

# ASK THE EXPERTS WEBINAR

*LEASE ACCOUNTING: LESSONS  
LEARNED IN DAY-TWO OPTIMIZATION  
OF ASC 842 AND IFRS 16*

**July 23, 2020**

# PRESENTERS



**Bill Maloney**

*EXECUTIVE MANAGING DIRECTOR*

**Expertise:** Accounting for income taxes, lease accounting, revenue recognition, and business combinations



**Catherine Mazzoleni**

*SENIOR MANAGER*

**Expertise:** ASC 842 & IFRS 16 implementation support, including system implementation, transition entries, and on-going lease management



**Aditya Mehta**

*MANAGING DIRECTOR*

**Expertise:** Lease accounting, GAAP conversions, revenue recognition, business combinations



**Steven Sayewitz**

*SENIOR MANAGER*

**Expertise:** Cash flow, operational proficiency, collections, contract analysis



**David DiPippo**

*DIRECTOR*

**Expertise:** Financial modeling, KPIs, internal and external reporting, due diligence, and CFO advisory services

## KEY REMINDERS

- ▶ Riveron webcasts – past and upcoming
- ▶ 4 polling questions must be answered to obtain CPE
- ▶ If you have questions, feel free to ask in Q&A option in Zoom
- ▶ Webinar evaluation form & CPE certificate will be emailed to you
- ▶ On demand video is not eligible for CPE
- ▶ You will receive a follow up email including:
  - ▶ Access to this webinar recording and deck
  - ▶ The ability to join our Webinars Mailing list to receive future invites
  - ▶ Presenter contact info

## POLLING QUESTION #1

**How would you describe the current state of your lease accounting process?**

- A. Robust; specified individuals or teams are assigned to manage the lease portfolio and process flow is established
- B. Work in progress; working to identify individuals who will be responsible and refine process flow
- C. Have not started identifying responsible team members or defining process flow
- D. Not Applicable





# DRIVERS OF LEASE ACCOUNTING PROCESS OPTIMIZATION, POST- ADOPTION

*Key Considerations*

# CONSIDERATION POINTS POST-ADOPTION

1

**Efficient hand off of implementation team to ongoing process owners**

- ▶ If engaging a third party, these temporary resources will have a significant amount of tactical knowledge required to maintain the lease portfolio; ensuring this knowledge is transferred to the ongoing lease process owners is essential

2

**Creation of an organizational structure to manage the lease portfolio long-term**

- ▶ Ensures accurate accounting month over month
- ▶ Could be dedicated lease resources or specified roles and responsibilities within current job functions
- ▶ If utilizing technology to manage the lease portfolio, consider assigning an accounting focused system administrator

3

**Effective contract management of current and new leases**

- ▶ Implement workflow to ensure operational groups entering into lease contracts communicate the new contracts timely to accounting resources
- ▶ Coach operational groups within the organization how to identify embedded leases in new contracts

4

**Review and validation of integrity of lease data utilized at adoption and completeness of the population**

## CONSIDERATION POINTS POST-ADOPTION (CONTD.)

### 5 One-time events

- ▶ Early terminations
- ▶ Extension of lease terms

### 6 Mass modifications

- ▶ Lease contract renegotiations
- ▶ Correction of errors identified in abstracted lease data

### 7 Timely and accurate updates to incremental borrowing rate, if utilized

- ▶ Set up a workflow or cadence to obtain updated rates from the applicable group at the company on a timely basis to ensure proper valuation of on the balance sheet

## POLLING QUESTION #2

**What do you see as the biggest challenge in managing the lease portfolio on day-two?**

- A. Lack of dedicated internal resources assigned
- B. Doubts on the integrity of lease data
- C. Transition plan from third party providers to internal group has not been established
- D. N/A; no current challenges anticipated post-adoption



