

2:00 – 3:00 p.m. ET

# Lessons Learned Transitioning to ASC 842 Lease Accounting

Project Management, Accounting Policy and Software  
Product insights gained from hundreds of successful lease  
accounting compliance projects - with Matt Waters, CPA

# Presented By

Matt Waters is the former Lease Accounting Manager with Home Depot (6 years) and American Tower (100,000+ leases!). He is CoStar's subject matter expert with more than 15 years of management experience in accounting and finance.



Matt Waters, MBA, CPA

Lease Accounting Specialist at CoStar

# Lessons Learned Transitioning to ASC 842 Lease Accounting

The overall process of complying with new lease accounting standards has remained largely consistent since the standards were issued in early 2016. However, time is now critical for organizations that have not yet transitioned. During this session we will discuss:

- What companies that have completed ASC 842 adoption know now
- Most common issues and challenges for compliance projects
- Best advice for companies that have not yet transitioned to ASC 842

# Lessons Learned Transitioning to ASC 842 Lease Accounting

The lessons learned are organized into 3 categories:

Project Management, Accounting Policy and Software Product Essentials

This information will be particularly useful for 2 primary groups of organizations:

- Large private companies and late-reporting public companies that have yet to complete the new lease accounting standard transition
- Enterprise organizations that experienced project failure and must now pivot to move forward on a better path toward a successful implementation

## First Polling Question:

Which of the follow best describes your company and status for ASC 842 lease accounting transition?

1. Private Company working on transition
2. Public Company with late reporting and working on transition
3. Public Company already successfully transitioned
4. Public Company that should be transitioned but project experienced failure or having trouble finishing transition

# Lease Accounting Transition Failure Rate

Big 4 Accounting Firm industry experts have estimated that the failure rate among new lease accounting compliance projects is an **astonishing 25%** based on preliminary feedback from public companies and early adopters.

# 1. Project Management

Multiple complex processes must be managed during a successful lease accounting compliance project. At a high level, companies must:

1. Collect lease data
2. Communicate with a diverse group of stakeholders
3. Select a software solution for reporting
4. Ensure resources are available for the success of the project and ongoing compliance

It is important to remember lease accounting compliance is not a one-time event, but ongoing process, and the decisions being made at the outset will impact companies for years to come.

# 1. Project Management: Data Collection

Companies are usually stunned to realize how many leases they have. Experts continue to stress the importance of starting data collection ASAP.

## Potential sources of lease data include:

- Legacy real estate system
- SharePoint sites or other repositories of scanned agreements
- Fixed asset records (for existing capital leases)
- Surveys sent out to the field asking for units to identify leases under their control
- Lease footnote and disclosure work papers
- File cabinets and desks (paper form!)
- Lessor vendor software (some vendors have online tools available for tracking leases)
- P&L (locating lease expenses in the financial statements and tracing them back to the source may be the best way to identify some leases)



# Embedded Lease Examples

- Agricultural Equipment
- Alarm Equipment
- Buildings
- Communications Equipment
- Construction Equipment
- Conveyor Belts
- Easements
- Forklifts
- Janitorial Equipment
- Laptops
- Medical Equipment
- Music Equipment
- Pallet Jacks
- Real Estate
- Aircraft
- Audio Visual Equipment
- Business Equipment
- Computers
- Containers
- Copiers
- Exercise Equipment
- IT Equipment
- Land
- Manufacturing Machinery
- Medical Technology
- Office Equipment
- Rail Cars
- Restaurant Equipment
- Retail Equipment
- Right of Ways
- Scissor Lifts
- Servers
- Towers
- Transportation Equipment
- Vehicles
- Retail Racks and Shelving
- Rolling Stock
- Semi-Trucks
- Software
- Trucks
- Vessels

# 1. Project Management: Cross-functional Stakeholders

Create a cross-functional project team. Emphasize the lease accounting changes are regulations *but will not to take away departmental control or autonomy*. This change presents opportunity to strengthen everyone's ability to better manage the business.

