

Trends in Accounting: Leases

Q: The timing and/or probability of the U.S. conversion to International Financial Reporting Standards ("IFRS") seem to be in question based on recent comments from various regulatory bodies. Nevertheless, I have heard there is a gradual convergence process underway being effectuated by joint projects between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB"). What, if any, new accounting standards may result from this that could significantly impact my company's financial reporting?

A: There are a number of proposed joint projects that the FASB and IASB are currently working on that could potentially impact a company's financial statements, including a complete overhaul of the presentation of financial statements; and the accounting for revenues, income taxes, earnings per share, and consolidations, just to name a few.

The FASB's website includes a comprehensive list of projects underway and the expected timetables for implementation. With that said, one of the most significant proposed changes that will likely impact most companies involves the accounting for leases. Currently, accounting standards in the U.S. allow for leases to be accounted for as either an operating or capital lease. The former allows companies to maintain their future obligations under the lease contracts off their balance sheet, while the latter requires an asset and corresponding obligation to be reflected on a company's balance sheet. The proposed standard would likely require most leases to be recorded as capital leases with some limited exceptions. Companies that have significant lease contracts should analyze the impact this proposed standard would have on its financial reporting and debt covenants.

For more information regarding the risk assessment process, please contact:



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