



Audi



Accounting



Short-term lease accounting

June 22, 2021

The new FASB and International Accounting Standards Board (IASB) lease accounting standards require that organizations recognize assets and liabilities for leases with lease terms of more than 12 months.

In today's work environment we are seeing a shift in the number of employees working remotely. This trend is having an effect in the Companies evaluation of their current space. Companies are reviewing its space because it is a cost saving option to their bottom line. This major shift in the number of employees working remotely, and lease negotiations are occurring frequently, particularly for real estate. These negotiations can change the lease from a long-term lease to short-term lease.

Topic 842 does not require companies to report leases with terms shorter than 12 months. However, the accounting impact is more complex, for instance:

- terms in the guidance state that companies must consider their reasonably certain holding period for that lease to meet the definition of a short-term lease
 - o a 12-month lease with renewable options
 - o a lease that is unlikely that it will be replaced
- companies need to disclose how much of their lease expense relates specifically to short-term leases in the footnotes of their financial reports

Amid the current situation, where there are new developments of the way we do business now, accounting teams should monitor any updates related with ASC 842 and keep the lines of communications open with management and their auditors to be clear of the effect of any lease negotiation that could affect their accounting records and financial statements presentation.

Source: Journal of Accountancy May 2021 "Tips for lease accounting amid financial uncertainty".



Johanna Pérez
Partner Head of Audit
T (1) 787 754 1915
E johanna.perez⊚pr.gt.com

We are committed to keeping you up to date of all developments that may affect the way you do business in Puerto Rico. Please contact us for further assistance in relation to this or any other matter.



DISCLAIMER: This update and its content do not constitute advice. Clients should not act solely on the basis of the material contained in this publication. It is intended for information purposes only and should not be regarded as specific advice. In addition, advice from proper consultant should be obtained prior to taking action on any issue dealt with this update. Information provided in this publication may change in the future and such change may be applied retroactively. Kevane Grant Thornton LLP does not assume the responsibility to update this communication if the applicable laws change.

© 2021 Kevane Grant Thornton LLP All rights reserved. Kevane Grant Thornton LLP is a member firm of Grant Thornton International Ltd [GTIL]. GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms are not agents of, and do not oblete, one another and are not liable for one another's acts or omissions. Please visit www.grantthornton.pr for further details.