lease accounting gasb 87

lease accounting gasb 87 represents a significant shift in how governmental entities recognize and report leases in their financial statements. This accounting standard, issued by the Governmental Accounting Standards Board (GASB), aims to enhance transparency and comparability by requiring leases to be recorded on balance sheets, eliminating many off-balance-sheet arrangements. The implementation of GASB 87 changes lease classification, recognition, measurement, and disclosure requirements, impacting accounting professionals, auditors, and government officials involved in financial reporting. Understanding the key provisions and practical applications of lease accounting GASB 87 is essential for compliance and accurate financial representation. This article will provide a comprehensive overview of GASB 87, its scope, recognition criteria, measurement principles, and disclosure mandates. Additionally, it will explore the benefits, challenges, and implementation strategies associated with this standard.

Overview of GASB 87

GASB Statement No. 87, titled "Leases," was established to improve accounting and financial reporting for leases by state and local governments. Prior to GASB 87, lease commitments were often disclosed in notes but not reflected on the balance sheet, limiting financial statement users' ability to assess the full impact of lease obligations. GASB 87 mandates the recognition of lease assets and liabilities for both lessees and lessors, providing a more transparent presentation of lease transactions. This standard is effective for reporting periods beginning after December 15, 2019, with early implementation permitted. It aligns governmental lease accounting practices more closely with those used in the private sector and other accounting frameworks while addressing unique government characteristics.

Scope and Definitions

The scope of lease accounting GASB 87 encompasses contracts that convey control of the right to use another entity's identified asset for a period in exchange for consideration. It applies to leases of property, plant, and equipment but excludes certain intangible assets and natural resources. The standard defines key terms such as lease term, lease payments, lease asset, and lease liability to ensure consistent application.

Definition of a Lease

A lease under GASB 87 is defined as a contract that conveys control of the right to use an identified asset for a period in exchange for consideration. Control means the lessee has the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct how and for what purpose the asset is used throughout the period of use.

Lease Term

The lease term includes the noncancelable period plus periods covered by options to extend or terminate the lease if it is reasonably certain those options will be exercised. Proper determination of the lease term is crucial as it affects the measurement of lease liabilities and lease assets.

Lease Recognition and Measurement

Under GASB 87, lessees and lessors must recognize leases as assets and liabilities at the commencement of the lease term. This recognition reflects the right to use the leased asset and the obligation to make lease payments. Measurement focuses on the present value of lease payments, using an appropriate discount rate.

Initial Measurement

At lease commencement, lessees recognize a lease liability equal to the present value of lease payments expected to be made during the lease term. Simultaneously, a corresponding lease asset is recorded, representing the right to use the underlying asset. For lessors, a lease receivable and deferred inflow of resources are recognized.

Subsequent Measurement

Lease liabilities are adjusted for interest accretion and lease payments made. Lease assets are amortized over the lease term or the useful life of the asset, whichever is shorter. Changes to lease terms or payments require remeasurement of lease assets and liabilities.

Lessee Accounting under GASB 87

Lessees must recognize a lease liability and a corresponding lease asset for all leases, with limited exceptions such as short-term leases. The lease liability reflects the obligation to pay, while the lease asset represents the right to use the leased property.

Recognition Criteria

Lessees recognize leases at the commencement date by measuring the lease liability at the present value of lease payments, discounted using the rate implicit in the lease if known or the lessee's incremental borrowing rate otherwise.

Lease Expense and Amortization

The lease asset is amortized on a systematic and rational basis, typically straight-line, over the lease term. Lease liabilities accrue interest expense based on the effective interest method, and lease payments reduce the liability.

Lessor Accounting under GASB 87

Lessors account for leases by recognizing a lease receivable and deferred inflow of resources, reflecting the right to receive lease payments and the obligation to provide use of the underlying asset. The lessor derecognizes the underlying asset during the lease term.

Classification of Leases

GASB 87 does not require lease classification into operating or capital leases as previous standards did. Instead, all leases are treated similarly, enhancing comparability between lessee and lessor reporting.

Recognition of Lease Receivables

Lessors measure lease receivables at the present value of lease payments to be received, discounted using the interest rate implicit in the lease. Deferred inflows of resources represent earnings to be recognized over the lease term.

Disclosure Requirements

GASB 87 requires extensive disclosures to provide financial statement users with comprehensive information about lease agreements. These disclosures improve transparency about the nature, amount, timing, and uncertainty of lease-related cash flows.

Required Disclosures Include:

- A general description of leasing arrangements
- Total lease assets by major classes of underlying assets
- Lease liabilities, including short-term and long-term portions

- Lease expense recognized in the reporting period
- Information about significant assumptions and judgments used in determining lease terms and discount rates
- Maturity analysis of lease liabilities showing future payments due

Implementation Challenges and Best Practices

Implementing lease accounting GASB 87 can be complex, requiring adjustments to accounting systems, internal controls, and financial reporting processes. Governments may face difficulties in identifying all lease contracts, determining lease terms, and calculating accurate lease liabilities and assets.

