



IMPLEMENTING THE LEASE ACCOUNTING STANDARD

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 **SMITH • SCHAFFER**
& ASSOCIATES, LTD.
Certified Public Accountants and Consultants

WELCOME!



Thank you for taking the time to join us today!

Smith Schafer & Associates is an award-winning CPA firm offering proactive services, deep expertise, innovative solutions and personal relationships. We are mostly known for helping local businesses grow with accounting, tax, assurance, and consulting solutions.

We are local to Minnesota with offices in:

- Minneapolis
- Rochester
- Red Wing

ADAM J. KELLERHALS, CPA



- ***PRINCIPAL***
- ***Expertise***
 - Audit & Attest Services
 - Financial Statement Presentation
 - Business Consultation
- ***Background***
 - Bachelor of Arts degree in Accounting and Management from Luther College.
 - Joined the Twin Cities practice in June 2007.
- ***Member***
 - AICPA & MNCPA
 - Nonprofit Financial Group - Twin Cities
 - Minnesota Council of Nonprofits
 - Minnesota Construction Association

TODAY'S AGENDA

- History of the standard
- Applying the new lease standard
- Disclosures and transitions
- Sample financial statement presentation
- Q & A
- Wrap-up

LEASES FROM START TO CURRENT

- ASU 2016-02 – Original Pronouncement
- ASU 2017-13
- ASU 2018-01
- ASU 2018-10
- ASU 2018-11
- ASU 2018-20
- ASU 2019-01
- ASU 2019-10 (November 2019 - deferment)
- ASU 2020-02
- ASU 2020-05 (June 2020 - deferment - COVID)
- ASU 2021-05

ASC 842 – New Lease standard

ASC 840 – Current (Old) Lease Standard

ASU 2016-02 LEASES

- Essentially requires most leases to be recognized on the balance sheet.
- New presentation and disclosure requirements.
- Effective for years beginning after December 15, 2021.

LEASE TYPES

Finance Lease

Short Term Lease

Operating Lease

PRESENTATION - BALANCE SHEET

Finance Lease

- Right of use asset
- Lease liability

Operating Lease

- Right of use asset
- Lease Liability

Short Term Lease

- Not Applicable*

PRESENTATION – INCOME STATEMENT

Finance Lease

- Amortization Expense
- Interest Expense

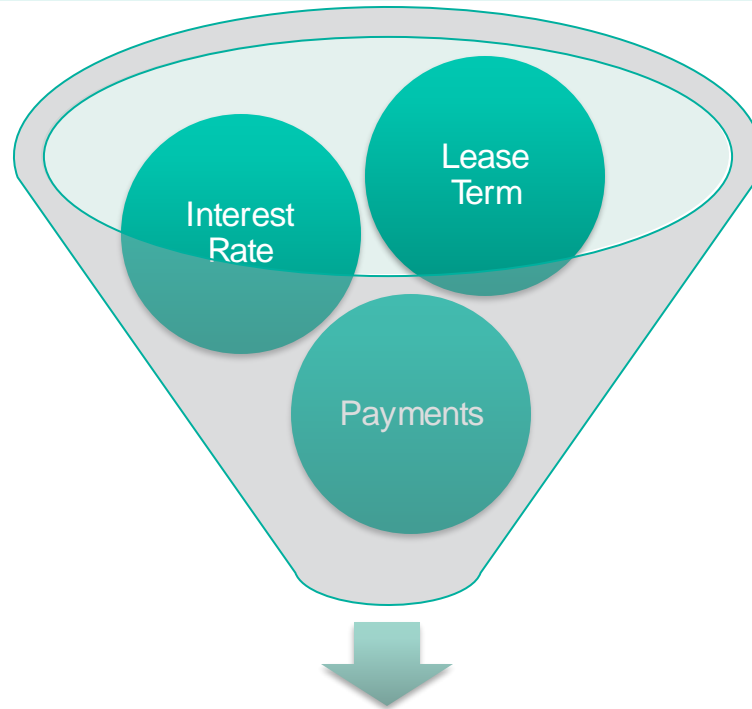
Operating Lease

- Rent Expense

Short Term Lease

- Rent Expense

CALCULATION INPUTS



Right of Use Asset/Liability (ROU)

INTEREST RATE OPTIONS

- Rate implicit in the lease.
- Incremental borrowing rate.
- Risk free rate
 - Must be for the same term as the lease

EMBEDDED LEASE



Find Service Contracts and anything with a routine payment.

