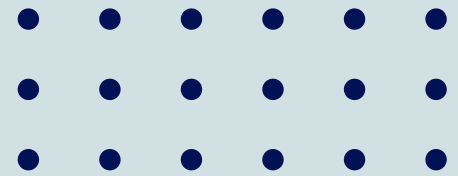




LEASE ACCOUNTING AUDIT CHECKLIST



OCCUPIER



WHAT IS A LEASE ACCOUNTING AUDIT UNDER ASC 842

[Watch Video](#)

LEASE ACCOUNTING AUDIT UNDER ASC 842

A lease accounting audit ensures compliance with ASC 842 standards by rigorously examining a company's lease accounting practices and financial statements. Auditors meticulously review lease agreements, financial statements, and internal controls to verify accurate lease identification, precise calculation of liabilities and assets, and comprehensive disclosure.

Beyond compliance, the audit provides valuable insights to companies about their leasing practices and how they can optimize their lease portfolio to meet their business needs better.



**ASC 842
COMPLIANCE**



**FINANCIAL
TRANSPARENCY**



**INTERNAL
CONTROL
VALIDATION**



**STRATEGIC
INSIGHTS**

1 PERFORM A DEPARTMENTAL LEASE SURVEY

Conduct a thorough survey within relevant departments to ensure that you've captured all leases, including embedded leases, during the audit period.

Embedded Leases: Contracts that contain right-of-use assets where the lessee has control over the underlying asset for a specified period of time. Embedded leases can fall into the short-term, long-term, or month-to-month category.

Learn more about [Long Term vs. Short Term Leases](#) and [How to Identify Embedded Leases](#).

2 OBTAIN AND REVIEW ALL LEASE DOCUMENTS

Gather and carefully review all lease documents for new and amended leases during the audit period.

Pay attention to lease terms, conditions, and clauses that may impact accounting treatment.

3 PERFORM AN ANNUAL IMPAIRMENT REVIEW

Conduct an annual assessment to determine if there is any impairment of the right-of-use assets associated with finance leases.

HOW TO PERFORM AN IMPAIRMENT ASSESSMENT

Assess for **indicators of impairment**, an external or internal event that has taken place that serves as a signal that an impairment could have occurred after the initial measurement.

If indicators of impairment are present, then the next step is to perform the:

- Recoverability Test (under ASC 842)
- “One-Step” Test (under IFRS 16)

Under both, if the assessment(s) reveals that an impairment has taken place, the final step is to account for the impairment charge.

In the case of a single asset, the impairment charge equates to the difference between the recoverable amount of the asset and the carrying value.

Learn more about [Impairments of ROU Assets](#) and [ROU Assets under ASC 842](#).

Impairment: An accounting concept that occurs when the cash flows generated by an asset (or group of assets) change in a negative manner.

Right-of-Use (ROU) Assets:

A valuation of the period of access to a lessor’s asset by a lessee.

IMPAIRMENT:

A permanent reduction in the value of an asset.



4 PERFORM ANNUAL INTERNAL CONTROLS PROCEDURES



There are control analyses that need to be performed monthly, quarterly, on a transactional basis, or an annual basis. These controls align to 842 or IFRS 16 to make sure compliance.



LEASE ACCOUNTING



Audit, Compliance, Policies & Controls



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AUSTIN ROBELLO

Policies: Refer to the specific guidelines and principles adopted by a company to account for leases in its financial statements.

Internal Controls: Refer to the measures and procedures implemented by a company to ensure the accuracy, reliability, and compliance of its lease-related financial reporting.

Learn more about [How to Streamline Lease Accounting Policies & Controls](#).



5 UPDATE YOUR LEASE ACCOUNTING MEMO OR POLICIES

Update your lease accounting memo or policies for any changes made during the audit period.

Lease Accounting Memo: A document that outlines an organization's policies and procedures for lease accounting.

