

Getting Started with Lease Accounting

Presented by:
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LEASERUNCH®



WEBINAR |
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Getting Started with Lease Accounting

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Today's Moderator



Getting Started with Lease Accounting

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LEASECRUNCH®



Webinar

Getting Started with Lease Accounting

LEASE@RUNCH®

About LeaseCrunch

Who We Are

LeaseCrunch, the fastest and easiest lease accounting software on the market, is a comprehensive, cloud-based solution.

What We Do

LeaseCrunch helps organizations implement the new lease accounting standards ASC 842, IFRS 16, GASB 87 and GASB 96.

Designed By

CPAs
Former Big 4 auditors
Former FASB staff
Accounting academics



LEASECRUNCH®

New lease standard effective dates for FASB:

public companies

fiscal years starting
after 12/15/18

all other organizations

fiscal years starting
after 12/15/21

Agenda

- Overview of ASC 842
- Before You Get Started
- Identify the Entire Lease Portfolio
- Review Lease Data
- Business Processes for Leases
- Assess Current Systems
- Review New Accounting & Disclosure Requirements
- Discuss with Key Stakeholders

Overview of ASC 842

What does ASC 842 accomplish?

- Increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the Balance Sheet. (FASB)
- Adds operating leases to the Balance Sheet alongside finance leases
- Removes Deferred Rent and Prepaid Expense
- Footnote Disclosure



Overview - Key Terms

Lease Liabilities

- Present Value of committed future payments.

ROU Asset

- An asset that represents a lessee's right to use an underlying asset for the lease term.

	Lease Liability
+	Initial Direct Costs
+/-	Prepaid (accrued) Lease Payments
-	Unamortized Lease Incentives
=	ROU Asset



Overview - Key Terms

Embedded Leases

- A contract may contain a lease even if it's a service contract.
 - <https://www.leasecrunch.com/tools-guides>

Leasehold Improvements

- Only included if cash is paid to the Lessee

Discount Rates

- Use rate implicit in lease when readily determinable
- Practical expedient for non public organizations – Risk Free rate



Overview - Key Terms

Related Parties

- Contract provisions rule, especially for lease term
- It's about economic incentive, not relationships

Materiality

- No materiality explicitly included
- Some organizations follow their Property, Plant and equipment materiality standards

Equity

- Rarely affected because it all flows through the ROU Asset



When is the new lease standard effective for nonpublic organizations?

- A. It's already in effect
- B. Fiscal years starting after 12/15/21
- C. It will never go into effect

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The background is a solid blue color. Overlaid on this are three large, overlapping circles of different shades of blue. The leftmost circle is the darkest blue, the middle one is a medium blue, and the rightmost one is the lightest blue. The circles overlap in a way that creates a sense of depth and movement from left to right.

Before You Get
Started

Before You Get Started

Be thoughtful

- Take time to learn about ASC 842
- Don't wait to get started
- ASC 840 – Are you in compliance?
 - Incorrect information under ASC 840 complicates the transition to ASC 842
- Determine your process first
- Prioritize and determine policy elections
- Identify full lease portfolio by asset class
- Abstract each contract/lease once
- Oversee the process



Before You Get Started

Evaluate how to Leverage Technology

- Enter leases
- Leverage bulk import templates where available
- Understand what can be added after a template is imported
- Validate as you go
- Review the outputs



Before You Get Started

Spreadsheets

- Error prone
- Quantitative footnote disclosure is complicated
- Lease revisions – difficult to “freeze” spreadsheet reporting
- CPA Firms might charge more to audit a spreadsheet

Lease Term Renewals

- Evaluate if leases will be renewed





Identify the Entire
Lease Portfolio

Identify the Lease Portfolio

All Leases!

- ASC 842 applies to all leases, not just Real Estate Leases

Think About Locations

- Locations
- Departments

Think About Signers

- Multiple Lease Signers



Identify the Lease Portfolio

Recurring Expenses

- Review recurring expenses for lease payments

Review GL Expense Accounts

- Look for keywords that could indicate a lease (these could be non-monthly payments)
 - Rent
 - Lease
 - Subscription
 - Contractor



Identify the Lease Portfolio

Leases

- Office space
- Vehicles
- Photocopiers
- Equipment
- Computers
- Furniture
- Postage Machines
- Phone Systems



Identify the Lease Portfolio

Embedded Leases – Where to find them?

- A contract may contain a lease even if it's a service contract.
- IT Services
- “As a Service” contracts
- Sales Contracts
- Supply Contracts

Does your contract have embedded leases, use our identifier:
<https://www.leasecrunch.com/embedded-lease-identifier>



Identify the Lease Portfolio

Contracts - Excluded

- Leases of 12 months or less, if this is an elected policy
- Intangible assets like SAAS software
- Exploration of non-generative resources, like minerals
- Biological assets, like crops
- Inventory
- Assets under construction
- Low-dollar leases

Does your contract have embedded leases, use our identifier:
<https://www.leasecrunch.com/embedded-lease-identifier>



TRUE

or

FALSE

ASC 842 applies only to Real Estate leases.

TRUE

or

FALSE

ASC 842 applies only to Real Estate leases.