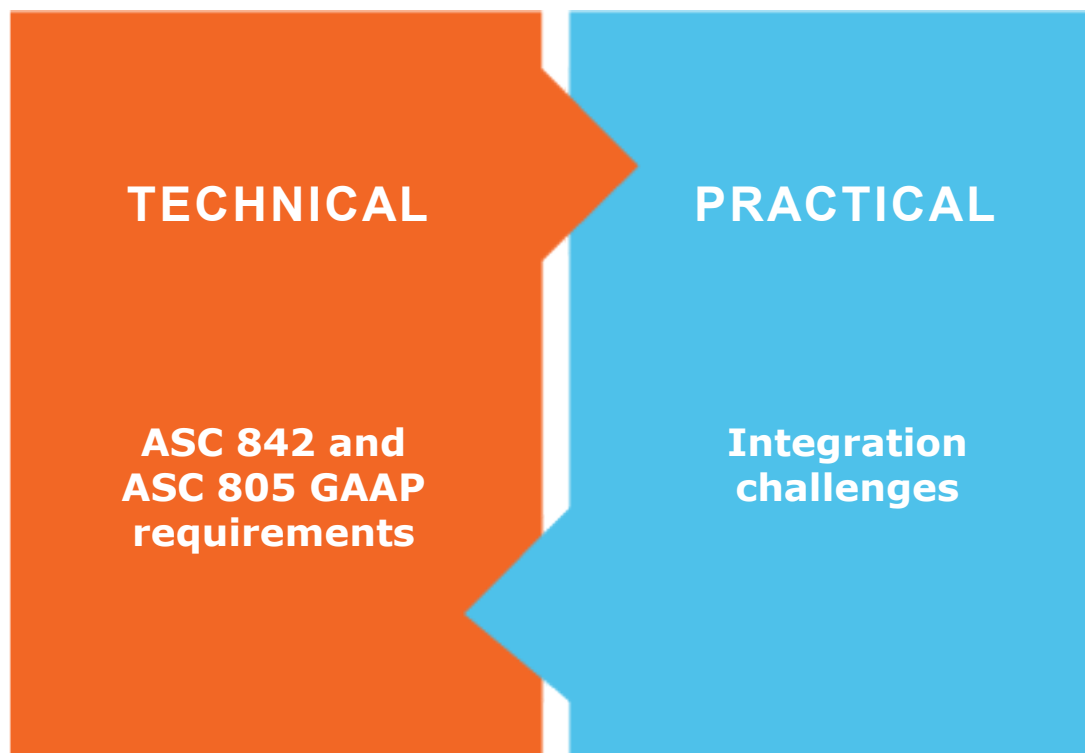




# SUCCESSFULLY INTEGRATING ACQUIRED LEASE PORTFOLIO'S

*M&A activity*

## SUCCESSFULLY INTEGRATING ACQUIRED LEASE PORTFOLIO'S



# SUCCESSFULLY INTEGRATING ACQUIRED LEASE PORTFOLIO'S

## Technical Accounting Considerations

LEASE CLASSIFICATION

REASSESSMENT OF KEY  
LEASE ACCOUNTING  
ESTIMATES

ASSETS OR LIABILITIES  
ARISING FROM AN  
ACQUIREES LEASE  
PORTFOLIO

SHORT TERM LEASES

CONFORMING ASC 842  
ACCOUNTING POLICY  
ELECTIONS

ACQUIRED LEASES WITH  
FAVORABLE OR  
UNFAVORABLE TERMS

# SUCCESSFULLY INTEGRATING ACQUIRED LEASE PORTFOLIO'S (CONTD.)

## Other Accounting Considerations:

**SALE LEASEBACK  
TRANSACTIONS**

**LEASE CONTRACTS  
BETWEEN THE ACQUIRER  
AND ACQUIREE**

**ACQUISITION OF LEASES  
WHERE THE ACQUIREE IS  
A LESSOR**

**CUSTOMER  
RELATIONSHIP  
INTANGIBLE ASSETS  
(ACQUIREE IS A LESSOR)**

**LEVERAGED LEASES**

# LEASE PORTFOLIO INTEGRATION - PRACTICAL CHALLENGES

1

Identifying previously unidentified embedded leases in acquired service contracts



