard, Topic 842, is estimated to be *up to a year* domestically and *up to 24 months* for a global lease accounting program. Initial steps should include budgeting time and resources to perform the work. This includes determining which resources will be sourced internally and which will be outsourced. In addition, the U.S. Securities and Exchange Commission requires two years of comparative balance sheets, so 2017 is the start for capturing data for public companies, and 2018 for private companies.
2. **NO.** Of those who have started implementing, about half (47%) report *greater* than expected effort, according to the PwC/CBRE 2017 lease accounting survey. The survey, which was conducted in May 2017, also found that 23% of companies have yet to begin the initial adoption process of the leasing standard.
3. **YES.** The new rules will be implemented retroactively, so all operating leases (except for short-term leases) will need to be capitalized in the financials reported in the transition year. If comparative balance sheets and P&L statements are presented, the operating leases must be capitalized in the earliest balance sheet. This means the impact may be sooner that you might realize.
4. **NO.** Changes in lease accounting will impact all departments that lease equipment, administer leases or use information regarding leases. Company areas that likely need to be included in the transition in addition to accounting are finance/treasury, lease administration, IT and business units.
5. **YES.** All equipment leases, real estate leases and other forms of existing agreements and contracts that may be construed to be leases should be fully documented and compiled into similar categories for more efficient management and analysis. Contracts that may be construed to be leases include multiple-element arrangements that combine services, software, hardware and/or financing, and contracts such as power purchase agreements and supply contracts. Preparing an inventory is also essential for determining whether to apply one or both of two practical expedients, or accounting policy options, the Financial Accounting Standards Board (FASB) provided in the new rules.
6. **POSSIBLY.** To determine if the technology already in place will meet the new standard, ask your accounting software vendor how they plan to support the changes. Companies should assess existing IT structure and whether it can handle issues such as data extraction, information and document storage, and the reporting requirements of the new standard. Lessees may be challenged in their ability to account for the capitalized lease liability as a loan for all of their existing leases and agreements. Leveraging IT tools and support will enable organizations to better manage the transition, as well as equip them for post-transition lease accounting.
7. **NO.** Topic 842 should not change the income statement because the lease-related costs should remain the same. The key impacts to company financials will be 1) a decrease in Return on Assets (ROA) since the amount of assets reported increases as operating leases will be capitalized on the balance sheet; and 2) an increase in total liabilities, although lease liability should be considered a non-debt type of liability; that is, an "other" operating liability.
8. **NO.** Since the FASB decided that the capitalized operating lease liability should not be classified as debt, but as an "other" operating liability, the resulting impact is *minimal impact* on debt covenants. In fact, there is *no impact* on debt limit covenants.
9. **YES.** The many reasons that businesses lease equipment—managing cash flow, preserving capital and available traditional lines of credit, obtaining flexible financing solutions, managing tax liabilities and avoiding equipment technological obsolescence, just to name a few—will remain intact once leases are reported on balance sheet.
10. **YES.** Under Topic 842, Operating leases will be accounted for virtually the same as under current GAAP for P&L cost purposes; that is, the cost pattern will remain as the straight line average rent. The amount capitalized will be less than the equipment cost and the cost is straight lined so there will still be an accounting benefit to leasing over borrowing to buy. The greater the residual assumed and the higher the tax benefits, the lower the capitalized amount.
11. **NO.** Prior to and since the approval of the new lease accounting standard, numerous industry resources have become available to provide support to lessees and lessors on Topic 842. Methodical, step-by-step guidance for implementation of an organization's transition to the standard, including designating a project team, creating a detailed implementation plan, inventorying all leases and lease-type agreements, and assessing IT capabilities and requirements, is easily accessible. ELFA's end-user website, for example, has articles, FAQs, checklists, 8 Steps to Help Transition, infographics and more lease accounting resources available for free download at www.EquipmentFinanceAdvantage.org/newLAR.cfm.
12. **YES.** Topic 842 requires both the lessee and lessor to account for the transaction as a financing if the leaseback contains a fixed priced purchase option. In aligning with the new standard for revenue recognition, Topic 842 allows the seller-lessee to have an option to repurchase the asset if both (1) the exercise price of the option is the fair value of the asset at the time the option is exercised and (2) there are alternative assets, substantially the same as the transferred asset, readily available in the marketplace.

SCORING: HOW DID YOU DO?

10 Answers Correct:
Congratulations! Your level of knowledge indicates you are well positioned to cross the finish line and successfully transition to the new lease accounting standard. Take a moment to pat yourself on the back, and then get back to work implementing the new standard!

7-9 Answers Correct:
Good job. You have demonstrated a solid grasp of the new standard and have what it takes to get up to speed in less familiar areas. Hopefully by taking this quiz, you've identified aspects of Topic 842 that require more of your attention.

4-6 Answers Correct:
Unless you guessed the answers, you're getting there. There's room for improvement and no time like the present to advance along the lease accounting learning curve.

1-3 Answers Correct:
Consider this a wake-up call to get started! After all, identifying the problem is half the battle. The good news is there's still time and plenty of resources you can draw on to prepare for lease accounting changes.

Disclaimer: The information in this document is a summary only and does not constitute financial advice. Readers should obtain their own independent accounting advice that takes into account all relevant aspects of a particular lessor's or lessee's business and products.