

ASK THE EXPERTS WEBINAR

*ASC 842: Updates, Pain Points, and
Keys to Success*

11/19/2020

PRESENTERS



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Expertise: IPO readiness, audits, SEC reporting, financial reporting, project management, mergers and acquisitions, and due diligence



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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 many leases do you have in your portfolio?

- A. 1 - 50
- B. 51 - 100
- C. 101 - 500
- D. Greater than 500





CHANGES AND UPDATES

LEASE ACCOUNTING RELIEF DUE TO COVID-19

CONCESSION ACCOUNTING ELECTION

- ▶ Entities may now choose not to evaluate whether lease-related relief that lessors provide to mitigate the economic effects of COVID-19 on lessees is a lease modification under ASC 842 or ASC 840. The FASB stated that both lessees and lessors could make this election.
- ▶ In making this election, entities will account for COVID-19 related concessions as though the enforceable rights and obligations for the concessions existed in the original contract, provided the concessions **do not result in a substantial increase in the rights of the lessor or the obligations of the lessee.**



CONCESSION ACCOUNTING

- ▶ Some concessions will provide a deferral of lease payments with no substantive changes to the consideration in the original contract. Two ways a company may account for these deferrals are:
 - ▶ Account for the deferred payments as variable lease payments.
 - ▶ Account for the concessions as if the lease contract was unchanged. A lessor would increase its lease receivable, and a lessee would increase its accounts payable as receivables/payments accrue. In the income statement, a lessor continues to recognize income, and a lessee continues to recognize expense during the deferral period.



LEASE ACCOUNTING RELIEF DUE TO COVID-19 CONTINUED

DISCLOSURES

- ▶ Following existing disclosure requirements of GAAP, companies should consider additional relevant information to give financial statement users so they may better understand the financial effects of granting concessions as a result of COVID-19.

AUDIT PREPARATION

- ▶ Auditors will likely require documentation relating to this policy election; specifically that the Company's approach was based on reasonable judgments and was applied consistently.
- ▶ Companies with substantial lease portfolios (both lessee and lessor) should start now to show the financial statement impact of each lease individually, as well as in aggregate.

PROPOSED ASC 842 AMENDMENTS

TOPIC	IMPACT	CURRENT STANDARD	PROPOSED STANDARD
Sales-type leases with variable lease payments	Lessor	Requires lessors to exclude variable lease payments (e.g., payments based on equipment hours or units produced) when classifying and accounting for a sales type lease.	Lessors are required to classify leases with variable lease payments not dependent on a rate as an operating lease.
Option to remeasure lease liability	Lessee	Lease liabilities can't be remeasured solely due to a change in rate or index used for lease payments	Allows for lease liabilities to be remeasured if there is a change to the rate used for variable lease payments. Entity-wide application is required if remeasurement due to a change in rate is elected.
Modifications reducing the scope of a lease contract	Lessee and Lessor	Partial termination of a lease contract triggers a lease modification for all components.	Provides an exemption from applying lease modification guidance to all lease components when only one or more lease components are terminated. Exemption can be applied only if the termination of the separate lease components does not economically impact the remaining components.

PROPOSED ASC 842 EFFECTIVE DATE AND TRANSITION

EFFECTIVE DATE

- ▶ The FASB will determine the effective date of the amendments after considering feedback from stakeholders. The deadline for submitting stakeholder feedback is December 4.



TRANSITION REQUIREMENTS

- ▶ Transition guidance will vary depending on whether the entity has adopted ASC 842 at the effective date of these proposed changes.
 - ▶ If an entity has not adopted the new standard, then it will transition according to the guidance within ASC 842.
 - ▶ If adoption has already occurred, the entity can elect to apply the changes retrospectively to the date of ASC 842 adoption or prospectively to leases that commence or are modified on or after the effective date of these proposed changes.
- ▶ Transition elections can be made on a per issue or topic basis.



Polling Question # 2

How is your lease portfolio currently being managed?