2

Gaining a detailed understanding of the acquired lease portfolio



3

Differences in lease accounting systems

Data of acquired lease population need to be normalized before integration

- ▶ Lease systems have different requirements, classification, and jargon that need to be adjusted before integration
- ▶ Understanding and identifying leases in the population with nuances or unique complexities is essential



# LEASE PORTFOLIO INTEGRATION - PRACTICAL CHALLENGES

4

Completeness of lease population and accuracy of data

- ▶ Ensure all necessary lease data is accessible in the system of record
- ▶ Validation of information within current lease accounting system

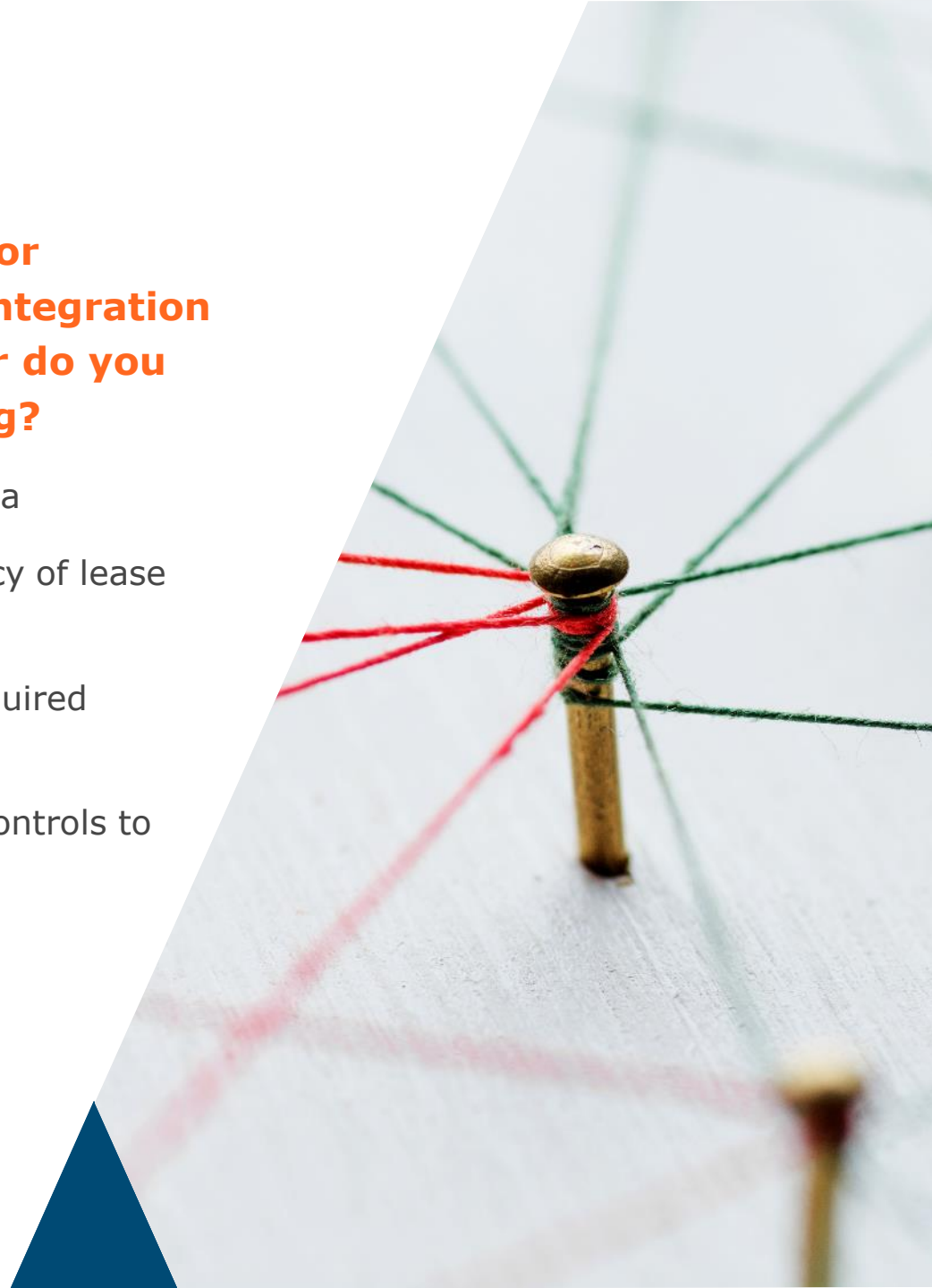
5

Developing or updating business processes and controls to support the acquired lease portfolio

## POLLING QUESTION #3

**Within the context of a merger or acquisition, which areas of an integration of a lease portfolio has been (or do you expect will be) most challenging?**

- A. Normalization of acquired lease data
- B. Ensuring completeness and accuracy of lease population
- C. Identifying embedded leases in acquired service contracts
- D. Updating business processes and controls to support the newly acquired leases



# MINIMIZING AUDIT RISK

*Detailed requirements*



# AUDIT ASSERTIONS



## Completeness

- ▶ Have you identified all the leases in your portfolio?



## Existing/Occurrence

- ▶ Are leased assets identifiable and inventoried?



## Valuation/Accuracy

- ▶ Have you properly calculated the new ROUA/Lease Liability?
- ▶ Can you support the assumptions used to support the ROUA/Lease Liability Calculation?
- ▶ Consideration of reasonably to renew options



## Cut-off

- ▶ Leases accounted for in the appropriate period?



## Rights/Obligations



## Understandability / Presentation & Disclosure

- ▶ Identification of Operating vs Financing
- ▶ Identification of short-term leases

