

The New Lease Accounting Standard

On February 25, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-2, which intended to improve financial reporting related to leasing transactions. ASU 2016-2 affects all companies and other organizations that lease assets such as real estate and manufacturing equipment.

The new guidance responds to requests from investors and other financial statement users for a more accurate representation of an organization’s leasing activities. It brings to an end what the Securities and Exchange Commission (“SEC”) and other stakeholders have identified as one of the largest forms of off-balance sheet accounting, and requires additional disclosures related to leasing transactions.

The new leases standard will increase transparency and comparability among organizations that lease buildings, equipment, and other assets by recognizing the assets and liabilities that arise from lease transactions. Current off-balance sheet leasing activities will be required to be reflected on balance sheets so that investors and other users of financial statements can more easily and accurately understand the rights and obligations associated with these transactions.

This standard is effective for fiscal years beginning December 15, 2018 (including interim periods within those years) for public companies, some not-for-profit entities, and employee benefits plans that file with the SEC. For all other entities, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

When effective, the new standard will require organizations that lease assets, or “lessees,” to recognize the assets and liabilities for the rights and obligations created by those leases on the balance sheet. The standard will require lessees and lessors to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more deeply the nature of an organization’s leasing activities.

Chess Consulting (“Chess”) helps organizations understand and comply with the new lease standard. Our highly experienced and credentialed professionals include Certified Public Accountants, regulatory experts, Certified Fraud Examiners, forensic accountants with domestic and international experience, and former partners with global public accounting firms. These skilled personnel are able to facilitate a successful transition to the new requirements. While the new standard is not industry-specific, the more significant an organization’s leasing activity is, the greater the potential for a significant balance sheet impact. We have the knowledge and expertise to support financial reporting changes that will result from the new lease standard – particularly for those organizations who engage in significant activities as a lessee.

Lease Accounting Support

Chess can provide consultation and assistance related to a company’s planning and assessment of implementing the new standard, which could include, but is not limited to, the following:

- Performing a preliminary review and assessment to determine how a company’s lease accounting will be affected by the new standard;
- Assisting a company with creating a transition timeline and action plan to implement the new standard;
- Reviewing a company’s inventory of leases for completeness and accuracy, and ensuring the company has a process to gather and report their leases appropriately;
- Ensuring that a company has the necessary processes and internal controls in place to collect relevant information needed to implement the new standard; and
- Providing guidance related to the potential changes to financial reporting and disclosures (qualitative and quantitative) based on the requirements of the new standard.

The Chess Consulting Advantage

Our highly experienced team of audit, government contract accounting, and regulatory compliance experts have worked with contractors and their external auditors on a multitude of

accounting and financial reporting matters over many years. Our clients have included some of the largest companies in the country, both publicly traded and private, spanning a wide variety of industries, including: aerospace and defense, biopharmaceutical, healthcare, construction, technical services, and higher education.

Chess Consulting Differentiators

Deep industry knowledge and technical expertise which helps each client deal effectively with the complexities of the processes and issues facing its business.

Profitability focus concentrating on actions and solutions that create a competitive business advantage while fully complying with regulatory requirements.

Practical and creative solutions that effectively address difficult compliance and business issues.

Supportable positions that have been proven to withstand scrutiny from regulatory agencies such as the SEC, DCAA, DOJ, and GAO.