Debunked! 6 Myths About the New Lease Accounting Rules
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There is a LOT of misinformation about the new lease accounting rules. In this post I will address the biggest misconceptions.

Myth 1: All leases will be capitalized: While the vast majority of leases will be capitalized under the proposed lease accounting rules, there are some exceptions. Leases with a term equal to or less than 12 months will be exempt from capitalization. In those instances, the leases will continue to be straight-lined, similar to current rules for operating leases.

Myth 2: Exemption for low value assets: Under FASB's proposed rules, there is NO EXEMPTION for low value assets. Any assets that are leased would be subject to capitalization under the new lease rules, except if the lease term is less than or equal to 12 months. The IASB, on the other hand, has an optional lessee exemption for leases of assets with a value of $5,000 or less when new, even if the leases are material in aggregate. Once again, the low value exemption applies to IFRS, NOT GAAP.

Myth 3: Rules will cause an increase in Debt: This is probably the biggest misconception about the new lease accounting rules. Under FASB's rules, the obligations for operating leases will be recorded as liabilities on the balance sheet, however those liabilities will NOT be deemed debt. Note that under IASB's rules, all leases will be treated as finance leases, and those liabilities WILL be classified as debt.

Myth 4: EBITDA will be affected: Under FASB's rules, the amortization of the liability for operating leases will NOT result in interest expense, and the amortization of the concomitant right of use (ROU) asset will NOT be deemed depreciation expense. As a result, there will be NO DIFFERENCE IN EBITDA under FASB's proposed rules and under current lease guidelines.

Myth 5: Existing leases will be grandfathered: There will be NO GRANDFATHERING of existing leases. Any leases outstanding as of December 31, 2019 (2020 for non-public entities) will need to be accounted for under the new lease accounting rules. As a result, it is imperative that companies evaluate the impact of the new lease accounting rules for leases that are currently being signed.

Myth 6: This will never happen/There is still time: Has it taken a while for the Boards to finalize the new lease rules? Absolutely. Almost a decade. Note, however, that unlike in 2013 when the boards released a "revised" exposure draft, the rules to be released this time are FINAL; it is NOT another exposure draft. Also note that even though the effective date is 2019 for public companies, companies will have to report balances under the new lease rules all the way back to 2017, which, last I checked, is next year. Frankly speaking, if your company has not begun evaluating the effect of the new lease rules on your lease portfolio, YOU ARE ALREADY BEHIND. There is such a thing as being too late. When it comes to lease accounting, that hour is upon us.