# PRE-ADOPTION INTERNAL CONTROL CONSIDERATIONS



# POST-ADOPTION INTERNAL CONTROL CONSIDERATIONS

- ▶ Post-Adoption
  - ▶ Who is responsible (preparer / reviewer) for Lease vs. Buy analysis
  - ▶ Who is responsible (preparer / reviewer) for managing your lease data
  - ▶ Who is responsible (prepare / reviewer) for lease classification
  - ▶ How you are tracking changes to leases (modifications, impairments, etc.)
  - ▶ Your protocols for segregation of duties
  - ▶ Disclosure checklist / mapping to new ASC 842 requirements
  - ▶ Reperformance / review /reconciliation of critical disclosure items
  - ▶ Perform regression testing of lease accounting solution
  - ▶ System Controls
    - ▶ Role based access
    - ▶ Audit trail
    - ▶ Closed periods
    - ▶ SOC reporting
    - ▶ Workflow

# KEYS TO SUCCESS

## PRE-ADOPTION

- ▶ Initiate conversation with your auditors
- ▶ Verifying that your accounting is correct under the old standard
- ▶ Validating lease classification for portfolio
- ▶ Identifying embedded leases
- ▶ Support / document position for practical expedients elections and key accounting policies

## POST-ADOPTION

- ▶ Identification of a centralized lease accounting SME
- ▶ Coordination between operations and accounting
- ▶ Documentation for accounting treatment of complex post-adoption lease accounting
- ▶ Lease Accounting software solution (portfolios >25 leases)
- ▶ Effective / continued training for key stakeholders
- ▶ Regression testing of systems
- ▶ Auditor access to lease accounting software

## POLLING QUESTION #4

**In preparing for the audit what concerns you the most?**

- A. Completeness of your lease portfolio
- B. Identification of embedded leases
- C. Accuracy of ROUA / Lease Liability accounts
- D. Strength and consistency of internal controls and system controls



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**Q&A**

## ADDITIONAL RESOURCES

### Related Thought Leadership

View additional insights [HERE](#)

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