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Prepare Now for 2018 Accounting Rules

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Ellen Bartholemy: "People do need to work closely with their accountants on these new rules to see the impact that it is going to have."

IRVINE, CA—Lessees need to start preparing now for the new lease accounting and revenue recognition changes that will likely go into effect in 2018, according to **Ellen Bartholemy**, director of accounting services at **Hall & Co.**She is referring to **new accounting rules** that were approved this year that will—once in effect—change the way lessees record lease payments. Bartholemy says that there are many people in the dark about the new standards, and that everyone should be working with their accountant to plan for the change.
"There are companies that aren't considering these changes," she tells GlobeSt.com. "People do need to work closely with their accountants on these new rules to see the impact that it is going to have. It is going to be very important to have an accountant that is well versed in real estate. They need to be starting now, even if it isn't going to be effective until 2018. They really need to be thinking about how the leases that they are in now or that they are signing now are going to be affecting their balance sheets and their banking. There isn't going to be an exception made for existing leases, so lessees really need to start planning for this."

Bartholemy explains that one of the functions of these new rules will change the reporting for lessees. "Lessees are going to be required to record lease payments as a liability, and that is a huge change," she adds. "Historically, the lease payments were a disclosure item in the financial statements; they weren't recorded in the balance sheet. So, it will affect the equity in the company and it will affect their assets and liabilities."

It isn't only business owners that need to be award of the changes, either. Lessees and owners/operators will also need to make changes. "Bankers need to understand this impact too. A lot of our clients have bank covenants or have to have a certain amount of net worth," says Bartholemy. "This could potentially affect their net worth and the debt to equity ratios."

To add more complexity, the IRS is also looking at how these rules will affect book taxes. This could mean that companies will have to file a change of accounting method, and according to Bartholemy, that is not something that companies can do on their own.

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