

What Architects, Engineers and Contractors Need to Know About the New Lease Accounting Standard - Part I

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In 2016, the Financial Accounting Standards Board (FASB) approved the new lease accounting standard (“ASC 842”) for private companies. Subsequently, several updates were added. ASC 842 must be adopted by companies with fiscal years beginning after December 15, 2021 and for interim period financial statements beginning after December 15, 2022.

Under previous standards, leases were classified in two categories – capital leases and operating leases. Capital leases were recorded on the balance sheet as a liability and the corresponding item being leased was recorded as an asset and depreciated over its useful life. Operating leases were not recorded on the balance sheet. The expense was instead recognized on a straight-line basis and the total lease commitments were disclosed in the footnotes to the financial statements. Under ASC 842, the same two types of leases apply. However, the main difference is that an operating lease is now recorded on the balance sheet as a right of use asset with a corresponding lease liability.

Some highlights of ASC 842 to consider:

- All leases greater than twelve months are reported on the balance sheet as a lease liability with a corresponding right of use asset.
- Related party leases have to be analyzed as well.
- The standard has minimal impact on lessors.
- Items to keep in mind:
 - Potential for embedded leases
 - Identifying non-lease components
 - Determining a discount rate
 - More enhanced footnote disclosures
 - The impact on your financial statements and related covenants
 - How banks and sureties will evaluate the impact on the financial statements

The transition to ASC 842 will be a major change for most architecture, engineering and construction companies, involves a number of considerations and will require effort and resources to implement.

For more information regarding ASC 842 and if you have questions on implementation and the effects on your financial statements, please contact [Steven Linden](#), [Joseph Zeller](#), [Phillip Ross](#) or your Anchin Relationship Partner. In addition, be on the lookout for [Part II](#) to this alert.