Common Challenges

- Inventorying and reviewing existing contracts for lease components
- Determining appropriate discount rates, especially when implicit rates are unknown
- Estimating lease terms considering renewal and termination options
- Coordinating among legal, finance, and operational departments
- Updating accounting software and systems to accommodate new requirements

Best Practices for Compliance

To facilitate smooth implementation, organizations should establish clear policies and procedures for lease identification and accounting, provide training for staff, and engage with auditors early in the process. Leveraging technology solutions that automate lease tracking and calculations can also improve accuracy and efficiency.

Frequently Asked Questions

What is GASB 87 and why is it important for lease accounting?

GASB 87 is a lease accounting standard issued by the Governmental Accounting Standards Board that requires governments to recognize lease assets and liabilities on the balance sheet, improving transparency and comparability in financial reporting.

When did GASB 87 become effective?

GASB 87 became effective for reporting periods beginning after December 15, 2019, with earlier application encouraged.

How does GASB 87 change the accounting for leases?

Under GASB 87, most leases are recognized on the balance sheet as a lease liability and a corresponding intangible right-to-use lease asset, eliminating the previous distinction between operating and capital leases for lessees.

What types of leases are covered under GASB 87?

GASB 87 applies to leases of capital assets, including land, buildings, and equipment, but excludes leases of intangible assets, certain regulated leases, and leases with terms of 12 months or less.

How should governments measure lease liabilities under GASB 87?

Lease liabilities should be measured at the present value of lease payments expected to be made during the lease term, using the discount rate implicit in the lease or the government's incremental borrowing rate if the implicit rate is not readily determinable.

What disclosures are required by GASB 87 for lease accounting?

Governments must disclose qualitative and quantitative information about leases, including lease terms, significant assumptions, lease expense, and the amount of lease liabilities and right-to-use assets recognized in the financial statements.

How does GASB 87 impact financial statement presentation?

GASB 87 requires lessees to report lease liabilities and right-to-use assets on the balance sheet, and recognize lease expense over the lease term, enhancing the visibility of lease obligations in financial statements.

Are there any exemptions to applying GASB 87?

Yes, leases with terms of 12 months or less are exempt from capitalization and can be accounted for as short-term leases, not requiring recognition of lease liabilities or right-to-use assets.

What challenges do governments face when implementing GASB 87?

Governments may face challenges such as identifying and inventorying all leases, determining lease terms and discount rates, updating accounting systems, and ensuring compliance with new disclosure requirements.

Additional Resources

1. *Mastering GASB 87: A Comprehensive Guide to Lease Accounting*
This book provides an in-depth explanation of GASB Statement No. 87, focusing on the recognition, measurement, and reporting of leases for governmental entities. It breaks down complex accounting principles into clear, understandable concepts, making it accessible for both beginners and experienced accountants. Practical examples and case studies help readers apply the standard in real-world scenarios.

2. *Lease Accounting under GASB 87: Practical Implementation Strategies*
Designed for finance professionals and government accountants, this book offers step-by-step guidance on implementing GASB 87. It covers key topics such as lease identification, lease term determination, and the calculation of lease liabilities and assets. The author also discusses common challenges and solutions encountered during the transition to the new lease accounting standard.

3. *GASB 87 Explained: Understanding the New Lease Accounting Standard*
This title serves as an introductory resource that demystifies the provisions of GASB 87. It explains the rationale behind the standard and highlights its impact on financial statements. Readers will find helpful summaries, flowcharts, and examples that clarify how to comply with the new lease accounting requirements.

4. *Governmental Lease Accounting: Navigating GASB 87 Compliance*
Focused on governmental entities, this book explores the unique considerations of lease accounting within the public sector under GASB 87. It discusses both lessor and lessee accounting, emphasizing transparency and accuracy in financial reporting. The book also includes checklists and templates to assist with compliance and audit readiness.

5. *Applying GASB 87: Lease Accounting Best Practices for Public Sector Entities*
This practical guide highlights best practices for applying GASB 87 in government organizations. It covers policy development, internal controls, and system requirements for effective lease accounting. The author shares insights into aligning lease accounting processes with broader financial management goals.

6. *Lease Accounting Challenges and Solutions under GASB 87*
Addressing the complexities of GASB 87, this book identifies common pitfalls and provides expert advice on overcoming them. Topics include lease classification, modification accounting, and disclosure requirements. It is an essential resource for accountants seeking to streamline GASB 87 adoption while maintaining compliance.

7. *Financial Reporting and Disclosures for Leases: GASB 87 Perspectives*
This book emphasizes the financial reporting and disclosure aspects mandated by GASB 87. It guides readers through the preparation of required notes and schedules, ensuring transparency and completeness. Illustrative examples help clarify the appropriate presentation of lease information in governmental financial statements.

8. *Lease Accounting Software Solutions for GASB 87 Compliance*
This title explores the role of technology in managing lease accounting under GASB 87. It reviews various software tools and features that facilitate accurate lease data tracking, calculation, and reporting. The book also offers advice on selecting and implementing lease accounting systems tailored

to governmental needs.

9. *Transitioning to GASB 87: A Practical Roadmap for Government Entities*
This book focuses on the transition process from previous lease accounting standards to GASB 87. It outlines key steps, including data gathering, impact assessment, and stakeholder communication. The author provides templates and timelines to help organizations plan and execute a smooth transition with minimal disruption.

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