- A. We're expensing all of us leases currently and need to build a better process
- B. A spreadsheet is maintained with our lease information
- C. We use lease administration software
- D. Don't know





CHALLENGES AND BEST PRACTICES

KEY LESSONS FROM PUBLIC COMPANIES

Importance of initial project planning and inclusion of representatives from all portions of the Company

Data aggregation and validation prior to performance of completeness procedures

Completeness procedures have taken far longer than initially thought, this is due to a variety reasons

Existing agreements may contain embedded leases, introduction of subjective analysis

Determination of appropriate go-forward lease tracking mechanism, many system implementations have been more burdensome than expected

New and robust processes required to ensure post-implementation compliance with ASC 842

RECENT SEC COMMENT LETTER TRENDS

▶ **Most Common Issues**

- ▶ Lease identification and classification
- ▶ Adoption disclosures
- ▶ Use of non-GAAP metrics that work against the goal of making lease assets and liabilities more transparent

▶ **Industries with the Most Comments**

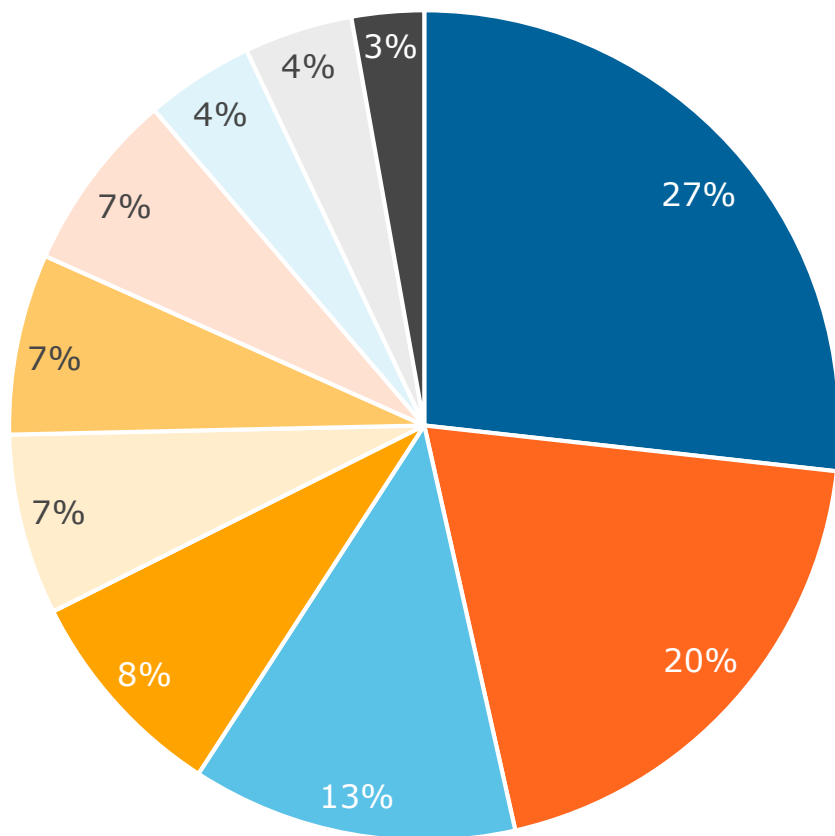
- ▶ Trade and services (retailers)
- ▶ Real estate and construction
- ▶ Manufacturing
- ▶ Energy and transportation

▶ ***Although comments were pervasive, there was a theme within each industry***

▶ **Comment Resolution Timeline**

- ▶ SEC comments around ASC 842 are taking longer to resolve than other comments
- ▶ The smaller the entity, the longer the time to resolve the comments
- ▶ Impact on IPO timelines

SEC COMMENTS



■	Adoption Disclosure (19)
■	Lease identification and classification (14)
■	Financial measures and statements (9)
■	Initial measurement - variable lease payments (6)
■	Initial measurement - discount rate (5)
■	Initial measurement - right of use assets (5)
■	Impact of new leases, amended leases or subsequent measurements (5)
■	Initial measurement - general (3)
■	Asset impairments, closures, write-downs and dispositions (3)
■	Sale and leaseback transactions (2)

LEASE STANDARD ADOPTION | KEY IMPACTS, CONSIDERATIONS AND CHALLENGES

1.

