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public and international companies that are in their fourth year of following the new lease standard.

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While many are tempted to delay addressing the new lease accounting standard until the last possible moment, your life will be easier if you learn what to do – and what not to do – sooner rather than later.

This article outlines the top five mistakes we've seen when it comes to implementing

includes nonlease components, you have extra work to calculate the breakout between lease and nonlease components.

First, you have to identify whether nonlease components exist. Commonly, a nonlease component might be the fee for common area maintenance when renting office space. Parking is another nonlease component.

Another example of a nonlease component is a service contract where a truck is operated on behalf of a lessee. While the truck itself may be a lease (see below for more information about embedded leases), providing a driver, maintenance and gas are nonlease components.

Costs related to securing the leased asset itself are considered a lease payment for classifying and measuring the lease. For example, a nonrefundable upfront deposit is a lease component.

As you can see, the intent of lease-related payments must be analyzed in the context of each lease to determine if it is a lease component, nonlease component or neither. This is because ASC 842 is a judgment-based standard. As such, the standard does not provide a definitive list of lease and nonlease components because it could never be complete or make sense in all circumstances. Where parties are creative with their lease terms, the initial determinations are more difficult.

With that said, we offer the following as a good starting place when considering how to group lease-related payments.

Likely to be Lease Components

- Fixed lease payments
- Lease payments that vary based on an index or rate
- A fixed portion or minimum for a variable lease payment

- Nonrefundable deposit

Not Likely to be a Lease Component or a Nonlease Component

- Real estate taxes
- Insurance

Once the lease and nonlease components are identified, the lease standard requires payments to be allocated between the components based on available stand-alone pricing, not just the values provided in a lease contract.

Additionally, it's important to identify the correct lease term when renewal options and termination clauses exist. Based on what you know now about your organization, are you reasonably certain to exercise a renewal option or a termination clause? What matters is your economic incentive to remain or terminate, and inaccurately identifying the length of the lease can result in a material misstatement on your balance sheet.

It's all leases

One of the first and most common questions we receive on the new lease standard is, "But wait, is my {insert anything} lease included in this standard?" It might be a vehicle, a piece of equipment or land. Whichever it is, my response is a resounding, "Yes."

The standard offers you the ability to elect a practical expedient to exempt leases that are less than 12 months. Other than that, there is no explicit exemption for any lease type, nor is there any explicit allowance for materiality under ASC 842.

In other words, if you have a contract that meets the definition of a lease, it must now be recorded on the balance sheet. This means, all leases must be recognized as both an asset and offsetting liability for future lease payments.

Watch out for hidden leases

equipment to your specific production needs, then you might have an embedded lease. If the vendor transports items for you and specific vehicles are dedicated to your organization, you also might have an embedded lease. You must understand – and document – the underlying nature of the arrangement in order to determine if you have an embedded lease.

Don't underestimate how long it will take to implement the standard

We are hearing that implementing the new lease standard is taking about three times longer than expected and therefore costing three times as much, especially when done with spreadsheets.

With the changes brought on by these new lease considerations, many companies find that identifying and analyzing their leases require more resources and expertise than they have available. Don't underestimate the requirements for this initial step. In fact, you may want to consider engaging outside advisers from the start to avoid errors and higher costs after implementation.

As accountants, we are often tempted to use spreadsheets for any calculations. Due to the complexity of the required footnote disclosures, creating a lease accounting spreadsheet is time-consuming and at risk of being inaccurate. If you would like to reduce your time to implement the new standard, easy-to-use software is the way to go. Big side benefits are the availability of SOC reports to provide confidence in calculations, secured data, version control, audit trails . . . the list of benefits is long.

Leases can't have a big impact on my business, can they?

The largest business impact we've seen is on banking relationships. For any

lease portfolio, and we've been told by some banks that this could be an opportunity for them to adjust certain client relationships. We've also been told by those banks that early communication about the impact of the coming lease standard on financial statements is the best way to mitigate any effect it might have on the banking relationship.

There are many challenges that exist when implementing the new lease standards. However, looking at what other firms and organizations are doing well and not so well should provide valuable insight when it comes to correctly implementing lease standards for your clients.

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