## Ideal Stakeholders for Compliance:

- Real Estate – Retail, Corporate Buildings and Land
- Property Management and Lease Administration
- Maintenance – Forklifts, Pallet Jacks, Scissor Lifts
- Logistics – Trucks, Conveyor Belts, Trailers, Rail Cars
- IT – Servers, Copiers, Software, Computers
- Procurement – Involvement with Most Leases
- Legal – Involvement with Most Leases
- Financial Planning – Budgeting and Forecasting
- Accounting – Financial Reporting and Lease Accounting
- Treasury – Incremental Borrowing Rate and Debt Covenant Impact
- Tax – Book Tax Differences

# 1. Project Management: Software Selection

During the review process, require vendors provide software demos and implementation success stories. Do pilot or sandbox and test the system with your company's data and reporting needs.

Leading software vendors can provide full service enterprise class features, project support and implementation including the following expertise:

- A design team for company-specific configuration
- Assistance with organizational or lease complexity including nuances of equipment and real estate leases and multiple business units and/or legal entities
- Collection of lease data from many lease sources (the best providers also offer turn-key lease abstraction)
- Expertise on local currency > functional currency > reporting currency
- Lease administration system replacement
- Enterprise integrations for ERP and other applications

# 1. Project Management: HR Impact

From the start, project managers should secure the proper human resources required for an effort of this magnitude and evaluate the overall HR impact on organizational staff. Consulting firms have lease accounting professionals to support existing staff with the skills needed to manage a successful lease accounting project. Training should also be a central part of any plan for technical accounting, accounting process and solution implementation.

## Second Polling Question:

What aspect of lease accounting compliance are you most concerned with?

1. Gathering all the leases and finding all the embedded leases
2. Proper Separation of Lease and Non-Lease Components
3. Inaccurate Key Assumptions and Variables
4. Something else we haven't discussed yet today

## 2. Accounting Policy

Recording virtually every lease on the balance sheet is a complex task. The lease accounting subject matter expert (or team) should have an extensive understanding of the new standards and possess a deep knowledge of company-specific lease data. Areas that have proven challenging for companies involve the nuances of transition accounting, the complexity of ongoing compliance and the impact of foreign currency.

## 2. Accounting Policy: Transition Accounting

Without a doubt, a key to successful lease accounting compliance is understanding the transition requirements. Many transition factors must be considered, including multiple practical expedients. **Example:** “Does the opening right of use (ROU) asset always equal the opening lease liability?” The answer is, “Not always.” Also, transition is not the only time that the opening ROU asset will not equal the opening lease liability.

## 2. Accounting Policy: Ongoing Accounting Compliance

The value associated with go-forward accounting efficiency and compliance will quickly outweigh the one-time compliance event, especially with re-measurements and “true-ups.”

A lesson learned from the first companies to adopt the new lease accounting standards is companies should not underestimate the value of robust schedule re-measurement functionality. Re-measurement functionality is useful in a variety of situations including:

- Lease renewals
- Terminations
- Partial terminations
- Impairments
- Changing assessments of what is reasonably certain
- Index (CPI) driven increases (IFRS only)
- Data corrections
- Lease modifications



## 2. Accounting Policy: Currency Considerations

New lease accounting rules include specific requirements around currency. If you operate in multiple countries – or foresee the potential to expand in the future – set a foundation that considers currency challenges. For currency considerations, make sure your lease accounting system has full functionality and supports configurable ERP integration.

## Third Polling Question:

What is your company's current status for selecting a software system to manage data and perform ASC 842 accounting calculations?

1. We have a proven system already up and running.
2. We've identified some options and are evaluating them.
3. We're interested in finding options to review.
4. We believe our Excel spreadsheets will do fine for our needs.

### 3. Software Product Essentials

Lease accounting calculations have become more complex and nuanced under new lease accounting rules. That fact, combined with the certainty of enhanced auditor scrutiny on the horizon, has motivated leading companies to invest in a true enterprise class lease accounting solution. A broad range of product characteristics are essential for success...

### 3. Software Product Essentials: Stable Structure

The new lease accounting requirements have generated a wave of upstart software vendors and venture-backed solutions. **Many have sold solutions that weren't "fully baked" and are causing compliance project to fail.** All software needs time and investment to be fully developed and mature enough to handle the complexities of challenges like lease accounting.

