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Q&A

MICHAEL DE LOS REYES Monday, July 11, 2016

Numerous changes occur in the U.S. financial accounting and reporting standards each year, but only a handful affect every company—large or small, technology-based or traditional service providers—and one of those takes effect soon.

Companies starting in the next couple of years must list all of their leases on annual accounting reports, a change that could affect their ability to secure lines of credit, among other financial ramifications.

Navigating the change and others on that scale requires professional service providers, such as accountants, to help companies carry out sound due-diligence procedures.

The Business Journal's Michael de los Reyes asked local accounting firm executives to share their thoughts on the new lease accounting requirements enacted by the Financial Accounting Standards Board.

Here are edited excerpts of their responses:

Kellan McConnell
Senior Manager, Assurance Services
Marcum LLP
Irvine

The new lease accounting standards will require organizations that lease assets—essentially all organizations—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. We're looking at this mainly from a lessee standpoint, since the rules for lessors are largely unchanged.

Essentially, our approach with each of our clients will be to first educate them on the basics of the new standard and then help them to interpret the details as it pertains to their specific business.

While there is still some time for our clients to prepare before these updates are required to be implemented—basically, fiscal year-end 2019 for public companies and fiscal year-end 2020 for private companies—we are encouraging our clients to adopt these changes sooner rather than later for a couple of reasons:

• The updates are required, not optional, so they will have to change one way or another. For entities with many leases, the process of recording the asset and related liability for each lease may not necessarily be straightforward and may require significant time to research and record properly.

• Understanding the accounting impact of these changes on clients' financial statements will allow them to assess how it may impact financial covenants imposed by lenders. For some entities, high-balance sheets will look completely different once the new standard is adopted. If they know what these impacts will be sooner rather than later, they will have more time to negotiate new covenants.