

2021 Lease Accounting Market Analysis:

The Road to Readiness for ASC 842

Your guide to achieving and maintaining lease accounting compliance – and, unlocking opportunities for savings along the way.

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Executive summary

Leases are inherently important to your business.

Real estate leases are central to an organization's operations. Location can greatly impact your revenue, your productivity and your costs.

Equipment leases – although likely smaller in size and higher in volume – directly impact the distribution of assets used in your operations.

For the past 35 years, we've witnessed how these important agreements are misunderstood and overlooked. We've seen firsthand how companies often don't keep proper track of their leases and the terms they contain, and the challenges this has created for them.

They've missed options to get out of leases early or extend at reduced rates, overpaid their operating and tax charges, failed to ask for landlord contributions to construction costs, or continued paying rent long after they've terminated their lease – the list goes on and on.

These mistakes can amount to millions of dollars in overstated expenses.

Thankfully, lease accounting standard ASC 842 increases disclosure and visibility into the leasing obligations of both public and private organizations.

For private companies, the effective date after which these businesses need to comply is for their fiscal year beginning after December 15, 2021.

But public companies have had to adhere to the standard for all accounting disclosures since 2019.

Since adopting, many public companies have learned that sustaining their lease accounting process is incredibly time-consuming and resource intensive – not to mention, if done incorrectly, can have a negative impact upon financial reporting.

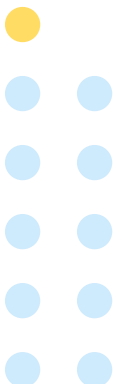
With this in mind, we gathered important data and insights to help you:

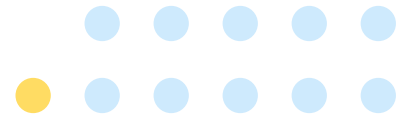
- 1 Better prepare for and maintain lease accounting compliance
- 2 Recognize risk items and gaps
- 3 Unlock savings opportunities
- 4 Make better-informed operational decisions

Within, you'll learn all the above, as fueled by unique insights from our survey of 500 senior accounting and finance professionals at companies with more than 1,000 employees.



