FASB ASC 842 IMPLEMENTATION CHECKLIST

OCCUPIER

1 FIND ALL OF YOUR LEASES

Most companies are not starting their ASC 842 implementation journey with a centralized location of all relevant leasing information. For instance, the ownership for equipment leases may be distributed across a large number of stakeholders with data fragmented across a number of different asset management systems and spreadsheets. Therefore, accounting teams must hunt to collect all the data from various teams, records, and systems across the business. Unfortunately, no artificial intelligence or automated data abstraction tools have been invented to scan contracts to determine evidence of implicit assets. Instead, teams will rely on performing a manual contract analysis to review each agreement and follow FASB's flow chart for identifying whether a contract meets the definition of a lease.

The Checklist

- [ ] Understand the updated definition of a lease. Learn more.
- [ ] Ask employees if they are leasing anything.
- [ ] Walk around the property to identify assets that potentially are leased (coffee machines, copiers, internet boxes, etc.)
- [ ] Review a list of the past twelve months of disbursements to identify patterns such as recurring payments or other expense profiles that might resemble a lease.
- [ ] Compare work done company maintenance records from your plants, warehouses, stores, and office buildings to your list of leased equipment assets.
- [ ] If you cannot get the answers you are seeking from internal systems, consider going to the source - the leasing company.
- [ ] Review service contracts to determine if an embedded lease exists. Learn more.
- [ ] Review all remaining contracts to determine if a contract is or contains a lease or not.

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2 DEVELOP LEASE ACCOUNTING POLICIES

Developing lease accounting policies early in your implementation process helps direct what information you focus on when reviewing your portfolio of leases. It is often beneficial to perform this after you have found all of your leases as you will better appreciate your leasing portfolio. In addition, drafting your lease accounting policy helps further develop your understanding of critical ASC 842 terms. Having this foundational knowledge will greatly assist in your transition to ASC 842.

The Checklist

- [ ] Understand key ASC 842 terms (lease term, lease consideration, initial direct costs, lease incentives. Learn more.
- [ ] Understand practical expedients available upon transition. Learn More.
- [ ] Determine leased asset classes, if applicable.
- [ ] Elect ASC 842 transition practical expedients.
- [ ] By class of underlying asset, determine if you will elect short-term lease practical expedient.
- [ ] By class of underlying asset, determine if you will elect to the practical expedient not to separate lease from non-lease components.
- [ ] Determine how the incremental borrowing rate will be determined. If a private company,
- [ ] Determine if company will use risk-free rate as the discount rate for all leases. Learn More.
- [ ] Determine how to present ROU assets and lease liabilities within the financial statements
- [ ] Determine materiality thresholds.
- [ ] Consider developing accounting policies defining: major part, substantially all, specialized in nature, and reasonable certain.
- [ ] Draft lease accounting memo.
- [ ] Begin discussions with auditors around accounting policies and processes.

3 ORGANIZE AND ABSTRACT ALL LEASES

Now that you've completed the heavy lifting of finding all of your leases and understanding ASC 842, you will want to organize all relevant leasing information to ensure anyone who needs the information can access it on demand. In addition, performing a lease abstraction for each lease is necessary as you will need all critical lease details to successfully implement ASC 842. As many accounting teams do not have the expertise to abstract all relevant information from leases, this is a great area to look at potentially outsourcing.

The Checklist

- [ ] Determine who plays a critical role in the lease lifecycle. Lifecycle Blog.
- [ ] Determine where critical lease information and documents will be stored.
- [ ] Determine who will perform lease abstraction. Learn More.
- [ ] Determine if software will be utilized. Schedule an Occupier demo.
- [ ] Select lease accounting software, if applicable. Learn More.
- [ ] Based on the accounting policy, abstract critical terms from leases.

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4 ADDITIONAL ASC 842 DISCLOSURE REQUIREMENTS

Don't underestimate the effort required to comply with the disclosure requirements in ASC 842. Reporting entities should evaluate the information tracked by their existing lease accounting systems and processes to identify any gaps in what's currently being collected compared to the disclosures mandated by ASC 842. If gaps are identified, entities need to change or upgrade their systems—or possibly even request additional data from their lessor.

