## **Getting Started with Lease Accounting**

### Presented by: Jess Vento LEASE ERUNCH®









August 4,

## **Getting Started with Lease Accounting**

#### Andrea P. Sardone Today's Moderator





## **Getting Started with Lease Accounting**

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# 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



# 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.
  - <u>https://www.leasecrunch.com/tools-guides</u>

#### 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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# 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



### All Leases!

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

### **Think About Locations**

- Locations
- Departments

### **Think About Signers**

• Multiple Lease Signers



### **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



#### Leases

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



### 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: <u>https://www.leasecrunch.com/embedded-lease-identifier</u>

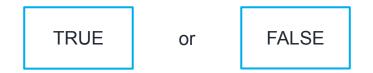


#### **Contracts - Excluded**

- 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

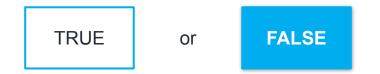
Does your contract have embedded leases, use our identifier: <u>https://www.leasecrunch.com/embedded-lease-identifier</u>





#### ASC 842 applies only to Real Estate leases.





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#### Create an abstract of each lease

• Touch each lease only once

#### Lessor

• Document the Lessor

#### Dates

- Commencement
- Termination



### **Asset Details**

- Туре
- Description
- Asset Location

### Terms

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



#### 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



#### 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)



#### 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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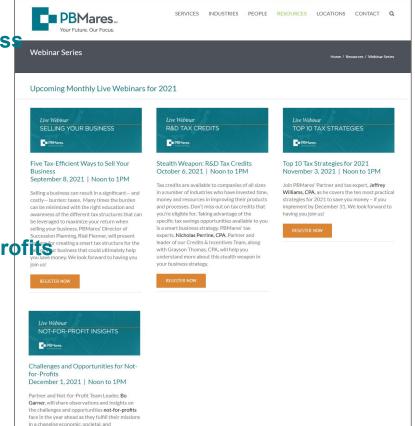
**Top 10 Tax Strategies for 2021** November 3, 2021

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technological landscape. Based on direct experience with numerous organizations, Bo will