Marc Betesh,
Founder & CEO, Visual Lease

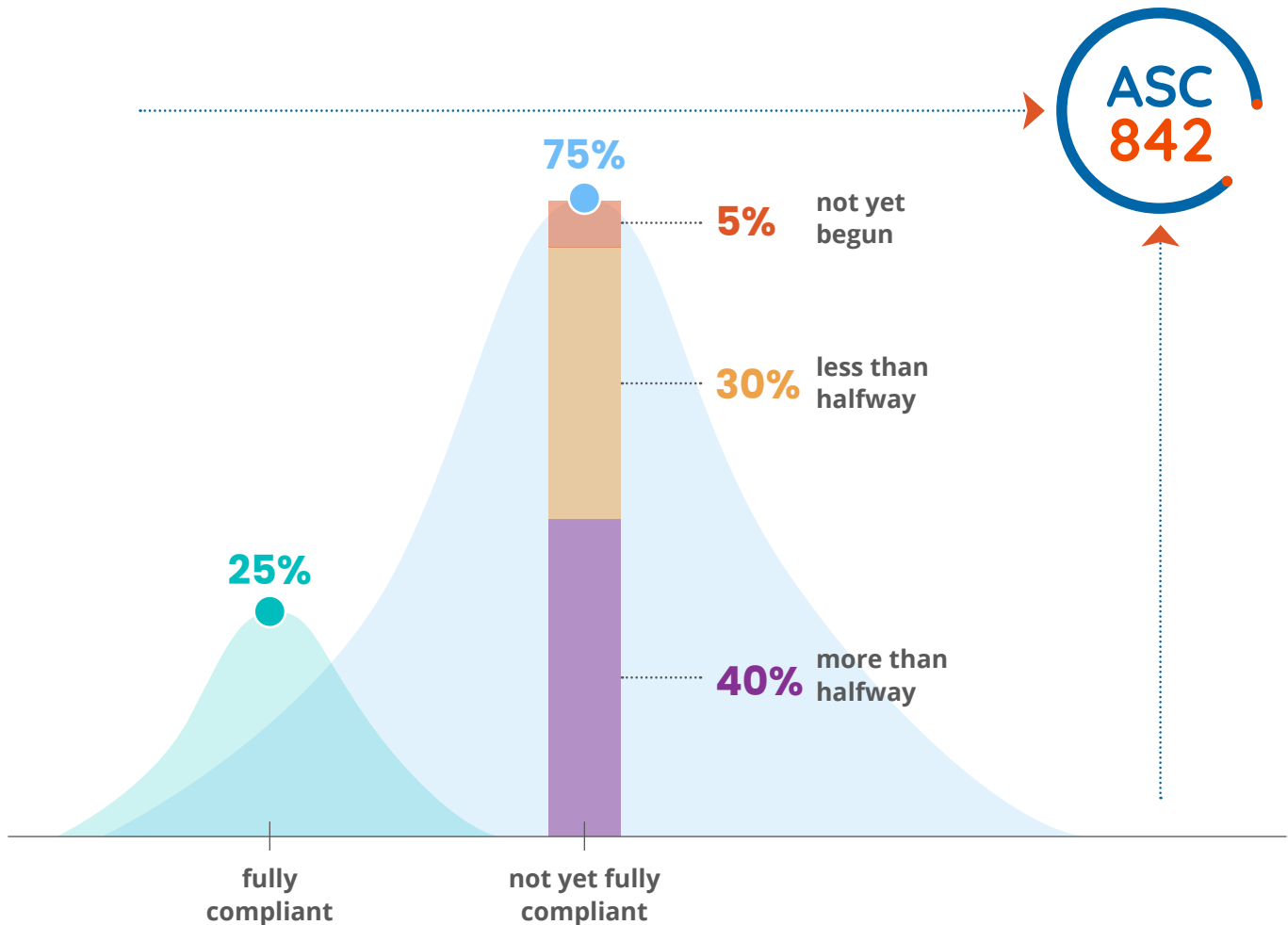




Taking a look at the current climate

Companies are unprepared – and lack confidence – to adopt ASC 842.

Even though the effective date to adopt ASC 842 is approaching for private companies – and has already passed for public companies – 75% of the organizations we surveyed (excluding public companies) are not yet fully compliant with the new lease accounting standard.

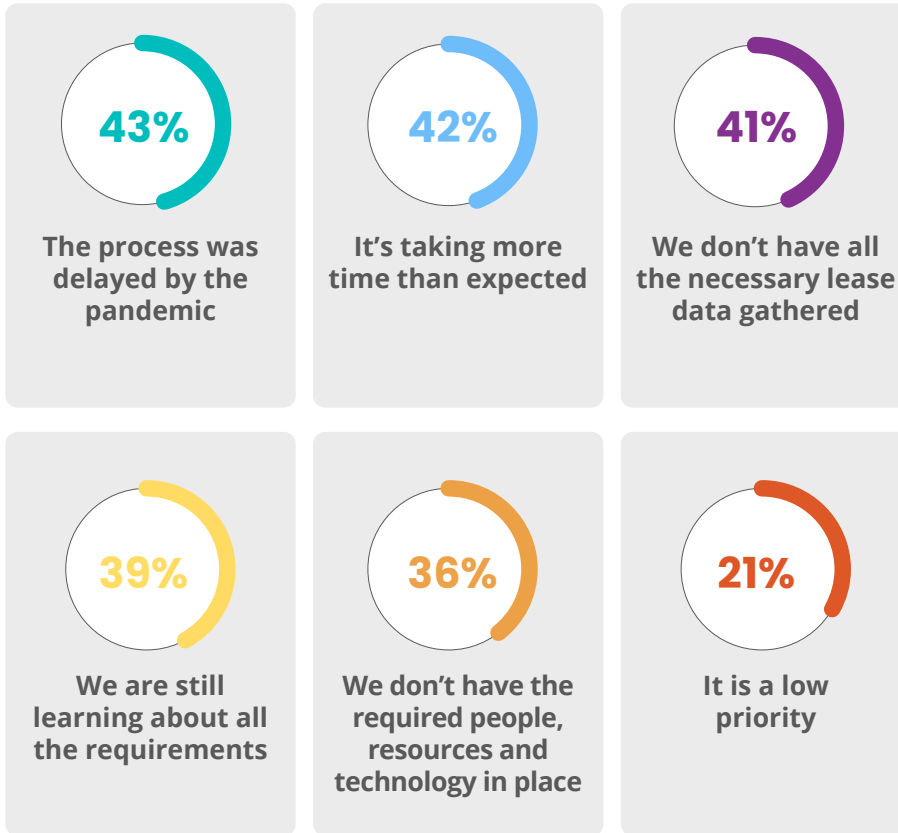


The majority of survey respondents indicate their companies have at least started the process of adopting ASC 842 – but two in five respondents (40%) are only somewhat confident (or less) about being ready to adopt ASC 842 in time for their company's next scheduled reporting period after December 15, 2021.