REAL ESTATE TAXES AND CAM

- Net Lease
 - Variable lease payment that is not dependent on an index or rate of change is excluded from ROU calculation
- Gross Lease
 - Standalone cost of the CAM is excluded in ROU calculation or use the practical expedient to include

RELATED PARTY LEASES

Related party leases are required to be accounted for by their legally enforceable terms or conditions.

If the lease is reasonably certain to be renewed or extended

that is the term used in the calculation of the asset and liability.

DISCLOSURE AND TRANSITION

- Overall disclosures very similar in detail, but different in verbiage
- Two presentation options at transition:
 - Adjust the earliest period presented (including retained earnings)
 - Adjust only the year of adoption – however – more disclosure is required
- Transition Relief – 3 required elections

FINANCIAL STATEMENT PRESENTATION

- Assumptions:
 - 10 year lease starting 1/1/21
 - Risk free rate is .93%
 - Triple net lease - \$5,000 monthly rent with 3% annual increases
 - CAM is \$2,000/mo and reconciled at year end
- Conclusion – operating lease, CAM is excluded from ROU calculation

PAYMENT SCHEDULE

Date	Monthly	Annual	CAM	Total Payment
	Base Rents	Base Rents		
2021	\$ 5,000	\$ 60,000	\$ 2,000	\$ 7,000
2022	\$ 5,150	\$ 61,800	\$ 2,000	\$ 7,150
2023	\$ 5,305	\$ 63,660	\$ 2,000	\$ 7,305
2024	\$ 5,464	\$ 65,568	\$ 2,000	\$ 7,464
2025	\$ 5,628	\$ 67,536	\$ 2,000	\$ 7,628
2026	\$ 5,797	\$ 69,564	\$ 2,000	\$ 7,797
2027	\$ 5,971	\$ 71,652	\$ 2,000	\$ 7,971
2028	\$ 6,150	\$ 73,800	\$ 2,000	\$ 8,150
2029	\$ 6,335	\$ 76,020	\$ 2,000	\$ 8,335
2030	\$ 6,525	\$ 78,300	\$ 2,000	\$ 8,525
	<u>\$ 57,325</u>	<u>\$ 687,900</u>		
Ave Monthly Rate		<u>\$ 5,733</u>		

ENTRIES

Right of Use - Operating Lease Asset	\$	655,660	
Right of Use - Operating Lease Liability			\$ 655,660
Difference in Operating Lease Liability and Asset			\$ -
Rent Expense (base)	\$	5,733	
Rent Expense (CAM)	\$	2,000	
Right of Use - Operating Lease Liability	\$	4,496	
Cash			\$ 7,000
Operating Lease Asset***			\$ 5,229
Difference in Operating Lease Liability and Asset			\$ (733)

10 YEAR SUMMARY

Date	Cash Paid	Base Rent Expense		CAM Both	Total Rent Expense		Difference
		ASC 842	ASC 840		ASC 842	ASC 840	
2021	\$ 5,000	\$ 68,790	\$ 60,000	\$ 24,000	\$ 92,790	\$ 84,000	\$ 8,790
2022	\$ 5,150	\$ 68,790	\$ 61,800	\$ 24,000	\$ 92,790	\$ 85,800	\$ 6,990
2023	\$ 5,305	\$ 68,790	\$ 63,660	\$ 24,000	\$ 92,790	\$ 87,660	\$ 5,130
2024	\$ 5,464	\$ 68,790	\$ 65,568	\$ 24,000	\$ 92,790	\$ 89,568	\$ 3,222
2025	\$ 5,628	\$ 68,790	\$ 67,536	\$ 24,000	\$ 92,790	\$ 91,536	\$ 1,254
2026	\$ 5,797	\$ 68,790	\$ 69,564	\$ 24,000	\$ 92,790	\$ 93,564	\$ (774)
2027	\$ 5,971	\$ 68,790	\$ 71,652	\$ 24,000	\$ 92,790	\$ 95,652	\$ (2,862)
2028	\$ 6,150	\$ 68,790	\$ 73,800	\$ 24,000	\$ 92,790	\$ 97,800	\$ (5,010)
2029	\$ 6,335	\$ 68,790	\$ 76,020	\$ 24,000	\$ 92,790	\$ 100,020	\$ (7,230)
2030	\$ 6,525	\$ 68,790	\$ 78,300	\$ 24,000	\$ 92,790	\$ 102,300	\$ (9,510)
	<u>\$ 57,325</u>	<u>\$ 687,900</u>	<u>\$ 687,900</u>		<u>\$ 927,900</u>	<u>\$ 927,900</u>	<u>\$ -</u>
Ave Monthly Rate		<u>\$ 5,733</u>	<u>\$ 5,733</u>		<u>\$ 7,733</u>	<u>\$ 7,733</u>	