IDENTIFY THE POPULATION

- ▶ SEC comments and audit considerations have focused heavily on completeness
- ▶ Defining a complete and robust process before formally beginning the lease identification process is key
 - ▶ Buy-in from both internal constituents and your external auditor is key
- ▶ Identify all potential data sources
- ▶ Understand current processes
 - ▶ Where can you utilize current business procedures and where will you have to implement new processes and procedures

2.

BEGIN GATHERING DATA

- ▶ What are some of the challenges with data collection?
- ▶ Decentralized leasing process
- ▶ Asset level tracking
- ▶ Embedded and complex leases

LEASE STANDARD ADOPTION | KEY IMPACTS, CONSIDERATIONS AND CHALLENGES

3.

VALIDATE COMPLETENESS AND ACCURACY OF COLLECTED DATA

- ▶ Just gathering the data isn't enough, a robust and documented validation process is also required
 - ▶ Validation checks include the following
 - ▶ Do you have vendors used across multiple entities? Check that if a lease has been identified in subsidiary A have you also identified leases within other subsidiaries that utilize that vendor?
 - ▶ If embedded leases are identified within service arrangements, verify that similar arrangements have been vetted for lease implications across the organization
- ▶ Cleanse data collected from multiple sources
- ▶ Perform quality checks and normalize data
- ▶ Abstract data into standardized template

LEASE STANDARD ADOPTION | KEY IMPACTS, CONSIDERATIONS AND CHALLENGES

BUSINESS PROCESS	What are key impacts to existing business processes upon adoption? What are some of the future state design considerations?
BUSINESS PROCESS	What accounting policy elections and expedients are available to help reduce the level of effort/ impact on adoption and thereafter?
ACCOUNTING IMPACTS UPON ADOPTION	What are some of the accounting impacts to consider and plan for on adoption?
AUDIT CONSIDERATIONS	What are some of the common questions and documentation requirements that the auditor will require or ask for?
SYSTEM SELECTION AND IMPLEMENTATION	What are some of the considerations in selecting an appropriate IT solution to account for leases?
OTHER IMPACTS	Are there other impacts that should be considered?

Polling Question # 3

How much time has your Company invested in adopting ASC 842 thus far?

- A. We have a full-time resource dedicated to the project
- B. A few hours a month
- C. We did an initial assessment last year
- D. Don't I have until 2022?!