Learn more about [How to Write a Lease Accounting Policy Memo.](#)

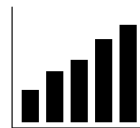
Don't have one yet? Download [Occupier's Lease Accounting Memo Template.](#)



With this Lease Accounting Memo, you can document your Company's:



Process for evaluating the impact of adopting the lease standard.



Analysis of the key aspects of the lease standard on its contracts.



Establishment of accounting policies under the new standard.

[Download Here](#)

6 PREPARE YOUR ROLL FORWARD REPORT

Generate a roll forward report, a common audit request, detailing changes in lease balances during the audit period.



Roll Forward Reporting

With the ASC 842 lease accounting standards, balance sheet transparency is a must. Auditors expect clarity and a reporting trail for all decisions made as it relates to your lease portfolio. Roll forward reporting is one of those disclosures that give your team peace of mind during your audit.

Roll Forward Report: Provides a reconciliation of the beginning and ending balances of lease assets and liabilities over a reporting period. It tracks all changes that have occurred related to leases, including new leases, terminations, remeasurements, payments, interest accruals, impairments, and amortization.

Learn more about [Roll Forward Reporting](#).

7 PREPARE YOUR FINANCIAL STATEMENT LEASE DISCLOSURES REPORT

Generate a financial statement lease disclosures report, a common audit request, detailing changes in lease balances during the audit period.

Financial statement lease disclosures reporting involves presenting relevant information about a company's lease arrangements in its financial statements:

Lease Classification: Disclose the classification of leases (finance or operating) and the criteria used for classification. This information helps users understand the nature of the lease agreements.

Learn more about [How to Perform a Lease Classification Test](#)

Measurement and Recognition: Provide details on how the company measures and recognizes lease assets and liabilities. This includes information on initial recognition, subsequent measurement, and any adjustments made during the lease term.

Learn more about [Subsequent Re-Measurement of Leases under ASC 842](#)

Amortization and Interest Expense: Disclose the amortization of right-of-use assets and interest on lease liabilities, helping stakeholders understand the impact of leases on the income statement.

Learn more about [How to Calculate your Lease Amortization Schedules](#)

Maturity Analysis: Present a schedule of future lease payments, broken down by each of the next five years and beyond. This provides insights into the company's future cash flow obligations related to leases.



8 PREPARE YOUR SIGNIFICANT ASSUMPTIONS REPORT



A significant assumptions report is a common audit request. This report is a disclosure of any significant assumptions and judgments made in applying the lease accounting standards, including estimates related to future events that may impact lease payments like discount rates, termination dates, renewal dates.

Discount Rate Assumptions: The discount rate is a fundamental element in determining the present value of future cash flows. Assumptions regarding the risk-free rate, credit risk premiums, and other factors influencing the discount rate need to be explicitly stated and justified.

Termination Date Estimations: Rationale: The termination date significantly impacts the recognition of lease liabilities and the calculation of lease expenses. Assumptions made regarding contractual obligations, potential extensions, and early termination clauses must be disclosed.

Renewal Date Considerations: Renewal options in leases can have a material impact on lease liabilities. Assumptions regarding the likelihood of exercise, lease term adjustments, and the determination of renewal periods should be clearly outlined.

Future Event Estimates: Anticipated future events, such as changes in market conditions, economic factors, or specific events affecting the leased asset, can impact lease payments. Clear disclosure of assumptions related to these future events is critical for stakeholders.

9 REQUEST AND REVIEW THE SOC REPORT

Request and review the SOC report from your lease accounting software provider.

10 GIVE ACCESS TO YOUR LEASE ACCOUNTING SOFTWARE

Provide your auditors with access to your lease accounting software.

Lease Accounting Software: A cloud-based solution that can automate the lease accounting process and help companies comply with the standard more efficiently than Excel spreadsheets.



Occupier's Lease Accounting Software is built for in-house accounting teams, CPA firms, and auditors to collaborate on ASC 842, IFRS 16, and GASB compliance.

Our all-in-one solution allows your team to focus on variable tasks by offering lease abstraction, lease data storage, amendment functionality, and automated re-measurement reminders when changes are made.

[Lease Accounting by Occupier](#)