



# Short-term lease accounting

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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
  - a 12-month lease with renewable options
  - 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](mailto:johanna.perez@pr.gt.com)

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