



VISUAL LEASE



**A complete guide to a  
successful audit  
with the new lease  
accounting standards**



# Introduction

Whether you comply with ASC 842, IFRS 16 or GASB 87, auditors will review your post-adoption financial statements to assess whether your leases have been completely identified, accurately valued and properly classified. Without the proper setup and adequate preparation beforehand, an audit could uncover material misstatements.

Financial-statement errors not only increase risk exposure, but consume valuable resources that could be better spent building the business. Further, when auditors find discrepancies, it can snowball into more work in reevaluating your processes and controls. But these are avoidable scenarios.

There are steps you can take to minimize the risk of these potential disruptions. Although mistakes do happen, they are more likely to occur when rushing to comply with new requirements. It is critical to slow down and make sure things are done right the first time.

## In this eBook, we will examine the critical factors in a successful first-time audit:



How to overcome common challenges associated with gathering lease data



Tips for choosing a solution and best practices for implementation



Why preparing for the audit by running reports before the deadline is critical to success





# Potential roadblocks to gathering lease data

Accounting for all your organization's leases is a critical first step, according to Nicholas DeMarco, CPA, Manager, Financial Reporting at Visual Lease, a leading provider of lease accounting and management software. "Lease completeness is often a challenge, as companies often have leases in different places."

Accurate lease accounting begins with establishing a complete inventory of leases. This means centralizing leases located all throughout the business, which are often scattered around in disparate formats. This has proven to be the most time-consuming part of the process for companies — and is often a thankless, manual and painful part of the implementation process.

While a failure to overcome these obstacles puts your organization at risk, the challenges can be overcome with a well-thought-out plan.

"In many cases, only larger companies have a dedicated lease department," DeMarco said. "Even that isn't a guarantee that corporate is aware of all of the lease agreements. Leases can get signed and stuffed in a drawer at a local office."

"Then there is the challenge of determining which contracts should be classified as leases. When gathering lease data, companies must carefully consider all agreements to determine if there is a lease component," said Bill Harter, Lease Accounting Expert at Visual Lease.

However, it isn't always obvious what constitutes a lease under the new guidelines. Harter described an example involving an agreement related to a capsule endoscopy system, commonly referred to as a pill camera. "The pill is just a piece of the agreement. There was also a small belt and reader to gather the diagnostics from the pill. That constituted a lease."

Yet another challenge is the fluid nature of leases. Many leases change over the course of the lease or amended upon renewal. The process for tracking those changes tends to be manual and hyper-local, so those updates are not always easily identified.

Addressing these challenges involves laying the groundwork for gathering all leases from sometimes far-flung local offices. When you have a complete accounting of leases, it is easier to evaluate them and gather data that is important to the business and auditors.

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**Bill Harter,**  
Lease Accounting Expert, Visual Lease

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# Case study

## Global manufacturer consolidates 300 leases

Apex Tool Group (ATG), the world's largest manufacturer of professional hand and power tools, had 300 leases for assets scattered across the globe. Before implementing Visual Lease, ATG did not have a detailed centralized repository of all relevant financial information for its leases. The pressure was mounting, as they faced the deadline to meet the ASC 842 standard.

Although ATG started gathering lease data 18 months before implementation, assembling a complete inventory of leases proved to be the most time-consuming and painful part of the implementation process. In the end, 120 leases were recorded in Visual Lease due to their materiality.

**Apex Tool Group (ATG) is one of the largest manufacturers of professional hand and power tools in the world, serving the industrial, vehicle service and assembly, aerospace, electronics, construction and serious DIY markets.**

Their portfolio of innovative powerhouse brands includes SATA®, GEARWRENCH®, Crescent®, Cleco®, Weller®, and APEX®. They also manufacture select, premier private label mechanics tools. Across the board, their tools stand for quality, innovation and value.

ATG works collaboratively with distributors, retailers and larger customers across the globe to make sure end users have the tools they need to solve real-world problems. Their unique category management approach provides customers with end-user data, market research and voice of the customer insight, which helps drive inventory, display and promotion decisions.



### Selecting the right software Why Visual Lease

As a widespread company holding leases across multiple locations, ATG was searching for a tool to streamline ASC 842 lease accounting compliance efforts. With a heavy focus on manufacturing-related leases, it was necessary to find a solution to simplify the consolidation of more than 300 leases.

#### ATG's Leases by the Numbers



With leased assets located across the globe, ATG looked for a robust lease accounting system that could serve as a single-source for their large lease portfolio, including multiple complex leaseback real-estate agreements. It was clear to ATG the best way to achieve lease accounting compliance was through software that seamlessly fit into their business.

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The result: With complete and accurate lease portfolio data in a centralized and fully configurable system, it was easy for ATG to surface relevant lease information. Now, everyone on their team can easily generate any report they need, including amortization schedules and journal entries.

Click [here](#) for more information.



## Selecting a technology solution

Choosing and implementing a lease accounting system has widespread implications for teams across an organization, including finance, real estate, operations, equipment, governance and legal. A centralized lease accounting and management solution should serve all of these stakeholders and streamline cross-functional collaboration in the process.