Review Lease Data

Review Lease Data

Create an abstract of each lease

- Touch each lease only once

Lessor

- Document the Lessor

Dates

- Commencement
- Termination



Review Lease Data

Asset Details

- Type
- Description
- Asset Location

Terms

- Payments Streams
- Termination penalties
- Bargain purchase options
- Renewal term payments
- Residual value guarantees
- Early Termination Info
- Renewal Provisions



Review Lease Data

Incentives

- Payments (at or before Start Date) made by the lessor to the lessee
 - Example: Lessor pays cash to lessee for a furniture purchase
- Reimbursement or assumption by a lessor of costs of a lessee
 - Example: Lessor pays off lessee's remaining payments from previous lease in order for them to sign new lease early.

Initial Direct Costs (IDCs)

- Costs that would not occur if the lease is not signed
- Does not include legal fees or tax advisory fees



Review Lease Data

Variable Expenses & Non-Lease Payment Stream

- Non-Lease Payments: CAM (Unless policy election is made)
- Variable Expenses: payments made by lessee for right to use an underlying asset that vary because of changes in facts or circumstances
- Non-Lease Components: required to separate lease and non-lease components (Practical Expedient)

Useful life of the asset

- To determine amortization period (ROU Asset Life)



Review Lease Data

Existing Balances under Previous Lease Guidance

- Remaining rental payments under ASC 840
- Discount rate at transition date
- Carrying amount of capital lease obligation and asset

Other

- Signers
- What other information do you want to document for your leases?





Business Process for Leases

Business Processes

Evaluate Business Processes

- Who are the responsible parties for managing leases?
- Are areas other than Accounting involved?
 - Should they be?
- Is lease processing centralized?
- How do you communicate across functions?



Business Processes

Future Business Processes

- Will the responsible parties for managing leases remain the same?
- Are current resources sufficient?
 - Staffing
 - Systems
- Are areas other than Accounting involved?
 - Should they be?



Business Processes

Future Business Processes

- Centralized Lease Processing
 - If the process for managing leases wasn't centralized before, should it be now?
- Evaluate Contracts before they are signed to review for leases.
- Are current communication methods for the organizations sufficient for also managing leases?





Assess Current Systems

Assess Current Systems

Use of Technology

- Are spreadsheets or other manual tracking currently used?
- It's likely spreadsheets won't work for ASC 842
- Does current accounting software handle lease accounting?
- Does the accounting system include all required GL accounts?
 - ROU Assets
 - Short-Term Lease Liabilities
 - Long-Term Lease Liabilities
 - Operating Lease Expense
 - Finance Lease Expense (Amortization Expense and Interest Expense)




Assess Current Systems

Use of Technology

- Select a Lease Accounting system
- Set up Admin
- Make policy elections
- Import or Enter data
- Validate
 - Validate
 - Validate
- How will your firm reconcile lease payments?





Review New Accounting & Disclosure Requirements

Review New Requirements

Policy Elections & Practical Expedients

- Lease vs non-lease components
- Short-term leases
- Leasehold improvements
- Transition leases



Review New Requirements

Post Implementation Leases

- Who is responsible for entering leases?
- Who is responsible for reviewing contracts for embedded leases?
- What is the process for determining:
 - Classification criteria
 - Fair Market Value
 - Economic Life of the lease asset
 - Discount Rate



Review New Requirements

Post Implementation Leases

- Determine how ROU Assets and Lease Liabilities will be disclosed on the financial statements:
 - Separately in Footnote
 - Within Balance Sheet and Income Statement
 - How will new disclosures be handled?





Discuss with Key
Stakeholders

Discuss with Stakeholders

Changes to the Balance Sheet

- Board of Directors
- Owners
- Audit Committee
- Investors
- Lenders
 - Debt Covenants



Who should you discuss the Balance Sheet changes with?

- A. Board of Directors
- B. Investors
- C. Lenders
- D. All of the above

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Selling a business can result in a significant – and costly – burden: taxes. Many times the burden can be minimized with the right education and awareness of the different tax structures that can be leveraged to maximize your return when selling your business. PB Mares' Director of Succession Planning, **Risë Flenner**, will present her expertise for creating a smart tax structure for your business that could ultimately help you save money. We look forward to having you join us!

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Live Webinar
R&D TAX CREDITS

Stealth Weapon: R&D Tax Credits
October 6, 2021 | Noon to 1PM

Tax credits are available to companies of all sizes in a number of industries who have invested time, money and resources in improving their products and processes. Don't miss out on tax credits that you're eligible for. Taking advantage of the specific tax savings opportunities available to you is a smart business strategy. PB Mares' tax experts, **Nicholas Perrine, CPA**, Partner and leader of our Credits & Incentives Team, along with Grayson Thomas, CPA, will help you understand more about this stealth weapon in your business strategy.

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TOP 10 TAX STRATEGIES

Top 10 Tax Strategies for 2021
November 3, 2021 | Noon to 1PM

Join PB Mares' Partner and tax expert, **Jeffrey Williams, CPA**, as he covers the ten most practical strategies for 2021 to save you money – if you implement by December 31. We look forward to having you join us!

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December 1, 2021 | Noon to 1PM

Partner and Not-for-Profit Team Leader, **Bo Garner**, will share observations and insights on the challenges and opportunities **not-for-profits** face in the year ahead as they fulfill their missions in a changing economic, societal, and technological landscape. Based on direct experience with numerous organizations, Bo will