

ASC 842 Leases: Lessons Learned and Best Practices

Meet the Presenters



Nicole Holden, CPA

Nicole is a Senior Director in Alliance Advisory's Tysons Corner Commercial Practice. Nicole brings over 20 years of professional experience working with a global client base. Nicole focuses on accounting standard implementation projects in the areas of revenue recognition (ASC 606), leases (ASC 842), and technical accounting advisory projects including business combinations and consolidations. Nicole led and delivered several implementations of lease accounting standards for our public clients and is currently working on implementations for private companies.



Maurice Thompson, CPA

Maurice is a Manager in Alliance Client Advisory practice. Maurice works on a variety of different clients and industries including retail, manufacturing, IT, telecommunications, and pharmaceuticals. Maurice leads financial reporting projects and new standards implementation for privately held and public company clients.

Agenda



ASC 606: Post Implementation Reminders



ASC 842 Implementation Timeline



Auditor Engagement



ASC 842 Implementation Team Composition



ASC 842 Lessons Learned

ASC 606 – AICPA Peer Review Survey

ACCOUNTING CHALLENGES in 2021

- Identifying performance obligations (31% of respondents)
- Recognizing revenue (28%)
- Identifying relevant contracts (26%)
- Identifying variable consideration, including material rights (22%)
- Determining appropriate transaction price allocation (16%)

AUDITING CHALLENGES in 2021

- Determining whether management appropriately applied ASC 606 (48% of respondents)
- Documenting the understanding of key contract terms where necessary (30%)
- Evaluating management’s process for developing the estimate(s) (28%)
- Determining whether assumptions used by management were reasonable (23%)
- Assessing associated risks (21%)

ASC 606 - Day Two Accounting Considerations

New Business Practices

New Contracts Review

Contract Modifications

Process Automation to Replace Manual Calculations

Updating Policies and Procedures

ASC 606 and ASC 842

- ASC 606 implementation strategy could be leveraged
- ASC 606 accounting policies and elections
- Lessors: Allocating consideration to lease and non-lease components
- Sales of assets with a repurchase agreement
 - Customers
 - Suppliers
- Sale-and-leaseback transactions guidance
 - ASC 842-40 is aligned with ASC 606
 - Control Transfer Principal

ASC 842 *Leases* Implementation Timeline

Private Company Adoption Date: 1/1/2022 for calendar year entities

Q1 2021

Form a Transition Team, create a transition plan, conduct ASC 842 assessment, elect practical expedients

Q2 2021

Identify all leases, including embedded leases; identify lease accounting software

Q3 2021

Complete all technical accounting analysis, determine what data is needed for calculation; aggregate and upload contractual data

Q4 2021

Test the system, update GL environment; set new processes & procedures

Q1 2022

GO LIVE; Prepare Transition adjustment

Auditor Engagement

- Accounting conclusions under legacy guidance (ASC 840)
- Transition approach
 - Impact of going public or a merger with a public company
- Practical Expedients election
 - Use of hindsight
 - Discount Rate
- Lease accounting software testing procedures
 - Data abstraction
 - System generated reports
- Prior period accounting errors
- ASC 842 accounting assessment
- Materiality



Implementation Team Composition

Engage. Educate. Execute.

Representatives

- Executive (CFO, CAO)
- Accounting
- Finance / Treasury
- Legal
- Tax

Identify Lease Arrangements

- Information Technology
- Facilities (Real Estate)
- Real Estate Brokers
- Procurement
- Legal
- Finance
- Treasury
- Accounts Payable
- Fleet Management
- Other Asset Owners

Plan Ahead

Allocate Resources: Do you have available time to perform all the tasks?

Locate agreements: Do you have a complete population of all current lease agreements? Where are they?

Know Your Terms: Do you fully understand your agreements?

Complexity: Do you fully understand your ASC 840 conclusions?

Educate: Training needed for non-accounting stakeholders

Simplify: Use Practical Expedients to decrease the workload

Consider: Understand the impact of the ASC 842 adoption on your BS

Research: Valuation experts

Lessons Learned

Time Consuming Process

Establish Agreement Repository: Collect lease agreements & amendments (Consider: decentralized environment, lack of document management system)

Conduct Technical Accounting Analysis: Evaluate lease agreements and examine contracts for embedded leases

Collect Lease Data: Compile relevant data from lease agreements for the ASC 842 calculation

Reconcile Balances: Deferred rent, prepaid/accrued rent, ARO and other balances are needed for each lease

Resources: Lease Accounting Software, Contract Management System, Manual Calculations

Expect: Increased workload to prepare calculations manually

Consider: Contract management system selection

Consider: Lease accounting software selection

Maintaining compliance with ASC 842 after the adoption

Lease Management: Automation required to keep all information current and accurate (lease management)

Alternative: Additional headcount (internal or external resources)

Risk: Posting Journal Entries from multiple worksheets

Lessons Learned

Lessons Learned

Business Environment Impacting Accounting Conclusions

- Acquisitions and recapitalizations
- Changes in business strategy
- Exit activities, restructuring, divestitures
- Going public or a merger with a public company

Change Management

- New Lease review process
- Lease Term Reassessment
- Discount Rate methodology
- Lease Accounting Software

Need Help?

- Project coordination
- Project Plan development
- Identifying leases
- Centralizing lease data
- Technical accounting
- Data abstraction (populating your systems)
- Data validation and analysis
- Vendor selection
- Audit support
- Financial reporting
- Manual calculations
- Policies and process control
- System integration



Open Discussion/ Questions

