

gasb 87 implementation guide

Gasb 87 implementation guide is a critical resource for governmental entities and organizations that need to comply with the new accounting standards for leases. The Governmental Accounting Standards Board (GASB) introduced Statement No. 87 to improve financial reporting by providing a more accurate representation of an entity's leasing activities. This article delves into the key aspects of the GASB 87 implementation guide, its significance, and practical steps for effective adoption.

Understanding GASB 87

GASB 87 fundamentally changes how government entities account for leases. Previously, leases were often classified as operating or capital leases, leading to inconsistent reporting practices. With the introduction of GASB 87, all leases are recognized on the balance sheet, which provides a clearer picture of a government entity's liabilities and assets.

Key Objectives of GASB 87

The primary objectives of GASB 87 include:

1. **Increased Transparency:** By requiring the recognition of lease liabilities and assets, GASB 87 enhances the transparency of government financial statements.
2. **Consistency:** The new standard aims to create a uniform approach to lease accounting across all governmental entities.
3. **Improved Comparability:** With all leases reported on the balance sheet, stakeholders can more easily compare the financial health of different entities.

GASB 87 Implementation Guide Overview

The GASB 87 implementation guide serves as a comprehensive manual that helps entities navigate the complexities of the new leasing standard. It covers various aspects of lease accounting, including definitions, measurement, and disclosure requirements.

Key Components of the Implementation Guide

1. **Definitions:** The guide provides clear definitions of key terms such as "lease," "lessee," "lessor," and "lease term," ensuring a common understanding among preparers of financial statements.
2. **Lease Classification:** Unlike previous standards, GASB 87 requires all leases to be classified as financing arrangements. This shift necessitates a reevaluation of existing

lease agreements.

3. Measurement of Lease Liabilities and Assets:

- Initial Measurement: Entities must record lease liabilities at the present value of future lease payments.

- Lease Assets: A corresponding lease asset is recognized, representing the right to use the leased property.

4. Subsequent Measurement: The guide outlines how to handle subsequent measurements, including adjustments for lease modifications and re-measurements.

5. Disclosures: GASB 87 emphasizes the importance of disclosure, requiring entities to provide detailed information about their lease obligations and related expenses.

Steps for Implementing GASB 87

To successfully implement GASB 87, governmental entities should follow a structured approach. Here are the key steps:

1. Form a Project Team

Establish a dedicated project team that includes finance, accounting, and operational staff. This team will be responsible for overseeing the implementation process and ensuring compliance with the new standards.

2. Conduct a Lease Inventory

Entities should conduct a comprehensive inventory of all existing leases. This inventory should include:

- Property leases (e.g., buildings, land)
- Equipment leases
- Any other agreements that may qualify as leases under GASB 87

3. Evaluate Lease Agreements

Once the inventory is complete, evaluate each lease agreement to determine its classification and measurement requirements. Consider the following:

- The terms of the lease
- Renewal options
- Variable lease payments
- Any embedded leases

4. Calculate Lease Liabilities and Assets

Utilize the present value of future lease payments to calculate lease liabilities. For this, entities may need to apply appropriate discount rates. Similarly, calculate the corresponding lease assets based on the recognized lease liabilities.

5. Update Financial Reporting Systems

Modify existing financial reporting systems or implement new software solutions to accommodate the changes brought about by GASB 87. Ensure that the systems can track lease liabilities, assets, and related expenses accurately.

6. Train Staff

Provide training to relevant staff members on the new standards and the importance of compliance. This training should cover the calculation of lease liabilities, the recognition of lease assets, and the reporting requirements.

7. Prepare Financial Statements

As the implementation date approaches, prepare financial statements in compliance with GASB 87. Ensure that disclosures related to leases are thorough and transparent, as this will provide stakeholders with essential information regarding lease obligations.

Challenges in Implementing GASB 87

While the implementation of GASB 87 is essential, it does not come without challenges. Some common obstacles include:

- **Data Collection:** Gathering all necessary lease data can be time-consuming and complex.
- **System Limitations:** Existing accounting systems may need significant updates or replacements to comply with the new standards.
- **Staff Training:** Ensuring that all relevant personnel understand the new requirements can be challenging, especially in larger organizations.

Conclusion

The **GASB 87 implementation guide** provides essential guidance for governmental entities transitioning to the new lease accounting standards. By following the outlined steps and addressing potential challenges, organizations can ensure compliance and enhance the transparency of their financial reporting. As the landscape of governmental accounting continues to evolve, staying informed about changes like GASB 87 is crucial for maintaining fiscal responsibility and accountability. By embracing these standards, entities not only align with regulatory requirements but also improve their financial management practices, ultimately benefiting stakeholders and the public.

Frequently Asked Questions

What is GASB 87?

GASB 87 is a statement issued by the Governmental Accounting Standards Board that establishes new criteria for lease accounting for state and local governments, requiring most leases to be recognized as liabilities and assets.

When did GASB 87 become effective?

GASB 87 became effective for reporting periods beginning after June 15, 2021, with earlier application encouraged.

What are the main changes introduced by GASB 87?

The main changes include the requirement to recognize lease assets and liabilities on the balance sheet, which represents the right to use the leased asset and the obligation to make lease payments.

How does GASB 87 affect financial reporting for local governments?

GASB 87 significantly impacts financial reporting by increasing transparency and comparability in governmental financial statements through the inclusion of lease liabilities and assets.

What types of leases are affected by GASB 87?

GASB 87 applies to all leases except for short-term leases (12 months or less) and leases of intangible assets, which are excluded from its scope.

What resources are available for implementing GASB

87?

Resources for implementing GASB 87 include the official GASB implementation guide, training materials, webinars, and guidance from accounting firms and professional associations.

What challenges might organizations face when implementing GASB 87?

Organizations may face challenges such as data collection for lease agreements, training staff on new accounting practices, and determining the appropriate measurement of lease liabilities and assets.

What is the significance of the implementation guide issued by GASB for GASB 87?

The implementation guide provides clarifications and examples to help organizations apply the new standards correctly, addressing common questions and scenarios faced during the transition.

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