

The New US GAAP Treatment of Leases and the Impact on Financial Ratios

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Abstract

As of January 1, 2019, the accounting rules as they relate to leases will change materially in the way US companies report lease obligations. Since its inception more than forty years ago, lease accounting has been a major controversial issue in accounting reporting. This change was in the making for over a decade, and in response to the Sarbanes-Oxley Act, with its major concern focusing on off balance sheet debt. This case study focuses on differences in the treatment of the new lease requirements, and the impact of these differences on financial statements and selected financial ratios. Students take present GAAP financial statements and prepare the balance sheet, cash flow statement and income statement based on the new lease rules. IFRS lease requirements will also be addressed as part of this case study. This case study is suitable for use at both the undergraduate and graduate levels. It may be used in an Intermediate Accounting II, Accounting Theory, Financial Statement Analysis or an International Accounting class, as well as an Investment Finance course. This case study will require students to research current and proposed US GAAP as well as IFRS pronouncements. The case can be offered as an individual case study or as a group project.