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New FASB Standards for Reporting Leases Taking Effect

By: Gregg Bossen, CPA, Founder/CEO of QuickBooks Made Easy

Nonprofits operate under accounting standards governed by the Financial Accounting Standards Board (FASB), which sets and adjusts the standards for financial reporting – also known as the Generally Accepted Accounting Principles (GAAP) – so there is a consistent set of standards for nonprofits and for-profit entities in the U.S.

FASB issued several new standards in 2016. One of those, the standard on how to report multi-year leases on audits, reviews, and compilations, known as ASC 842, did not take effect until this year, in part to allow entities sufficient time to prepare for the change and in part because of delays relating to the pandemic. Although this new FASB standard technically did not apply to nonprofits or for-profit companies until their first fiscal year beginning after December 15, 2021, some groups have already implemented the new standard.



Gregg Bossen, CPA,
Founder/CEO of
Quickbooks Made Easy

To help our readers understand the basics of this new requirement, we interviewed Gregg Bossen, Founder of [QuickBooks Made Easy™ for Nonprofits](#) and a practicing CPA with his own full-service accounting firm located in Atlanta, Georgia.

“This is a real change in accounting,” Gregg explained. “Nonprofits need to know about it. Their accountant will handle it the first year, and their bookkeeper will have to do journal entries each year after that. In 2023, the nonprofit should coordinate with their auditor and/or their bookkeeper to properly record the leases.”

According to Gregg, if your nonprofit has a lease on its books of longer than twelve months – for example, for office or other facility space, copiers, vehicles, and even some phones – then your books will now need to show the total of all future payments under the lease as a liability and an asset rather than just showing the payments as a simple operating cost like rent.

Gregg explained, “If you have a five-year lease, for example, in the past, you wrote your rent check once a month, you expensed it, and you were done. In the future, you’ll have to treat it more like a loan. You’ll have to figure out what its present value is of total future lease payments, and record that amount on the books as a liability and an asset.”

Bottom line on what nonprofits need to know

- Who this affects: any nonprofit that has any lease longer than one year.
 - Nonprofits that have multiple leases for property such as office space, copiers, or vehicles will be most affected.
- Who needs to track it: Nonprofit CEOs, CFOs, auditors, bookkeepers, and CPAs.
- Where to get more information: speak with your bookkeeper/auditor now.

- When the new standard takes effect:
 - Auditors will start implementing the new standard in 2023. After that, bookkeepers will have to do journal entries every year.

Technical stuff (mostly for your accountant)

The new standard makes it complicated to report leases because you have to calculate the “present value” of the lease and book it. Future rents will be discounted and reported more like a loan, with interest reported and the “right of use” of the asset amortized. Instead of pointing to an expense, part of the lease payment will point to a loan, part will point to interest, and then you have to depreciate the “right of use” asset. This new complexification likely means few entities will be able to apply this new standard without using an accountant.

Practically speaking, it’s probable that most people will wait until the end of their fiscal year and then have the auditor do the calculations for their audit, review, or compilation. Thus, few bookkeepers will do anything differently this year (2022), knowing that the auditor will fix it with a journal entry at the end of the year.

What’s the purpose of the change?

With this method, liabilities are booked so that anyone looking at a nonprofit’s books (a bank, the board, or a funder, for example) can see the complete financial picture. It enhances financial transparency: when someone looks at your balance sheet and they want to see what your liabilities are, the future obligations you have under any lease will be included.

I thought my nonprofit was already doing this?

This change applies to “operating leases,” according to Gregg. With “capital leases,” this type of reporting was already required. If you leased a copier and at the end of the lease the copier belonged to you, you were basically purchasing a copier, and you always had to book it as a liability: that was a capital lease. With operating leases, there’s not really an asset you’re getting at the end, so it’s called a “right of use” asset.

Additional Resources:

- [Lease accounting urgency ramps up for not-for-profits](#) (Journal of Accountancy)
- [What Nonprofits Need to Know with Introduction of New Lease Standards](#)
(Marcum LLP)

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