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private companies to now gather data, track, manage, and report on leases that may have, until now, been managed by individual departments and department budgets, and have ...

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2020 marks the year that adoption of ASC 842 lease accounting and reporting standards will begin for most private companies. That makes 2019 the time for all businesses – both public and private – to overhaul their lease accounting practices.

For the past 40-plus years, public and private entities have accounted for leases under the FASB's ASC 840. Under ASC 840, they didn't have to account for operating

leases on the balance sheet; a mention in the footnotes of corporate financial

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and have never shown up on the balance sheets. Bringing these operating leases onto the balance sheet is all but certain to impact a company's financial statements.

## Data Management is Key to ASC 842 Compliance

Compliance with ASC 842 requires a change in mindset about what constitutes a lease, while at the same time requiring a change in internal accounting practices. On the face of it, neither change is too difficult. What is difficult is collecting, organizing, and managing all the new lease data. Accurate data management is crucial to ASC 842 compliance for companies and is the key to compliance.

Here are five key data management considerations:

- 1. Leases differ.** Companies use many kinds of leases such as real estate leases, equipment leases, master leases and each has specific terms, conditions, start and end dates, terminology, and each is managed in a different way. That will need to change. Companies will need to somehow centralize all this disparate lease data into a central database.
- 2. Leases can be hidden.** It can be difficult to even find leases used by the company. Equipment leases, for example, may be embedded in other contracts. International companies may have leases in other countries and even written in foreign languages or accounted for in different currencies that must be converted. Staff will need to analyze service contracts to find these types of hidden leases, calculate the present value of the lease liability and then ensure it makes it onto the balance sheet.
- 3. Cross-department cooperation is a must.** Identifying all leases and collating the data into a centralized repository will require cross-department communication and cooperation – now and going forward. Tracking leases isn't just a function of the accounting team, but of every department that utilizes leases: real estate, IT, procurement, facilities, manufacturing, etc. will all play a role in ensuring data is

accurate and complete. This includes any changes that occur to the lease since an

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never really had to do so until now. ASC 842 is accounting for lease liabilities built to accurately comply with ASC 842. Many of the existing systems were not developed with this new accounting standard in mind.

## Better Lease Accounting and Reporting is on the Horizon

As onerous and frustrating as attaining compliance with ASC 842 for companies is, it does set businesses up for easier, more accurate lease accounting and reporting in the future. Developing effective processes and establishing the right tools now will help companies manage the transition to ASC 842 and also set them up for continued success going forward.

Rarely, do businesses get an opportunity to overhaul processes and streamline operations across the entire organization, but ASC 842 does just that. Rather than lament a change you cannot stop, embrace this opportunity to improve internal lease accounting and reporting.

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