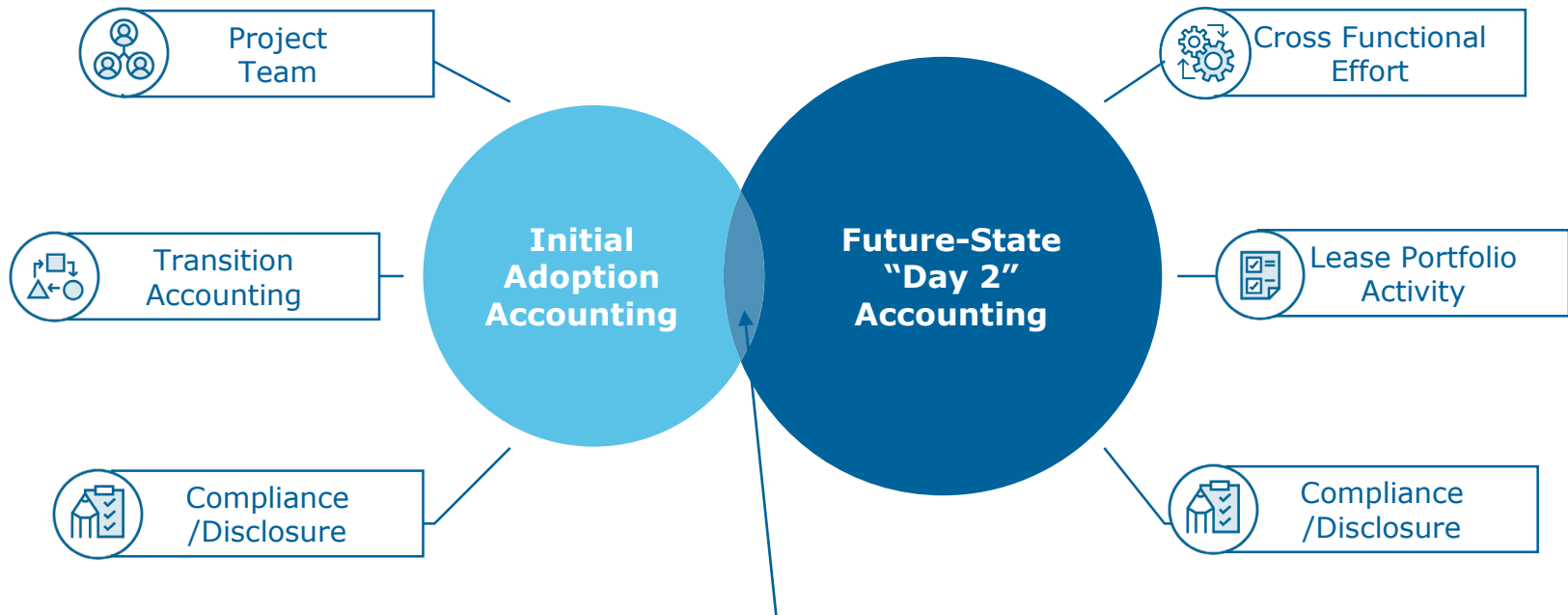


SOFTWARE

Considerations and Cost

WHY NOT JUST USE EXCEL?

Effective management of lease accounting requires specialized knowledge and strong controls, neither of which are offered in MS Excel.



LEASE ACCOUNTING SOFTWARE

- ▶ Produce the journal entrees and disclosures at transition and beyond
- ▶ Potentially reduce the knowledge burden on the accounting team
- ▶ Accelerate audit readiness

SOFTWARE CONTRIBUTES ~ 30% TO ADOPTION SUCCESS

Success needs to be viewed holistically with an understanding that software does not provide all the measures of success

SOFTWARE

- ▶ Producing entries
- ▶ Automating IBR applications
- ▶ Applying classifications

