



UNDERSTANDING LEASE ACCOUNTING CHANGES

While new lease standard brings nearly all leases onto the balance sheet, debt metrics remain unaffected.

For many years, there have been concerns raised stating that the current lease accounting model is inadequate, as it allows lessees to structure lease transactions to achieve off-balance sheet financing. Today, under current Generally Accepted Accounting Principles (GAAP), operating leases have effectively received off-balance sheet treatment. The Financial Accounting Standards Board (FASB) has issued a new lease accounting standard that will substantially bring all leases onto the balance sheet.

The FASB's Accounting Standards Update, (ASU) will require lessees to recognize most leases on their balance sheets as leased

liabilities with corresponding right-of-use assets. But rest assured, operating lease benefits are still in play.

The FASB's ASU 2016-02, *Leases*, was issued on February 25, 2016. For public companies, the new guidance will take effect with their 2018 financial statements; for private companies, with their 2019 financial statements. Early adoption will be permitted for all entities.

The primary standard for lease accounting is Statement of Financial Accounting Standards No. 13 (FAS 13, ASC 842 under FASB's new coding structure), which has been amended several times.

The FASB said the new guidance is intended to improve the financial reporting of leasing transactions. "The new standard ends one of the largest forms of off-balance sheet accounting and requires more disclosures related to leasing transactions," said FASB Chair Russell Golden.

"When the new FASB and International Accounting Standards Board (IASB) lease standards take effect, they'll provide investors across the globe with more transparent, comparable information about lease obligations held by companies and other organizations," Golden said.

As part of the new lease accounting standard, FASB retained the FAS 13 (ASC842) framework for lease classification. The lessees expense accounting is identical to their historical accounting for a PTL Operating Lease on the income statement. The balance sheet will now include a right to use asset and a lease liability. Additionally, although companies will record an operating lease liability on the balance sheet, it will NOT be classified as debt. This is great news for U.S. companies because debt metrics remain unaffected.

The FASB and the IASB have been working on the standard since 2006. Several industry stakeholders, including Penske Truck Leasing, through meetings and the submission of feedback via written comment

letters, have played an important role in substantially improving the rules issued with this final lease standard from the original proposal for both lessees and lessors.

Penske believes customers will still benefit from an operating lease for all of the traditional reasons such as:

- **No residual risk**
- **No obsolescence risk**
- **No effect on debt ratios**
- **Budget certainty**
- **Reduction of risk and volatility**

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In preparation for the new Lease Accounting Standard, companies should begin reviewing their current processes. The experts at Penske Truck Leasing are here to help.



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About Penske Truck Leasing: Penske Truck Leasing Co., based in Reading, Pennsylvania, is a partnership of Penske Corporation, Penske Automotive Group, General Electric Capitol Holdings and Mitsui & Co., Ltd.

Penske operates more than 240,000 vehicles and serves customers from more than 1,000 locations in North America, South America, Europe, Australia and Asia, with full-service truck leasing, contract maintenance, commercial and consumer truck rentals, used truck sales, transportation and warehousing management and supply chain management solutions.

Find out how Penske Truck Leasing can help you prepare for the new Lease Accounting Standard. Call 888-234-4201 or visit pensketruckleasing.com