The Checklist

Understand the ASC 842 qualitative disclosure requirements. Learn more.

- [ ] Disclose information about the nature of the leases (and subleases).
- [ ] Disclose information about leases that haven't yet commenced, but create significant rights and obligations for lessees.
- [ ] Disclose information about significant judgments and assumptions.
- [ ] Disclose additional information if a short-term policy election was made.

Understand the ASC 842 quantitative disclosures requirements. Learn more.

For Finance Leases:

- [ ] Amortization of ROU assets and interest on lease liabilities, including capitalized interest
- [ ] Operating lease expense (including capitalized costs)
- [ ] Short-term lease expense, when term > 30 days
- [ ] Variable lease expense
- [ ] Sublease income

For Operating & Finance Leases

- [ ] Weighted-average remaining lease term
- [ ] Weighted-average discount rate for leases as of the balance sheet date
- [ ] Maturity analysis of lease liabilities for each of the first five years after balance sheet date
- [ ] And, in total thereafter, including reconciliation of un-discounted cash flows to lease liabilities on the balance sheet

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5 BUILD SUSTAINABLE ACCOUNTING PROCESSES

As you may have already figured out, the lease accounting standard increases a lessee's administrative burden due to the required increase in process controls; data collection, analysis, and maintenance; monitoring; internal reporting systems; and, most importantly, audit scrutiny. It is important to think about how your team can build a scalable lease accounting process as this standard is just a race to the starting line. Where the rubber meets the road is life after your transition.

The Checklist

- [ ] Interview key employees involved in the lease accounting process.
- [ ] And determine pain points in the lease accounting process.
- [ ] Walkthrough the updated lease accounting process and understand the different hand offs of critical lease information.
- [ ] Understand how data utilized in the lease accounting process.
- [ ] Determine what IT general controls need to be added to process.
- [ ] Determine what activity based controls need to be added to process.
- [ ] Determine what financial reporting controls need to be added to process.
- [ ] Determine where process efficiencies can be achieved.

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6 PREPARE JOURNAL ENTRIES

Now that the ASC 842 effective date is fast approaching, you can start to prepare for your ASC 842 transition journal entries. While you likely cannot perform the final calculations until the ASC 842 Effective Date since you should be utilizing all available information as of the Effective Date to determine the discount rate, you can start to prepare your underlying support files and better understand the transition journal entries. Therefore, this section discusses how an entity can complete its transition once they have all available information. Learn More.

The Checklist

- [ ] Determine the lease term, if hindsight practical expedient is selected. Learn More.
- [ ] Calculate the total lease consideration.
- [ ] Determine the discount rate as of ASC 842 Effective Date. Learn More.
- [ ] Perform lease classification test, if package of three practical expedient not selected.
- [ ] Download the Occupier Lease Classification Test.
- [ ] Calculate the present value of the lease liability. Download our PV Calculator.
- [ ] Determine initial direct costs, if package of three practical expedient not selected.
- [ ] Determine lease incentives. Learn More.
- [ ] Calculate the right-of-use asset. Learn More.
- [ ] Review accounting policy to determine which modified retrospective transition approach will be used. Learn More.
- [ ] Record effective date transition journal.

