

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

Challenge

The compliance countdown is on for ASC 842. The new lease accounting standard published by the Financial Accounting Standards Board in 2016 will require companies to report most operating leases on their balance sheets starting in 2019.

Sep. 21, 2018



The compliance countdown is on for ASC 842. The new lease accounting standard published by the Financial Accounting Standards Board in 2016 will require

companies to report most operating leases on their balance sheets starting in

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

responsible for tracking, accounting, or expensing leased assets for their organizations, over 80% have leases that need to be accounted for under ASC 842, most of which are material to financial reporting.

At its core, ASC 842 seeks to improve transparency, comparability, and financial reporting, but achieving compliance puts heavy demands on companies. Tax and accounting teams responsible for tracking, accounting, or expensing leased assets for their organizations will now have new tasks and workflows to carry out to ensure their company is ASC 842 compliant. Consequently, having a solid plan and effective tools is not only crucial to complying, but also to avoiding risks of material misstatements, material weakness, or in the case of a CPA, potential malpractice lawsuits. Conversely, accurate compliance with ASC 842 offers the opportunity to provide more value by streamlining processes, empowering better decision-making, and realizing cost savings. Leveraging best practices already implemented by leading companies, here is a five-step process to tackling ASC 842's time-consuming calculation and reporting requirements.

Step 1: Build a Cross-Functional Team

ASC 842 touches the entire organization. Therefore, the ASC 842 team should reflect the many functions that are impacted, such as accounting, IT, legal, procurement, treasury, and possibly others.

Step 2: Collect and Organize Contracts

Remember to collect all contracts, including master lease agreements and addendums. Again, technology will be a critical role in keeping these key documents in one place saving precious time and ultimately money. Some studies suggest that employees spend 50% of their time searching for documents manually or sifting through spreadsheets, taking an average of 18 minutes to locate each document. Best

practices indicate that choosing a leased asset software product that includes

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

common examples of embedded leases.

Another key step in transitioning from the old ASC 840 rules to the new ASC 842 rules is to see if the lease can be grandfathered in as part of the practical expedients election that prevents companies from having to reassess old contracts. They can simply say it wasn't a lease before and based on prior conclusions it's not a lease now. While this sounds simple at first glance, there are certain guidelines surrounding the application of the package of three practical expedient that must be considered.

From a systems perspective, be sure to select a leased asset system that allows you to separate out and properly classify each embedded lease as an operating or finance lease.

Step 4: Capture Lease Data

Leases contain many data elements that are required for ASC 842 calculation purposes. For example, dates are key to properly accounting for a lease, such as when the lease begins, ends, optional termination dates, and option to purchase date, just to name a few. Be sure to look for a leased asset system that includes a bulk import option in addition to an intuitive manual data entry user interface. As mentioned in step 2, integrated document management that allows you to apply data tags by lease type, entity, is also useful for organizing, searching and sorting leases and source documents by lease/entity.

Step 5: Automate with Software

New GAAP rules, like new tax rules, break existing processes. In the case of ASC 842, companies in many cases have no prior process and are starting from scratch. This is a great time to review and automate workflows. Advanced leased asset systems provide you with web services (API's) and rules engines to export, transform, and

load data. Look for a software vendor who has experience automating workflows

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

impossible. However, with the right processes, systems, and expertise in place, the road to ASC 842 compliance can be made much easier and well worth the effort.

=====

Kristin Jones is Senior Product Manager at [Bloomberg Tax](#).

Accounting • Auditing • Technology

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2024 Firmworks, LLC. All rights reserved