And, a surprising 45% of respondents would give their industry a C or lower grade for its ability to comply with lease accounting standards—including nearly 1 in 5 (19%) who would give their industry a D or F.

Factors contributing to the negative outlook

Respondents were asked to select all options that apply



Gaining clarity from the assessment period

Private companies have not prioritized ASC 842.

Despite the significant business opportunities that come with lease accounting compliance (54% of respondents identified cost savings and a more transparent valuation of their organization as top benefits) – a shocking one in five (21%) of respondents admit that achieving full compliance with ASC 842 has been a low business priority.

But, now IS the time to make lease accounting a top priority.

Before you identify the right people, resources and technology for your business, you should first take the time to evaluate your current process. In doing so, you will likely uncover gaps that you can then address with the resources you choose to invest in.

This step is a critical – and often overlooked – part of the journey toward maintaining lease accounting compliance.



"I've seen how important it is to assess one's current lease process.

In many cases, companies recognized that they did not have a solid process in place for determining lease classification under ASC 840, and as a result, had a number of leases that were misclassified. Absent the right people, processes and technology in place, they did not have an adequate level of control over their portfolio, which resulted in incorrect lease accounting calculations. Taking the time to assess your current state can enable you to use your resources to effectively address major gaps or concerns."

Joe Fitzgerald,

SVP of Lease Market Strategy,
Visual Lease

Your assessment checklist:



Gather all related documents. This is one of the most time-consuming steps in preparing for lease accounting. And yet, 41% of respondents reported that they are not yet fully compliant because they have not gathered all the necessary lease data.

Find out where all your relevant lease contracts are held – it is likely they are scattered across various departments in your organization.

If you are like the 8% of respondents who are still using outdated spreadsheets (e.g., Excel) to manage leases, go through each file with a fine-tooth comb. Remember that manually tracking and managing lease data is an almost sure-fire way to fall victim to human error.



Evaluate all involved parties. Because achieving and maintaining compliance with ASC 842 is so nuanced, you will depend on a team of people to get the job done. Review your internal cross-functional teams – accounting, FP&A, real estate, IT, legal, procurement etc. – to ensure that you have the right people involved in the process. This will also help determine if or where you may need to invest in third-party service providers.



Review your existing tech stack. More than half (53%) of respondents reported that they have 3-5 financial software solutions in place – and 37% specifically use third-party software to manage their lease data.

Despite the majority of organizations relying on software to streamline a significant component of ASC 842 compliance, a surprising 44% shared that only some of their financial software integrate with each other.

What are the top investments other companies are making?

Senior finance and accounting professionals say assistance from third-party lease-accounting experts (52%), upgrading existing lease management and accounting software (51%) and implementing new lease management and accounting software (48%) are essential for the transition to ASC 842.

The assessment period will help you determine how to leverage these investments to address your most pressing needs.

Understanding the importance of ongoing education

Knowledge Check

ASC
842

See how your knowledge compares to that of other lease accounting and finance professionals. **Of those we surveyed, 86% could not accurately identify all true and false statements about ASC 842** — 70% misidentified more than one statement.

Q How many tests do lessees use to classify their leases?

A Five.

53% of respondents did not know the answer to this question

Q How long can leases be?

A Lease data can span multiple documents and hundreds of pages.

53% of respondents did not know the answer to this question

Q Do a company's lease agreement(s) include all information required for ASC 842?

A No, as mentioned above, this data can span across multiple types of documents.

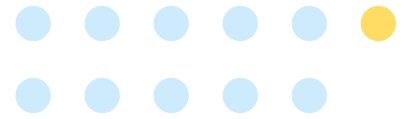
54% of respondents did not know the answer to this question



"To adopt and maintain ASC 842 compliance as leases and regulatory requirements change, all modifications to those leases need to be tracked within a reliable technology solution. But that's not the only thing that needs to be accounted for. Forty-six percent of respondents said that continued education and training was a top anticipated challenge for maintaining compliance. Post-adoption, it can be complicated to evaluate whether the change(s) will result in a modification of the lease and require a subsequent remeasurement of that lease. All team players and responsible parties need to stay abreast of key considerations and milestones."

