

PREPARING FOR THE NEW LEASE RULES IN THE RETAIL INDUSTRY

In early 2016, the Financial Accounting Standards Board (“FASB”) released Accounting Standard Update No. 2016-02, which focuses upon changes to lease accounting to produce more transparent and comparable financial statements. More specifically, it is planned to eliminate off-balance sheet accounting for operating leases, which in the past has allowed companies to avoid disclosing certain leased assets and corresponding liabilities on their balance sheets.

The new rule takes effect in 2019 and will vastly impact the retail industry, especially large public retailers with operating lease obligations in the tens of billions of dollars.

Here are some steps to prepare for the new rules.

1. Assess what types of leases are currently in place and how they will be affected by the new rules. Consider consulting with your CPA to gain a full understanding of the possible implications.
2. Companies should consider their current leasing strategy and what changes should be made in the future to make the new rules work in their favor, specifically considering whether to adjust to longer or shorter lease terms, or whether buying is financially beneficial.
3. Educate the necessary employees, especially those in accounting and those negotiating leases. Knowledge of the rules will be particularly important when considering new leases and renewals.
4. Create a timeline to begin collecting data and implementing lease tracking systems and controls compatible with the new rules. This is of particular importance for companies with numerous equipment leases, which are likely to make adherence to the new rules complex and time consuming.

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