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Lease Standard Change Demands Preparation

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Editor's note: Numerous changes occur in the U.S. financial accounting reporting standards each year, but only a handful affect every company -- large or small, technology-based or traditional services providers -- and one of these takes affect 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 services 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:

Among our clients' greatest concerns is bank financing and covenant compliance. The new Financial Accounting Standards Board lease accounting standard will cause them to ask, "Will my line of credit be renewed? What amount? If not, how can I find another bank that will help?" We are explaining to clients that by following the new standards, they may not have to worry about negotiations with their bankers. Banks have always been aware of operating lease obligations (which are impacted more than capital leases by the new standard) because they have been disclosed in footnotes. It is possible that banks may choose to exclude operating leases from debt ratio compliance, in which case the impact of the new FASB standards may be negligible to many companies.

As for clients' internal accounting, we advise our clients that they should anticipate a few necessary adaptations. Lessees will be required to provide additional disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows related to leases. They will need to develop processes and controls to collect the necessary information. Lessors will likely see



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