Extreme
Customer-Driven Networking

Data Sheet

Highlights

- Changes in Balance Sheet
- Determining the Asset Amount
- Determining Whether the Arrangement is a Lease

Where Your Business May Be Impacted

- Treasury
- IT/Operations
- Tax

Despite these changes, leasing assets will remain an effective tool for acquiring new technology with the benefit of paying over time. Most businesses will find that the capitalized asset cost and the liability associated with that asset should be lower than the purchased asset value.

Lease Accounting Changes and Digital Transformation: What You Need to Know

In a joint effort with the International Accounting Standards Board (IASB), the Financial Accounting Standards Board (FASB) has issued a revision to existing accounting policies to improve financial reporting of leasing transactions. Effective in 2019, these new guidelines will require a significant amount of new financial statement disclosures, both quantitative and qualitative.

- Capital leases will be referred to as "finance leases," however, operating leases will undergo much of the accounting guideline changes.
- Operating leases with a term greater than 12 months will need to have both the asset and the liability associated with it recorded on the balance sheet.

Changes in the Balance Sheet

- Businesses will be required to record the value of a right-of-use asset on the balance sheet, as well as documenting accompanying liability for minimum lease payments. This is valid for leases with terms greater than one year.
- Initial balance sheet amounts for both operating and finance leases are the same, but the depreciation pattern will differ depending on lease classification. As a result, balance sheet amounts in future years will not be the same.

Determining the Asset Amount

Contracts may contain both lease and non-lease components. Lessees must determine the services they are receiving and allocate the consideration to these components using observable prices, when available.

Example: a lease payment of $1,000 per month could include a component which is for a separate identifiable benefit, such as maintenance services. That identifiable portion of the payment is not part of the right-to-use asset, and therefore should not be included in the recorded asset value.

Determining Whether the Arrangement is a Lease

Customers will be required to identify whether a contract contains a lease. Not all leases will be labeled as such, and leases may be embedded in larger arrangements.

Example: managed services arrangements often include specific assets or personal property and equipment (PP&E). If PP&E are identified in an arrangement, explicitly or implicitly, both the customer and supplier must determine whether the customer controls the use of the PP&E throughout the period of the contract.

Under the new regulations, determination of whether an arrangement is or contains a lease is critical. A business' failure to identify leases, including those embedded in service arrangements, is likely to lead to a financial statement error, given the new requirements that all leases, other than short-term leases, be reflected on the balance sheet.

Where Your Business May Be Impacted

- **Treasury**: Losing the benefit of off-balance sheet financing on operating leases with a committed term of 12 months or longer may warrant a reassessment of lease-buy decisions and initiate a review of debt covenant compliance.
- **IT/Operations**: Existing leases will not be grandfathered, meaning that any current leases may come onto the balance sheet. Businesses should review current processes and system controls to ensure compliance with the new regulations.
- **Tax**: Assets under existing and new operating leases with committed terms over 12 months will be on the balance sheet and may affect certain state and local tax apportionment calculations, and will alter companies' book/tax difference computations.

Regardless of Change, the Positive Business Impacts of Financing New Technology Persist

Despite these changes, there are many benefits to financing the acquisition of new technology. Flexible terms and structures, cash management, and access to additional lines of credit are just a few of these benefits.

In addition to providing a variety of leasing options, Extreme Networks also offers Extreme Network Subscription. With a 60-day committed term, this unique financial acquisition tool may provide off-balance sheet options. Contact your Extreme Capital representative for more information at ExtremeCapital@extremenetworks.com today.

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