Finding a solution that meets business and compliance needs can be challenging, so many companies turn to their external auditors for help. They are familiar with the regulations and hurdles many organizations face in lease accounting.

Also, since internal auditors often work closely with the system, companies should involve them early in the selection process. Internal auditors can help scope requirements and assist with some interpretation questions.

“Involve the auditors every step of the way to ensure that your financial reporting is accurate,” DeMarco said. “While the regulations provide guidance, some instances require informed estimates and judgment calls.”

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Visual Lease

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Getting internal and/or external auditors involved in the process early can prevent problems later. “Auditors can stop you if you make a mistake and provide tips to make the process easier,” said DeMarco. “If you do something wrong throughout the entire year, that means more work later and potential fines.”

Additionally, a lease accounting solution should be adaptable to the organization's needs, including the ability to handle specific, unique lease terms. "One of the most important considerations in choosing a lease accounting system is flexibility," said Daniel Beil, Partner at RSM US LLP, a Visual Lease partner. Beil says it is essential to select the right technology for the job. "Some systems are more configurable from the start, while others require developers to get involved in order to make changes. It is important to know what you're getting involved in, as technology can be one of the biggest hurdles to lease accounting compliance."

Establishing goals for your lease accounting system is essential to success. "Do I just want a system for lease accounting, or do I have to manage them better?" asked Kirk Rogers, Partner at RSM US LLP.

To provide an example of the risks associated with manual systems, Rogers proposed a hypothetical regarding returning equipment. "If you don't return equipment on time, that costs money." Using automated lease management systems can help you avoid risks, overpayments and fines.

During the adoption process, regular meetings are key to collaborating on the elections to take and other functions. Determining information critical to your business upfront bolsters success. "Ask about the information that management wants to see that they can't right now because the information isn't stored properly," Harter said. "That will help you identify as much supportive lease information as you can."

## Case study

### Hundreds of hours saved with lease accounting technology

CURO, the market-leading provider of short-term credit solutions for consumers, was well-positioned to meet the public company deadline for FASB ASC 842. Their lease management solution provided transparency into changes to lease data and captured an audit trail of any updates made within the platform.

The result: Given the company already had their leases tracked within a centralized location, they saved hundreds of hours that would have been spent tracking down and verifying accurate lease information – and it was much easier for them to achieve lease accounting compliance and produce accurate financial reports.

Click [here](#) for more information.

**Case Study**

Name	CURO Group Holdings Corp.
Industry	Finance
Employees	~400
Revenue	1+ Billion USD
Countries	USA, Canada
Headquarters	Wichita, Kansas
Auditor	Deloitte & Touche LLP
Company Type	Public

**CURO Group Holdings Corp.**  
A decade of reliable lease management assists public company in achieving lease accounting success.

Leases	Lease Type	Standard
450+ Leases	Real Estate, Equipment	ASC 842

**CURO Group Holdings Corp.**  
(NYSE: CURO), operating in the U.S. and Canada, is the market-leading provider of short-term credit solutions for consumers.

In 1997, the company was founded in Riverside, California by three Wichita, Kansas childhood friends to meet the growing consumer need for short-term loans. Their success led to opening stores across the United States and expanding to offer online loans and financial services in Canada as well.

Today, CURO combines its market expertise with a fully integrated technology platform and advanced credit decisioning to provide an array of short-term credit products across all mediums. CURO operates under a number of brands including Speedy Cash®, Rapid Cash®, Cash Money®, LendDirect®, Verge Credit®, Avlo Credit®, Opti®, and Revolve Finance®. With more than 20 years of operating experience, CURO provides financial freedom to the underbanked.

**Ensuring proper lease management**

Long before lease accounting compliance requirements were introduced, CURO's real estate team was responsible for managing critical information across hundreds of leases. Due to high visibility among company executives, it was very important that their lease administration solution provide reliable, accurate data.

Since 2011, CURO has utilized Visual Lease to serve as their single source of truth for all leased real estate assets. As a result, their team has experienced significant:

- Time savings** With leases abstracted directly in the system, it takes only a few seconds to identify specific lease provisions.
- Cost savings** All lease agreements and obligations are visible at a glance to avoid overpayment and help stay on top of all transactions.
- Increased visibility** No more worrying about missing important lease dates and renegotiations.

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# What to include in your internal controls and policies

Internal controls and policies play a critical part in how your leases are represented on the balance sheet. Having a clear process provides confidence for auditors that procedures are in place and have been followed. Also, an established framework makes it easier to spot errors early and ensures leases have been properly accounted for.

## To do so, you'll want to weigh your options for:

- ✓ Discount rates
- ✓ Payments and allocations
- ✓ Policy elections
- ✓ Disclosure requirements
- ✓ Practical expedients

Each of these identified areas require critical, albeit challenging decisions to make, and depend on your company structure and lease portfolio. While some areas are more straightforward and common than others, they all include significant attention and preparation to accomplish.

## Running reports ahead of the audit

The initial audit following adoption of the new standards can be unnerving, but laying the proper groundwork is the best way to ensure it's successful.