Joe Fitzgerald,

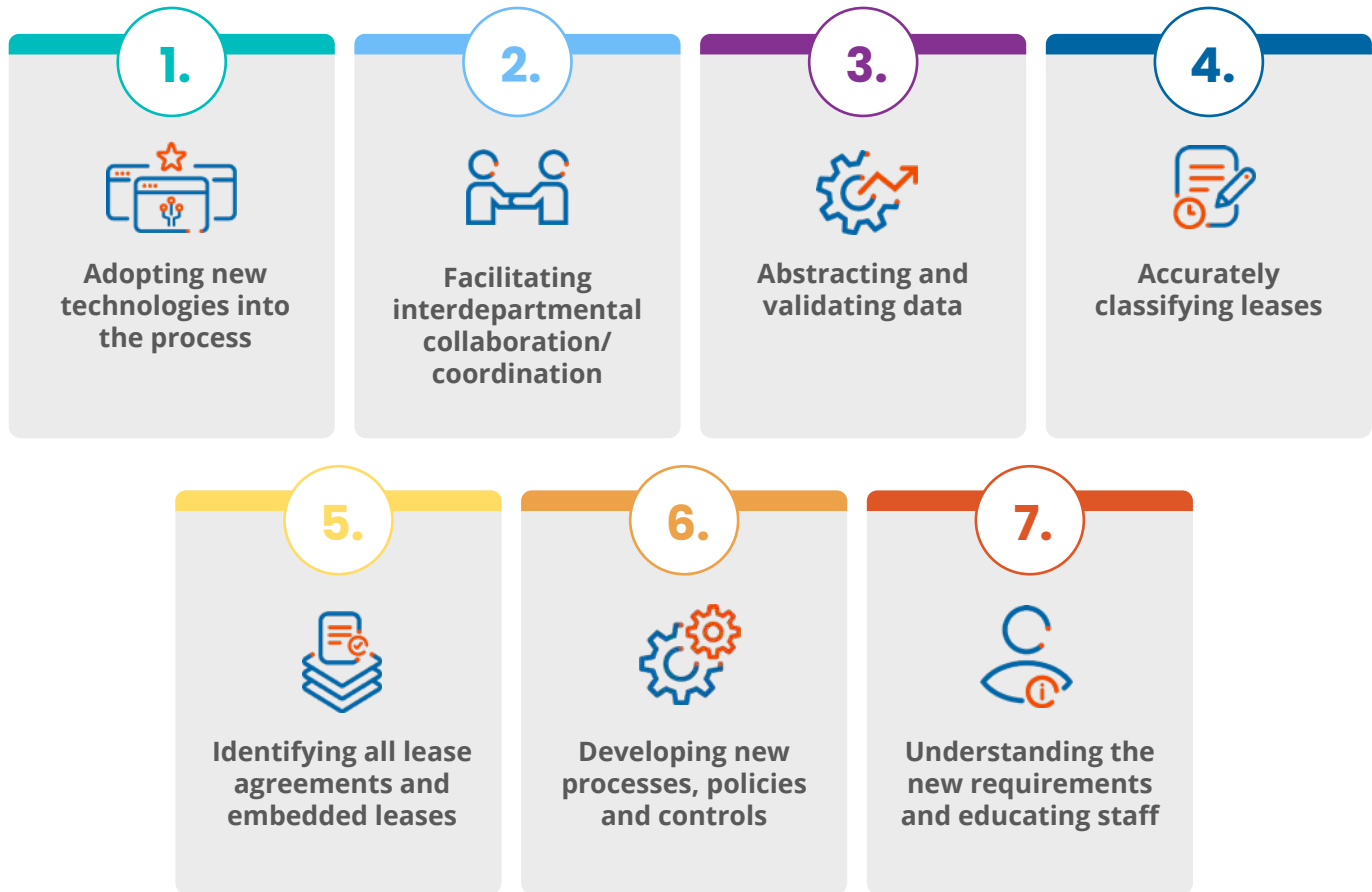
SVP of Lease Market Strategy,
Visual Lease



Getting ahead of common challenges

Adopting ASC 842

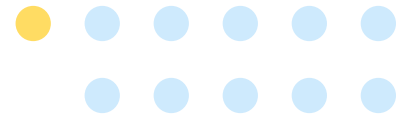
While working to adopt ASC 842, organizations commonly face these top-reported obstacles (responses were ranked and provided among respondents who are not yet fully compliant with ASC 842):



Survey respondents also reported that they will need to invest a significant number of staff hours to gather all the necessary lease information to fully adopt ASC 842.

