

2:00 – 3:00 p.m. ET

Beyond ASC 842 Lease Accounting Compliance: What Companies Should Know

Re-measurements, accounting workflows, lease terminations, audit trails and more - 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

Director of Lease Accounting
at CoStar

Beyond ASC 842 Lease Accounting Compliance: What Companies Should Know

As accounting teams rush to implement policies and processes for the new ASC 842 lease accounting standard, most companies aren't looking past basic compliance. But they should. This CPE webinar event will review important considerations for lease accounting beyond the basics of compliance including re-measurements, accounting workflows, lease terminations, audit trails and more.

- Considerations for lease accounting beyond basic compliance calculations
- Learn what operational insights are possible from ASC 842 compliance
- How to more effectively manage real estate and equipment leases

Beyond Compliance

Compliance with ASC 842 complex, and the initial project will require significant resources, however.....

It is important to remember that after transition to the new accounting standards, companies will need to continue accounting for leases under those standards for years to come. So, the value associated with go-forward efficiency and compliance will quickly outweigh the one-time compliance event. Leading companies are setting accounting policies and investing in solutions that will empower their teams for success well into the future.

ASC 842 – A Complex Compliance Exercise

Virtually all leases need to be recorded on the balance sheet

There are some complex changes in the new rules, and all companies should leverage the knowledge and expertise of subject matter experts for complete compliance

Application of practical expedients

Organization of leases into groups or portfolios to streamline the use of interest rates and other considerations

Materiality

12 Steps for Lease Accounting Compliance

1. Obtain a full understanding of ASC 842 and/or IFRS 16
2. Set a compliance timeline
3. Meet with a cross-functional group of leasing stakeholders
4. Organize a project team
5. Select a software solution for lease management and reporting
6. Compile a list of all leases
7. Evaluate compliance with existing ASC 840 accounting standards
8. Evaluate the HR impact and adjust staffing/training plans
9. Set internal accounting policies around leasing
10. Evaluate the process flow for leases and adjust to ensure efficiency
11. Review new processes, software, policies and pro-forma results with auditors
12. Set up a sustainable process for managing leasing data

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.

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

Considerations Beyond Basic Compliance

Opening Balance Adjustments

Lease Renewals

Terminations

True-up Entries

Accounting Workflow

Audit Trail

Month to Month Leases

Operational Insight

Opening Balance Adjustments

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.

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

Lease Modifications – FASB Examples

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- ✓ Example 15—Modification Accounted for As a Separate Contract
- ✓ Example 16—Modification That Increases the Lease Term
 - ✓ Case A—No Change in Lease Classification
 - ✓ Case B—Change in Lease Classification
- ✓ Example 17—Modification That Grants an Additional Right of Use
- ✓ Example 18—Modification That Decreases the Scope of a Lease
 - ✓ Case A—Remeasuring the Right-of-Use Asset Based on Change in Lease Liability
 - ✓ Case B—Remeasuring the Right-of-Use Asset Based on the Remaining Right of Use
- ✓ Example 19—Modification That Changes the Lease Payments Only

Lease Renewal

In addition to the steps performed by the lease administration team:

- On the effective date of the modification, the accounting team reassesses classification of the lease
- The accounting team re-measures the lease liability based on the remaining lease term and its incremental borrowing rate at the effective date of the modification
- The increase to the lease liability is recorded as an adjustment to the right-of-use asset (one-time “extra” JE)
- No income or loss on the modification, however go-forward amortization amounts are changed (ongoing JE impact)

Termination

Similar steps to the lease renewal, however other factors need to be considered

- Is there a termination fee?
- Should the termination fee be recorded as a loss immediately or factored into rent expense?
- Is there a net gain or loss on the termination based on the difference in ROU Asset and Lease Liability + termination fee?

Other Re-measurement Events

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

True-up Entries

All of these re-measurement events should be accounted for in the period in which they occur. However, some companies have been surprised at the number of retrospective re-measurement events they need to account for. This all too common scenario happens when the accounting team receives information about lease events late, or after the impacted accounting period has closed. Accountants are familiar with booking true-up entries, which basically compare what should have been booked in prior period to what was actually booked and then “true-up” the difference in the current open period.

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.

Accounting Workflow

- Quick and easy visibility into how many leases are pending review, pending approval and approved, at a glance, by classification type
- The ability to customize the number of approvals and roles based on the organization's individual needs
- Run status reports on demand, or subscribe to routine email updates
- Automatic date and time stamps of changes and preservation of previous data
- Automated safeguards, such as status flipping back to “needs review” status if the term or expense structure of a lease is changed after approval
- Workflow status integrated into numerous system reports, automated alerts and the accounting dashboard

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.

Example – The Disclosure Report

Month to Month Leases

- Some lessees are structured to provide month to month flexibility
- Some have clauses that automatically transition a long term lease into month to month status at expiration
- Short term exemption?
- Reasonably certain evaluation
- Remeasurement 'into' and 'out of' month to month status

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.

Real Estate and Equipment

Many companies are discovering that, 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. Go-forward concerns include:

- The portfolio approach
- A central lease administration function for equipment (shared services, center of excellence)
- More frequent changes to assets in use

Operational Insight

Compliance is an arduous task, however thoughtful organization of lease data can add value to the organization.

Example: Forklifts and Batteries

Organizing lease data in one system allowed the business to see patterns, eliminate waste and make more informed decisions.

Ultimately, not only could I provide better data around leasing, but I could also add money back to the bottom line.

Caution!



Private Companies
Practice Section

May 13, 2019

Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Effective Date of ASU 2016-02, Leases (Topic 842)

Dear Mr. Kuhaneck:

The American Institute of CPAs (AICPA) is the world's largest in the accounting profession, with more than 418,000 members serving the public interest since 1887. One of the objectives

- TIC has found that some of the third-party vendors that have developed solutions to assist companies in implementation of the lease standard have errors in their software and it will take some time to sort through to ensure these solutions are accurate and auditable.
- TIC is aware that public company clients are struggling with adoption, and those entities have more resources than most private companies.
- Private companies could still early adopt in cases where they are prepared and wish to adopt the standard early.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt".

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees

Lease Accounting Resources at 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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Lessons Learned Transitioning to ASC 842 Lease Accounting

Questions?



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