"Auditors want to see that there is an established process for lease accounting, and will look to see that the process was followed," Harter said. "This is particularly important when preparing for a first-time audit under the new standards. It would be best to perform a dry run to ensure that the established guidance has been followed."

While not all companies chose to run reports ahead of the deadline, doing so can identify potential issues that could help save a significant amount of time ahead of the deadline.

Robust technology solutions with configurable ad-hoc reports or a library of standard reports makes the reporting process easy, accessible and automated.

Being audit-ready should always be a priority even if there isn't an audit on the horizon. "Organizing your leases — both digital and hard copies — will not only help the audit process, but it will make it easier to extract the valuable data points you need to make better business decisions," said RSM's Rogers.

## Case study

### Saving fees and making audits easier

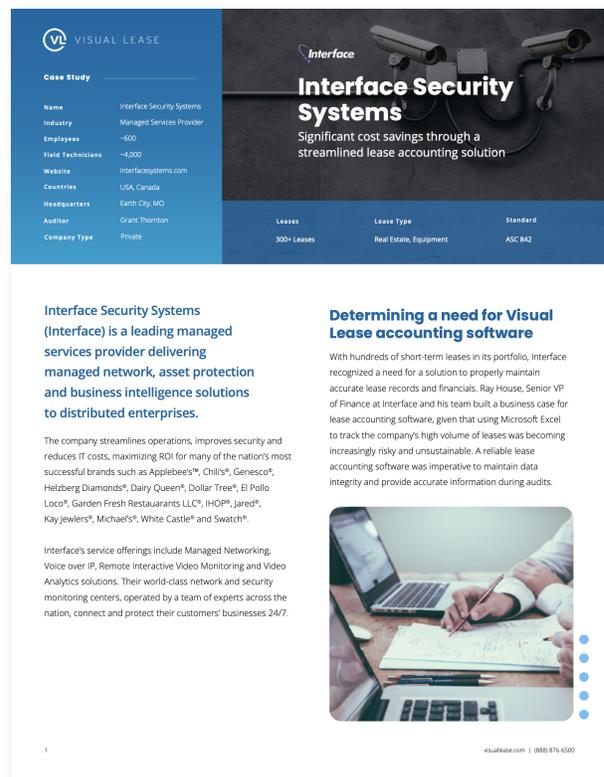
Interface Security Systems, a leading managed services provider, saved tens of thousands of dollars in auditor fees by streamlining their lease management directly in Visual Lease.

Using the platform's user admin permission settings, they set up a unique login for their auditors with read-only access. Their auditors were then able to log into Visual Lease to fully access and view every document – without Interface having to assist or pull additional data or reports manually.

"Visual Lease enabled us to become one of the early adopters of ASC 842," said Ray House, the company's Senior VP of Finance.

The result: The company achieved substantial savings on auditor fees and drastically reduced the time needed to generate necessary financial reports or modify lease information.

Click [here](#) for more information.



The screenshot shows a case study page for Interface Security Systems on the Visual Lease platform. The page is divided into several sections:

- Header:** Features the Visual Lease logo and the Interface Security Systems logo. The main headline reads "Interface Security Systems" with a sub-headline: "Significant cost savings through a streamlined lease accounting solution".
- Table:** A table with three columns: "Leases", "Lease Type", and "Standard". The rows contain: "300+ Leases", "Real Estate, Equipment", and "ASC 842".
- Text Block 1:** "Interface Security Systems (Interface) is a leading managed services provider delivering managed network, asset protection and business intelligence solutions to distributed enterprises." It includes a list of client brands: Applebee's®, Chili's®, Genesco®, Helberg Diamonds®, Dairy Queen®, Dollar Tree®, El Pollo Loco®, Garden Fresh Restaurants LLC®, IHOP®, Jared®, Kay Jewelers®, Michaels®, White Castle® and Swatch®.
- Text Block 2:** "Determining a need for Visual Lease accounting software" describes how Interface recognized a need for a solution to properly maintain accurate lease records and financials, leading to the adoption of Visual Lease.
- Text Block 3:** "Interface's service offerings include Managed Networking, Voice over IP, Remote Interactive Video Monitoring and Video Analytics solutions. Their world-class network and security monitoring centers, operated by a team of experts across the nation, connect and protect their customers' businesses 24/7."
- Image:** A photograph of a person's hands writing on a document next to a laptop.
- Footer:** Includes the Visual Lease logo and contact information: "visuallease.com | 888.876.6500".



# Conclusion

An audit can be anxiety-inducing, especially for the first time following changes in lease accounting standards. However, with the right technology and preparation, it doesn't have to be disruptive.

Doing the work ahead of time ensures complete identification, proper valuation and appropriate classification of leases to smooth the audit process.



**Leases can be scattered, making it difficult to gather all the data needed to ensure they're being recorded properly.**



**Involving internal or external auditors early in the discussion is critical to getting the right system, not just to respond to an audit, but to analyze data to make smarter decisions.**



**Run reports before the deadline to ensure you can provide the auditors with accurate information and flag any problems before starting the process.**

## 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.