On average, those **not** using a third-party software expect to spend 1,582 hours gathering all necessary lease information. In comparison, **those using software expect to save 660+ hours**, spending only 915 hours on the same process.





What's the biggest challenge you faced in collecting all relevant lease data for ASC 842?



"We started gathering [lease] data 18 months prior to implementation. It is very time-consuming to locate and gather the required fields within each lease. Contracts changed and there were new leases and amendments to be made, which caused more work to be done than anticipated. No matter how much you prepare your leases beforehand, there is always more information that will need to be gathered."

–

Nick Domicile, Director of Financial Reporting and Technical Accounting
Apex Tool Group



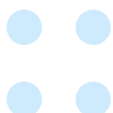
PennState Health

"Early on, we hired temporary employees to gather leases across the organization, including leases for various buildings and locations, equipment and embedded leases located within contracts. Embedded leases took a large majority of the project – they required a lot of time to assist with identification."

–

James Rogers,
Senior Financial Analyst
Penn State Health

Gathering and organizing lease information via a centralized system helped Apex Tool Group and Penn State Health capture changes to their portfolio in a timely manner for accounting purposes. This level of control led to fewer mistakes and challenges, allowing both organizations to not only confidently achieve, but maintain compliance.



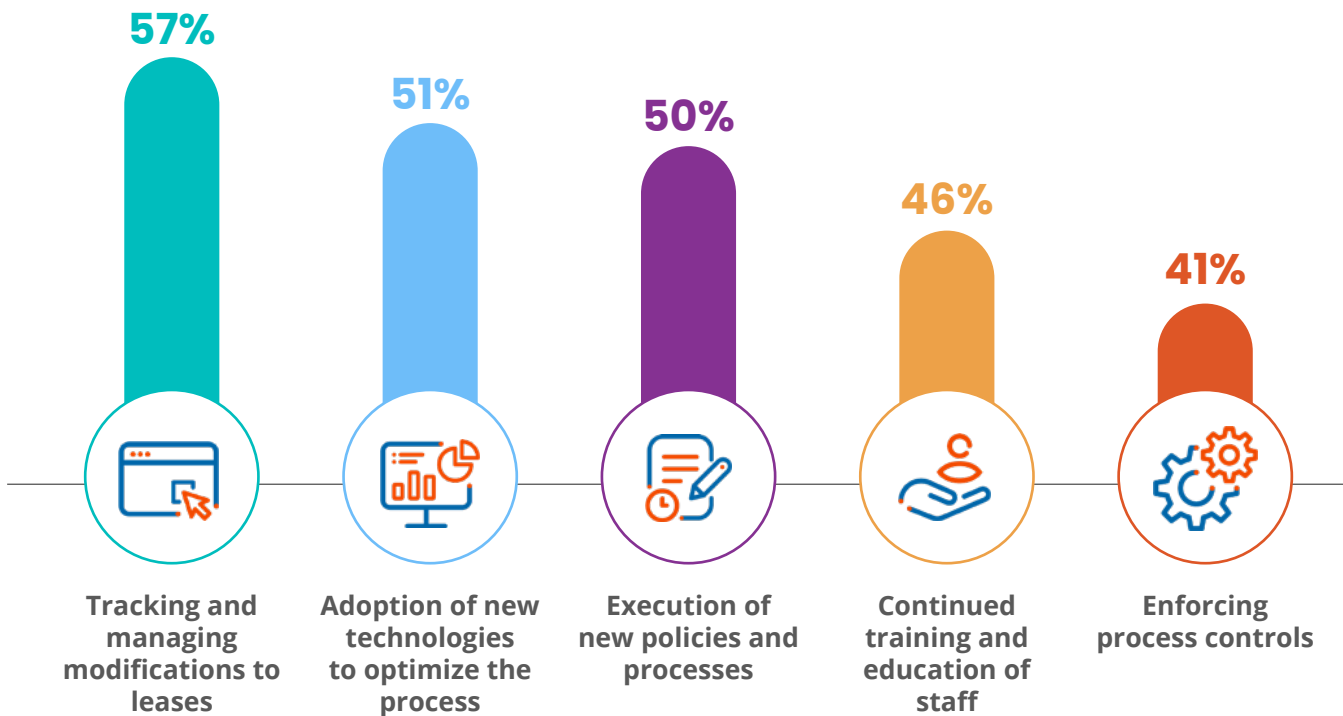
Maintaining ASC 842

Reaching ASC 842 compliance in time for the accounting standard's effective date is only part of the battle. ASC 842 is not a one-and-done disclosure – and requires careful attention even after adoption.