30%

PROCESS & PROCEDURE

- ▶ Transition memo
- ▶ Desktop instructions
- ▶ Workflow and SOP's

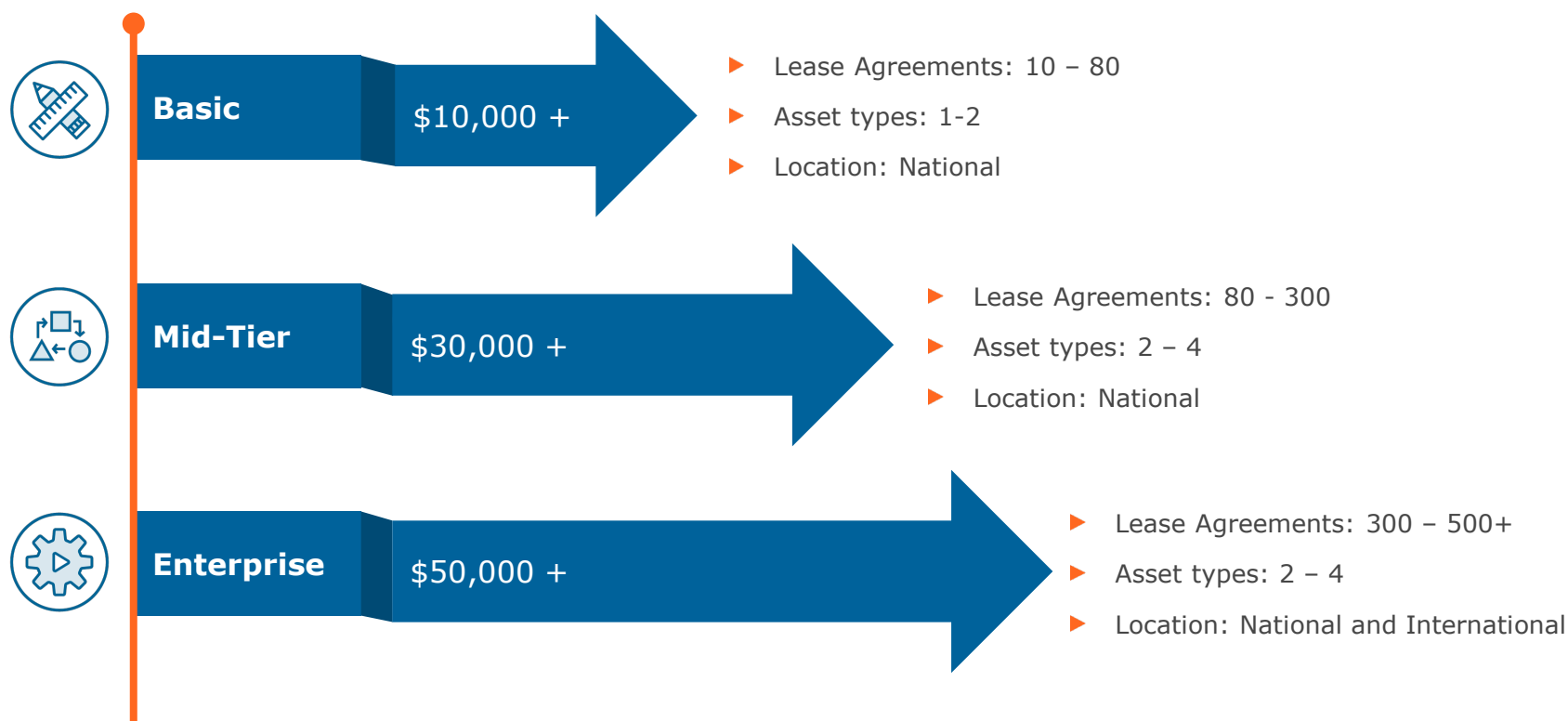
70%

BASIC MARKET SEGMENTATION

	ENTERPRISE	MID-TIER	BASIC
TRANSITION JOURNALS	✓	✓	✓
SYSTEM INTEGRATION	✓		
SCALABILITY	✓	✓	
MULTIPLE CURRENCIES	✓	✓	
IFRS & US GAAP	✓	✓	
ADMINISTRATION	✓		

PRICING CONSIDERATIONS AND EXPECTATIONS

Software pricing can vary and is often not published widely by the software vendors but there are general aspects to understanding price ranges



