

Getting Started with Lease Accounting

*Presented by:
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LEASEERUNCH®



WEBINAR

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Getting Started with Lease Accounting

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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 gradient of blue, transitioning from a darker shade on the left to a lighter shade on the right. Three overlapping circles are positioned on the left side of the image. The circles are in shades of blue, with the innermost circle being the darkest and the outermost being the lightest. The text is white and positioned to the left of the circles.

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



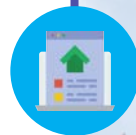
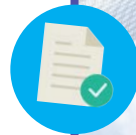
Identify the Lease Portfolio

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?



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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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- Five Tax-Efficient Ways to Sell Your Business
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- Top 10 Tax Strategies for 2021
- Challenges and Opportunities for Not-for-Profits
- What Can You Do to Prepare for the Next Cyber Attack?
- Estate Planning: The Family Love Letter

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The screenshot displays the PB Mares website's Webinar Series page. At the top, the PB Mares logo and navigation menu (SERVICES, INDUSTRIES, PEOPLE, RESOURCES, LOCATIONS, CONTACT) are visible. Below the navigation, the page is titled "Webinar Series" and "Live Webinars and Recordings for 2021". The main content area features a grid of nine webinar recording cards, each with a title, date, and a "VIEW RECORDING AND SLIDES" button. The cards include:

- Challenges and Opportunities for Not-for-Profits** (December 1, 2021)
- Top 10 Tax Strategies for 2021** (November 3, 2021)
- What Can You Do to Prepare for the Next Cyber Attack?** (October 13, 2021)
- Stealth Weapon: R&D Tax Credits** (October 6, 2021)
- Five Tax-Efficient Ways to Sell Your Business** (September 8, 2021)
- Estate Planning: The Family Love Letter** (July 7, 2021)
- Lease Accounting** (August 4, 2021)

Each card provides a brief description of the webinar's content and the speakers involved. For example, the "Challenges and Opportunities for Not-for-Profits" card mentions speakers Bo Garner, Jeff Williams, Nick Perine, and Ed Yeager. The "Estate Planning: The Family Love Letter" card lists speakers Sean R. O'Connell, CPA, PFS, CFPA, and Robi Ramez, CPA, PFS, JD, PHA.



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