Staying on top of your lease information throughout the year often presents its own challenges, but is necessary to maintain accurate financials.

Nearly all – 99% – of survey respondents think they will face ongoing challenges maintaining ASC 842 compliance after 2021. **Why?**

The top reasons point to a need for better processes, resources and tools, such as:



Recognizing the opportunity within your portfolio

The new lease accounting standard comes with some major risks if inaccurately reported upon. In fact, a staggering 99% of senior finance and accounting professionals surveyed acknowledge real fears in potentially misreporting company lease information.

This points toward a critical need for automation through lease accounting technology. Software solves for this need through automated calculations, which reduce the risk of manual error, and through audit trail functionality that ensures every change is recorded and is fully auditable.

The top concerns associated with misreporting lease financials include:

Respondents were asked to select all options that apply



“Understanding just how complex and expensive leases are – particularly under ASC 842 – is reason enough to invest time and resources into achieving and maintaining compliance. But, when considering the many benefits associated with lease accounting, it becomes glaringly evident that lease portfolios can streamline processes, create efficiencies and help companies get more out of their leases. Lease optimization will enable organizations to sustain lease accounting compliance and unlock hard and soft savings, addressing two major business concerns with one effort.”

Marc Betesh,

Founder & CEO, Visual Lease

All – 100% – of the senior finance and accounting professionals who participated in the study acknowledge that compliance comes with real business benefits.

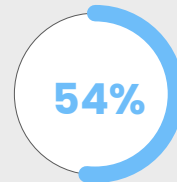
And, the majority (54%) of respondents view ASC 842 as an opportunity for private businesses.

Among the advantages associated with the process of accounting for your leases on the balance sheet are:

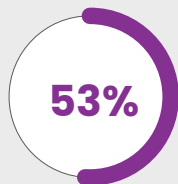
Respondents were asked to select all options that apply



More transparent valuation of the organization



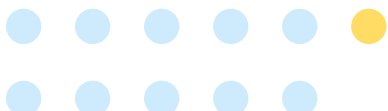
Cost savings

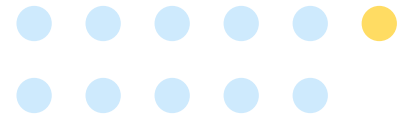


Easier preparation for audits



Ability to make strategic leasing decisions





Conclusion






Finance and accounting professionals are long familiar with adopting new accounting standards into their processes. Some accounting standards, like ASC 842, result in a greater downstream impact than others – and require more effort and resources.

The time to act is now.

Whether approaching lease accounting for the first time, or looking to enhance processes and maintain compliance, ASC 842 poses an opportunity for you to unlock savings and time, while creating efficiencies that will benefit your business long into the future.

With the right information, people and technology in place, you can materially improve a previously undermanaged area in your organization.

To successfully maintain compliance with ASC 842 and other lease accounting standards, consider:

- 
Adapting new processes and policies for maintaining records
 53% of respondents reported this to be essential for their company's transition to ASC 842
- 
Investing in assistance from third-party lease accounting experts
 52% of respondents reported this to be essential for their company's transition to ASC 842
- 
Upgrading existing lease management and accounting software
 51% of respondents reported this to be essential for their company's transition to ASC 842
- 
Increasing collaboration across your involved departments (accounting, FP&A, real estate, IT, legal, procurement, etc.)
 50% of respondents reported this to be essential for their company's transition to ASC 842
- 
Implementing new lease management and accounting software
 48% of respondents reported this to be essential for their company's transition to ASC 842

Ninety-nine percent of respondents report that either implementing new and/or upgrading their existing technology is essential to their ability to comply with ASC 842.

With the right information, people and technology in place, you can materially improve a previously undermanaged area in your organization.



About The Visual Lease Data Institute.

The Visual Lease Data Institute is a collection of market-leading data, trends and insights on lease accounting, management and optimization created and curated by Visual Lease, provider of the #1 lease optimization software. The Institute was founded on 35 years' experience managing lease data and financials, and was created to arm organizations with the knowledge required to achieve and maintain lease accounting compliance and leverage their leases as strategic business assets.

Methodological Notes:

The Visual Lease Survey was conducted by Wakefield Research (www.wakefieldresearch.com) among 500 Senior Finance and Accounting Professionals, with Seniority of Director+, at companies of 1,000+ employees, excluding public companies, between May 26th and June 3rd, 2021, using an email invitation and an online survey.

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 4.4 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

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