AMORTIZATION SCHEDULE

<u>Date</u>	<u>Cash Paid</u>	<u>Base Rent Expense</u>	<u>CAM</u>	<u>Principal</u>	<u>Interest (Rent Exp)</u>	<u>Lease Asset</u>	<u>Lease Liability</u>
1/1/2021						\$ 655,660	\$ 655,660
12/31/2021	\$ 60,000	\$ 68,790	\$ 24,000	\$ 54,645	\$ 5,355	\$ 592,225	\$ 601,015
12/31/2022	\$ 61,800	\$ 68,790	\$ 24,000	\$ 56,451	\$ 5,349	\$ 528,784	\$ 544,564
12/31/2023	\$ 63,660	\$ 68,790	\$ 24,000	\$ 58,846	\$ 4,814	\$ 464,808	\$ 485,718
12/30/2024	\$ 65,568	\$ 68,790	\$ 24,000	\$ 61,312	\$ 4,256	\$ 400,274	\$ 424,406
12/31/2025	\$ 67,536	\$ 68,790	\$ 24,000	\$ 63,861	\$ 3,675	\$ 335,159	\$ 360,545
12/31/2026	\$ 69,564	\$ 68,790	\$ 24,000	\$ 66,494	\$ 3,070	\$ 269,439	\$ 294,051
12/31/2027	\$ 71,652	\$ 68,790	\$ 24,000	\$ 69,212	\$ 2,440	\$ 203,089	\$ 224,839
12/30/2028	\$ 73,800	\$ 68,790	\$ 24,000	\$ 72,015	\$ 1,785	\$ 136,084	\$ 152,824
12/31/2029	\$ 76,020	\$ 68,790	\$ 24,000	\$ 74,918	\$ 1,102	\$ 68,396	\$ 77,906
12/31/2030	\$ 78,300	\$ 68,790	\$ 24,000	\$ 77,906	\$ 394	\$ -	\$ -
	<u>\$ 687,900</u>	<u>\$687,900</u>		<u>\$ 655,660</u>	<u>\$ 32,240</u>		
Ave Monthly Rate		<u>\$ 5,733</u>					

A COMPANY, INC.

**BALANCE SHEET
 DECMEBER 31, 2021**

	ASC	
ASSETS	842	840
Current Assets		
Cash and cash equivalents	\$ 654,365	\$ 654,365
Accounts receivable	5,465,753	5,465,753
Inventory	320,576	320,576
Prepaid expenses	20,000	20,000
Total Current Assets	6,460,694	6,460,694
Other Assets		
Equipment, net	3,303,876	3,303,876
Operating lease right of use asset, net	592,225	-
Total Other Assets	3,896,101	3,303,876
TOTAL ASSETS	\$ 10,356,795	\$ 9,764,570

A COMPANY, INC.

**BALANCE SHEET
 DECMEBER 31, 2021**

	ASC	
LIABILITIES	842	840
Current Liabilities		
Current portion of long-term debt	\$ 368,473	\$ 368,473
Current portion of lease liability	56,451	-
Accounts payable	514,683	514,683
Accrued payroll	235,496	235,496
Total Current Liabilities	1,175,103	1,118,652
Long-Term Liabilities		
Long-Term debt, net of current portion	2,765,498	2,765,498
Long-Term lease liability, net of current portion	544,564	-
Total Long-Term Liabilities	3,310,062	2,765,498
Total Liabilities	4,485,165	3,884,150
Stockholders' Equity	5,871,630	5,880,420
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,356,795	\$ 9,764,570

RATIOS

- Current Ratio
 - Drops from 5.78 to 5.5
- Debt Coverage Ratio
 - Drops from 1.54 to 1.47
- Debt to Equity
 - Increase from .47 to .56

FUTURE STEPS

1. Find leases and service contracts.
2. Lease capitalization policy.
3. Renew, adjust or document related party leases.
4. Review loan covenants with your banker.

Q & A

OUR NEXT WEBINAR EVENT

Q&A BUSINESS UPDATES & TAX REDUCING STRATEGIES

November 3 at 11 am

KEY TOPICS INCLUDED:

Legislative changes pertaining to business owners.

Popular tax deductions & credits.

Business strategies such as Cost Segregation Studies, Qualified Opportunity Zone, bonus depreciation, and more.

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