

## GET ALL YOUR LEASES IN ONE PLACE

Many private companies and nonprofit organizations still need to begin implementation of ASC 842, which will require aggregation of all leasing data. For example, it is common to find that ownership of equipment leases is divided among various stakeholders and stored in numerous asset management systems and spreadsheets. Consequently, financial teams must search for information from different departments, records, and software packages. Unfortunately, tools for the automated scanning of contracts to detect pertinent assets are yet to be invented. Therefore, a manual review of agreements will be essential to follow the FASB's criteria for identifying whether a contract constitutes a lease.



- Be aware of the updated lease definition, which includes the potential for embedded leases in other contracts.
- Departments and employees should be asked what, if anything, is being leased
- Identify all assets on the property being leased, such as vehicles, equipment, buildings, copiers, etc.
- Review the past twelve months of disbursements to identify patterns such as recurring payments or other expense profiles that resemble leases
- Compare maintenance and work records from your plants, warehouses, stores, and office buildings with your list of leased equipment assets.
- Review all remaining contracts to determine if a lease is embedded.

## FORMALIZE LEASE ACCOUNTING POLICIES

Developing and drafting lease accounting policies early in the implementation process allows you to take a deep dive, focus on understanding the critical terms under ASC 842, and formulate an effective leasing policy for your portfolio. This foundational knowledge and preparation time will facilitate your transition to ASC 842.

- Learn more about ASC 842 terms (lease term, lease consideration, initial direct costs, and lease incentives).
- Learn about practical expedients available with the transition.
- Practical expedients for ASC 842 transition should be selected.
- Determine whether short-term leasing is a practical expedient based on the asset class.
- Determine whether you will opt not to separate lease components from non-lease components according to the underlying asset class.

- Determine how the incremental borrowing rate will be calculated. For private companies and nonprofits, determine whether the risk-free rate will be used as the discount rate for all leases.
- Set thresholds for materiality
- Develop accounting policies that define: major part, substantially all, specialized in nature, and reasonably certain.
- Identify the location of critical lease information and documents.
- Determine what, if any, software will be used to assist with your implementation.

## PROCESSES FOR SUSTAINABLE ACCOUNTING

Since the lease accounting standard requires increased process controls, data collection, analysis, maintenance, monitoring, internal reporting systems, and audit scrutiny, a lessee's administrative burden increases. Considering how your team can build a scalable lease accounting process is critical, as this standard will get you to the starting point. The real test of your new process will be the ongoing tracking performed after the transition.

- Identify what financial reporting controls will need to be added to your process.

## PREPARE JOURNAL ENTRIES

As the ASC 842 effective date draws near or your financial reporting deadline approaches, it's time to prepare transition journal entries. The calculations can be estimated, or some final calculations can be performed, and you can start organizing files and familiarize yourself with the transition journal entries.

- The total lease consideration should be calculated.
- Determine the discount rate as of the ASC 842 effective date.
- Perform a lease classification test.
- Calculate the present value of the lease liability.
- Calculate the right-of-use asset.
- Prepare journal entries to record the effective date transition.

## ABOUT WINDES

Windes' ASC 842 experts can provide peace of mind for your organization by addressing any disparity between where your company stands today on lease accounting and where it needs to be for compliance with these new rules.

Our ASC 842 services include:

- Accounting transition
- Lease classification
- Expense recognition
- Disclosure requirements
- Policy elections
- Process implementation
- Hosting calculations
- Post-issuance compliance