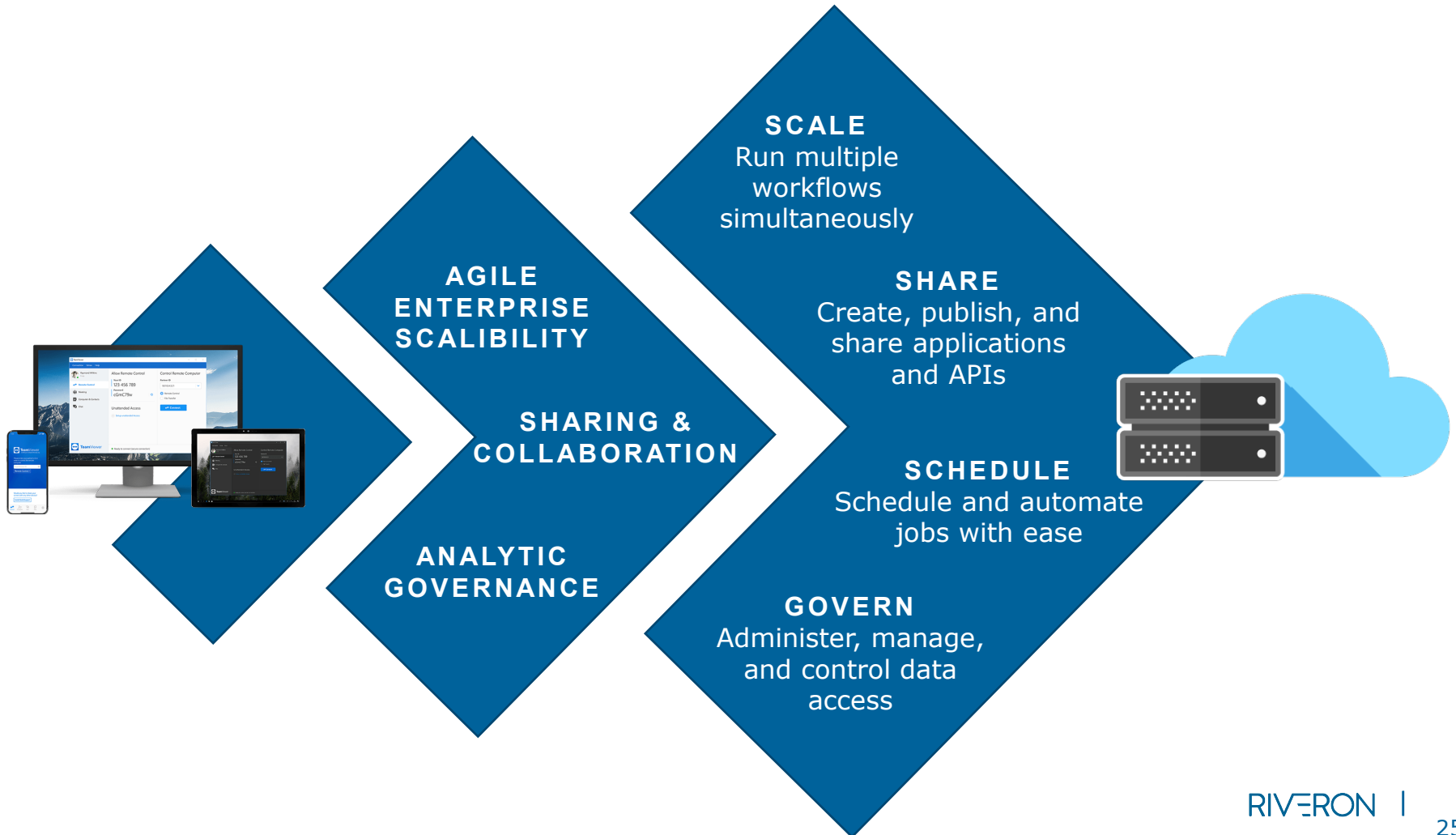
- ▶ Certain solutions have tiered pricing (increases with portfolio size)
- ▶ Vendors may have more than one offering (same software with functionality turned off or off)
- ▶ Don't shop on price alone, determine requirements first

SAMPLE USE CASE: LEASE ACCOUNTING

TEAM	BURNING PLATFORM		
Team members here	Clients continue to struggle with system issues that results in approximately 70 hours of effort per Quarter. The Alteryx workflows can reduce this time to approximately 5 hours in total.		
ISSUE	CLIENT IMPACT	WORKFLOW SOLUTION	HOURS SAVED/Q
Perform completeness check of critical disclosure reports (QAR & MAR) against the ledger output	Required to satisfy completeness assertion	Compare the number of schedules present in each report and present summary of totals and differences	15
Sample testing manual calculations against the system output	Time consuming	Calculate the takedown ROUA and Liability for the PIW inputs as a comparison against system outputs (ledger)	15
Ledger output from the system is unable to be produced in reporting currency		Use client provided Fx values to format the ledger and produce an output in reporting currency	15
Formatting ledger to produce readable and manipulatable report		Insert net column, convert dates into date format and removal of extraneous data	25

BENEFITS OF AN APPLICATION SERVER?

An application server allows for the creation of an integrated analytics infrastructure without the client having to purchase, administer, or maintain new software.



Polling Question # 4

In what stage is your organization for the adoption of ASC 842 as it relates to software selection:

- A. Haven't started planning for it yet
- B. Begun researching the available options but unsure which will be optimal
- C. Have already adopted and using a lease accounting software
- D. We are or will likely just use Excel



The image features a dark blue background with a lighter blue geometric pattern of overlapping triangles. A dark blue shape on the left side has a pointed right edge. A thin orange line extends from the bottom of this shape towards the center. The text 'Q&A' is displayed in a large, white, sans-serif font on the right side of the image.

Q&A

ADDITIONAL RESOURCES

Related Thought Leadership

[Riveron Roundup: Lease Accounting \(ASC 842\)](#)

[Understanding M&A Lease Considerations](#)

[FASB Proposes Changes to New Lease Accounting Standard](#)

View additional insights [HERE](#)

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