7 LEVERAGE TECHNOLOGY TO ASSIST

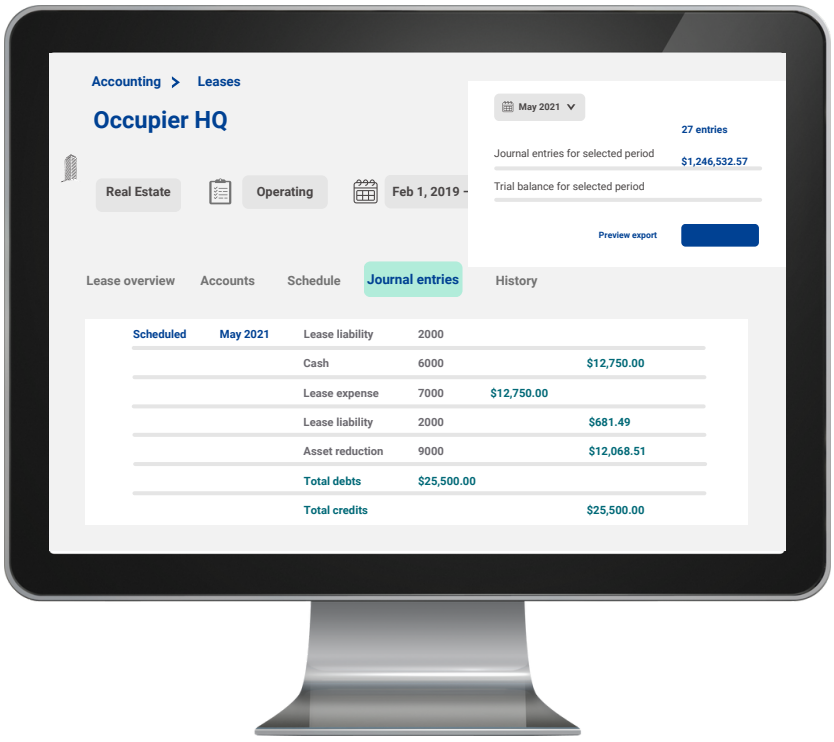
Consider if software is right for your business. As a rule of thumb, any organization (private, public, or nonprofit) with 10 or more leases should review lease accounting software as a tool for their ASC 842 compliance team. We recommend looking for software that powers the entire lease life cycle — from site selection to critical date management and lease accounting compliance. Lease management includes numerous stakeholders from real estate, operations, construction, design, HR, C-suite, and of course finance & accounting. If everyone can collaborate from a single source of leasing truth, then it makes your organization run more smoothly.

The Checklist

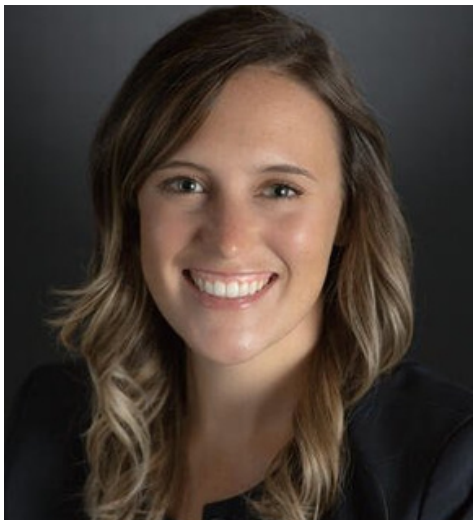
- [ ] Consider if software is right for your business. We recommend software for any portfolio with 10 or more leases.
- [ ] Consider software that enables real estate, accounting, and broker teams to collaborate. As opposed to working in disparate systems.
- [ ] Make sure your lease accounting software integrates with your ERP system.
- [ ] Check that your lease accounting software is SOC-compliant.
- [ ] Ask the real estate team what they need in a lease administration and transaction management solution.
- [ ] Lastly, schedule a demo with Occupier! Check out how our software enables real estate teams and accounting teams to collaborate on the entire lease lifecycle.

ABOUT OCCUPIER

Occupier provides your team with an all-in-one lease management solution. Our tool enables brokers, real estate teams, and lease accounting professionals to make smarter, more informed decisions by centralizing the way they work and collaborate. With our lease accounting module, your team can confidently and securely automate the lease measurement process, generate right-of-use assets as well as export amortization schedules and journal entries.



Free Demo!



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Lauren Bahr is a Certified Public Accountant and the Vice President of Finance at Occupier. Prior to joining Occupier, she was responsible for implementing ASC 842 for a vast portfolio of retail and equipment leases at a high-growth consumer products company. Lauren is also passionate about collaborating with others to optimize solutions and create wins for every stakeholder in the process.

Meet with a member of Lauren's team to discuss your organization's ASC 842 transition:

Schedule a Demo

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