**Make sure you invest in a product supported by a financial strong and stable company that regularly invests more into development than just marketing.**

### 3. Software Product Essentials: Accounting Firm Endorsed

Among the benefits of selecting a lease accounting solution after the initial wave of large public company activity: Large accounting firms have already walked with clients on the path to compliance. In many cases, accounting firms have partnered with lease accounting products to assist with implementation. Open a dialogue with trusted advisors for an opinion regarding top software providers. Don't hesitate to ask straightforward questions about which features are available in one system versus another.

### 3. Software Product Essentials: Battle Tested

Reality is, lease accounting is nothing new and many of the ASC 840 and IAS 17 requirements have existed for decades. **Ask software vendors specific questions about their experience accounting for leases under the older standards.** Get detailed information about how their customers produced required month end close information, or how many CPAs they have on staff with real world experience managing lease accounting at major corporations.

### 3. Software Product Essentials: Real Estate & Equipment

While real estate leases make up the bulk of the total financial impact, equipment leases are actually more difficult to work with in the data collection process. This is usually due to the fragmented nature of equipment leasing practices at many organizations. Lease accounting solutions should include robust capability for BOTH Real Estate and Equipment leases.

### 3. Software Product Essentials: Audit Trail

A quality lease accounting system will provide comprehensive tracking of all lease accounting related activity. This is essential for control over financial data, and can prevent costly issues when auditors come to visit. The audit trail should be available for lease level transactions and re-measurements. It should also be available for system generated reports.



### 3. Software Product Essentials: Free Upgrades

Lease accounting solutions that are cloud or SaaS (software as a service) based have a distinct advantage. Cloud based solutions can respond very quickly to new developments in lease accounting practice, and the best providers offer free upgrades, deployed first to a stage environment for a testing window before the live production environment is impacted. All of a vendor's customers should be on the same cloud version of the software.

### 3. Software Product Essentials: SSAE SOC Audit

SOC 1 and SOC 2 audits cover controls, processes and procedures related to information security, personnel, hosting and infrastructure, as well application development procedures. Lease accounting software vendors should affirm the processes and controls related to the development and testing of the software and calculations behind ASC 840, ASC 842 and similar IFRS classifications. While companies must ultimately rely on their own internal controls for the accuracy of their accounting results, the SOC audit provided by reputable lease accounting software vendors will satisfy many requirements and prevent costly re-testing of controls.

## Final Polling Question:

How does your organization plan to interact with auditors for ASC 842?

1. We've discussed our project plan and policy with our auditors already.
2. We plan to review our project plan and policy with our auditors.
3. We are getting accounting feedback from other internal or external sources and will interact with auditors during the audit.
4. We're not sure yet.

### 3. Software Product Essentials: Integrations

Due to the high volume of data requirements associated with lease accounting compliance and the push to shorten month end close, integrations are an essential piece of the puzzle for most large organizations. Many leading companies are taking advantage of every opportunity to move toward a system of “continuous accounting,” in which data flows seamlessly from one process to another. Also software providers should have deep experience with major system integrations from other lease management, ERP and IWMS systems...even account reconciliation and matching tools like Blackline.

## Lessons Learned: Final Word

Early adopters to the new ASC 842 and IFRS 16 standards consistently report that more time is needed for lease accounting compliance than originally anticipated. However, by focusing on a phased approach with an eye on these high-risk issues, companies may establish a critical path to success and ultimately make next year's audit more risk averse.



# Lease Accounting Resources at [costarmanager.com](http://costarmanager.com)

The cover features the CoStar REAL ESTATE MANAGER logo at the top left. The background image shows a person's hands typing on a laptop keyboard, with the laptop screen displaying a data dashboard. A light blue text box is centered over the image.

**Data Consolidation for Lease Accounting Compliance**  
An Opportunity to Create Value for Real Estate and Equipment Management

At the bottom, three circular icons represent Real Estate, Equipment, and Leased Assets.

The cover features the CoStar REAL ESTATE MANAGER logo at the top left. The background image shows two men in business attire looking at a laptop screen together. An orange text box is centered over the image.

**Planning for Lease Accounting Compliance**  
A 12 Step Guide for Successful Project Management

At the bottom, three circular icons represent Real Estate, Equipment, and Leased Assets.

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## Questions?



Matt Waters, MBA, CPA

Lease Accounting Specialist at CoStar

[Mwaters@costargroup.com](mailto:Mwaters@costargroup.com)