

Implementing the Lease Standard, ASC 842

In Association with
LEASE^{ER}RUNCH[®]



WEBINAR

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Implementing the Lease Standard, ASC 842

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Implementing the New Lease Standard
ASC 842



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

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Agenda

- Implementation Best Practices
- LeaseCrunch Demo

Effective Dates

Public Companies

Fiscal years starting after 12/15/18

All Other Organizations

Fiscal years starting after 12/15/21



When is the new lease standard effective for non-public organizations?

- A. Now!
- B. Fiscal years beginning after December 15, 2022
- C. It will never go into effect

A blue-tinted photograph of two people shaking hands in a business setting. The image is overlaid with a semi-transparent blue filter. In the top right and bottom left corners, there are decorative orange concentric circles of varying radii.

Implementation Best Practices





Implementation Best Practices

Organize a Project Team

- Executive Level Sponsorship
- Determine which departments should be involved
 - Legal, IT, Procurement, Treasury, Real Estate, Facilities, Marketing
- Identify who is responsible for
 - Reviewing contracts for embedded leases
 - Reviewing leases
 - Data Entry
 - Reports & Consolidations
- Determine new processes and review for sustainability



Implementation Best Practices

Organization Responsibility Decisions

- Develop employee training on ASC 842
- Develop staff communication plan
- Identify Lease and Contract appointed signers
- Work with IT to define software requirements
- Currency Translations



Implementation Best Practices

Lease Portfolio

- Identify the lease portfolio
- ASC 840 – Are you in compliance
- Policy Elections
- Abstract each contract/lease once
- Embedded Leases
- Identify data gaps



Implementation Best Practices

Policy Elections

- Discount Rate
 - Use rate implicit in the lease when readily determinable.
 - Practical expedient for non-public organizations: Risk Free Rate
 - Transition Leases: One approach for all : Rates for Remaining Term or the entire term
- Materiality
 - Align with Fixed Asset Capitalization Policies
 - Think about Day 1 Impact
 - Effect on Loan Covenants and Debt Ratios



Implementation Best Practices

Documentation

- Identify Classes of Assets
- Embedded Leases – why are contracts included or excluded
- Policy Elections
- Judgement Based Decisions
- Transition Approach



Implementation Best Practices

Learn about ASC 842

- Understand ASC 842
 - Key Terms
 - Lease Definition
 - Calculations
 - Reporting Requirements
- Understand Impacts to Financial Statements
- Do not underestimate the time to implement



Implementation Best Practices

Setting up Systems

- GL Accounts
- Variable Expenses
- Bulk Imports
 - Exclusions
 - Validation
- Customization



Implementation Best Practices

Transition Leases

- Transition Relief
 - Package of 3
 - Hindsight
 - Discounts
- Remaining Lease Term – include reasonably certain
- Remaining Lease Payments
- Identify Existing Balances



Implementation Best Practices

Initial Measurement – Transition Leases

- Initial Application Date
- Term/End Date
- Discount Rate
- Lease Payments
- Classification
- Existing Balances

What Initial Application Date will you select?

- A. Beginning of the current reporting period
- B. Beginning of the earliest period presented
- C. Not sure yet



Lease Recognition

Initial Recognition – Transition Leases

Finance Lease

Initial Recognition

Debit	ROU Asset – Finance
Debit	Capital Lease Liability
Credit	Long Term Lease Liability – Finance
Credit	Capital Lease Asset

Operating Lease

Initial Recognition

Debit	ROU Asset – Operating
Debit	Deferred Rent Liability
Credit	Long Term Lease Liability - Operating

Lease Recognition

Subsequent Recognition

Finance Lease

Subsequent Recognition

Debit Amortization Expense

Credit ROU Asset - Finance

Debit Interest Expense

Debit Long Term Liability - Finance

Credit Short Term Liability - Finance

Credit Cash

Operating Lease

Subsequent Recognition

Debit Operating Lease Expense

Credit ROU Asset - Operating

Debit Long Term Liability - Operating

Credit Short Term Liability - Operating

Credit Cash



Implementation Best Practices

Reconciliation – Year 1

- Tie out Systems
- Errors
 - Troubleshoot
 - Decide on Correction Approach
- Prepare for Audit

Which financial statement is primarily affected by ASC 842?

- A. Balance Sheet
- B. Income Statement
- C. Both





Implementation Best Practices

Disclosure

- 16 additional calculations on the Quantitative Footnote
- Qualitative Disclosure
 - Nature of leases including general description, how variable lease payments are determined, options to extend or terminate leases, residual value guarantees, restrictions or covenants imposed by leases.
 - Information about leases not yet commenced but that create significant rights and obligations for the lessee
 - Information about significant assumptions and judgements made in applying ASC 842
 - Transition approach, short term leases as it relates to interim reporting.

Footnote Disclosure under ASC 842

Disclosure

Lease expense	2022-12	
Finance lease expense		
Amortization of ROU assets	29,251.68	
Interest on lease liabilities	4,848.95	
Operating lease expense	200,729.52	
Short-term lease expense *		
Variable lease expense	0.00	
Sublease income *		
Total	234,830.15	
Other Information		
(Gains) losses on sale-leaseback transactions, net *		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases (i.e. Interest)	4,766.02	
Financing cash flows from finance leases (i.e. principal portion)	21,291.50	
Operating cash flows from operating leases	253,850.16	
ROU assets obtained in exchange for new finance lease liabilities	79,221.15	
ROU assets obtained in exchange for new operating lease liabilities	0.00	
Weighted-average remaining lease term in years for finance leases	5.77	
Weighted-average remaining lease term in years for operating leases	6.86	
Weighted-average discount rate for finance leases	3.05%	
Weighted-average discount rate for operating leases	3.27%	
Maturity Analysis	Finance	Operating
2023-12	33,657.52	253,850.16
2024-12	40,357.52	253,850.16
2025-12	45,957.52	253,850.16
2026-12	8,957.52	252,478.16
2027-12	8,957.52	240,000.00
Thereafter	30,604.86	0.00
Total undiscounted cash flows	168,492.46	1,254,028.64
Less: present value discount	(14,817.32)	(94,404.58)
Total lease liabilities	153,675.14	1,159,624.06

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LeaseCrunch Demo



How prepared are you to adopt ASC 842?

- A. Well prepared
- B. Somewhat prepared
- C. Not at all prepared
- D. Somewhere in between



Q&A

For more information, contact your
PBMares representative.

Thank you!

leasecrunch.com



Upcoming Webinar

Pass-Through Entity Tax

December 7, 2022

12 PM – 1 PM



Thank You

www.PBMares.com

