



A complete guide **to lease accounting**

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Introduction

Making a successful transition to the latest lease accounting requirements, such as ASC 842, IFRS 16 or GASB 87, is a threefold process of:

- ✓ Understanding the standards and their impact on a business and its accounting practices
- ✓ Identifying and gathering the necessary lease data
- ✓ Implementing a lease accounting solution that will aid in achieving and maintaining compliance

This guide is designed to provide information and resources you need to thoroughly understand the new lease accounting requirements, to not only meet all compliance effective dates but also improve your leasing policies and procedures for the long term.

Lease accounting FAQs

What is lease accounting?

Lease accounting is the process of recording and reporting on all of the leased property, equipment, and other non-owned assets that a business or other organization holds. Generally, these contracts are categorized as either operating leases or finance leases.

Under the requirements of the latest lease accounting standards — **ASC 842, IFRS 16, GASB 87**, as well as local versions of each — all leases and similar contracts (not just capital leases) must now be accounted for as assets and liabilities on the balance sheet. Therefore, lease accounting requires the ability to gather accurate lease data and update the information as the terms change (when lease terms are renewed, canceled, and so on).

The use of a software solution for tracking, updating, and managing leases helps to ensure the accuracy of the data that is needed for disclosure reports, both for initial adoption and for long-term reporting.



What are the new lease accounting standards?



Definition of ASC 842

The Financial Accounting Standards Board (FASB) published the lease accounting standard ASC 842, which replaces the lease accounting standard ASC 840. For the United States, FASB is a private, non-profit organization that is responsible for establishing and improving Generally Accepted Accounting Principles (GAAP).

The purpose of ASC 842 is to increase disclosure and visibility into the leasing obligations of both public and private organizations. Where previously most leases were not included on the balance sheet, the ASC 842 standard requires companies to report right-of-use (ROU) assets and liabilities for almost all leases.

These changes to financial statements make it easier for investors, vendors, government agencies, and business stakeholders to (1) see a company's exposure to risk and true financial position, and (2) make comparisons between organizations.

In addition, ASC 842 aligns more closely with the new international lease accounting standard IFRS 16 (below), especially in the way a lease is identified. This makes financial reporting more consistent for organizations with both U.S. and international lease assets.

Effective date for ASC 842 adoption

Effective date for public companies	Fiscal years beginning after December 15, 2018
Effective date for private companies	Fiscal years beginning after December 15, 2021



Definition of IFRS 16

The International Accounting Standards Board (IASB) published the lease accounting standard IFRS 16, which replaces IAS 17. For the global community, IASB is responsible for developing and promoting the International Financial Reporting Standards (IFRS) for accounting.

IFRS 16 changes the way companies account for leases in their financial disclosures, including balance sheets and income statements. Under IFRS 16, all leases are considered finance leases.

Effective date for IFRS 16 adoption

Effective date for companies	Fiscal years beginning on or after January 1, 2019
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Here's what Ernst & Young (EY) says about the changes:

"Whether you report under International Financial Reporting Standards (IFRS) or U.S. GAAP, you are likely to be facing significant changes in reporting requirements as you assess the impact of new standards for revenue recognition, financial instruments, and lease accounting. And these changes are not just impacting organizations reporting under IFRS and US GAAP — many national accounting standard setters are also aligning local standards to IFRS."

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Definition of GASB 87

In 2017, the Governmental Accounting Standards Board (GASB) published the lease accounting standard GASB 87. The organization is the source of the accounting principles (GAAP) used by state and local governments in the United States.

GASB 87 was created to increase visibility into lease obligations and remove ambiguity around lease obligations in financial disclosures, particularly balance sheets and income statements.

Effective date of GASB 87

Effective date for companies	Fiscal years beginning after June 15, 2021
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Other national standards

While many countries are adopting the IFRS 16 standard, some nations are making minor adjustments to the global standard. For example, in 2016, the Australian Accounting Standards Board (AASB) published the lease accounting standard AASB 16, which replaces AASB 117 in Australia.

AASB 16 removes the ability for operating leases to be reported in the footnotes of financial statements. Based on IFRS 16 with a few variations, AASB 16 requires all operating leases to now be accounted for as finance leases. With small adjustments to the data inputs, the Visual Lease platform provides Australian firms with compliance under AASB 16.

Effective date overview

ASC 842	Effective date for public companies	Fiscal years beginning after December 15, 2018
	Effective date for private companies	Fiscal years beginning after December 15, 2021

IFRS 16	Effective date for companies	Fiscal years beginning on or after January 1, 2019
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GASB 87	Effective date for companies	Fiscal years beginning after June 15, 2021
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Why use lease accounting software

What is lease accounting software?

The new ASC 842 and IFRS 16 lease accounting standards require significantly more assets and liabilities to appear on the balance sheet. In fact, the standards specify more than 40 different types of data that must be tracked to do the required calculations.

Lease accounting software provides tools to input and report on all the financial aspects of leases to meet the new compliance requirements. The technology performs critical accounting calculations and automates the process of adding information to the balance sheet, including ROU assets, interest expenses, liabilities, practical expedients, and other elements required under FASB and IASB guidance.

What common risks does lease accounting software solve?

Without a lease accounting solution to help with lease tracking, reporting, and management, your business may be exposed to a number of risks, including:

- ✓ Inconsistencies in the way assets are accounted for
- ✓ Human error in calculations or in migrating data from one source to another
- ✓ Widely dispersed lease records rather than a central data repository
- ✓ Lack of visibility into lease terms, changes, and important dates
- ✓ Missing details such as embedded leases that are part of a larger contract
- ✓ Lack of a structured change management process
- ✓ Mistakes in complex calculations for common area maintenance (CAM) and other costs
- ✓ No record of what changes have been made to leases, when, and by whom
- ✓ Increased odds of failing an audit

This is because lease documents and the standards contain many intricacies.

The new lease accounting standards are complex of necessity, to capture the challenging and dynamic nature of the underlying agreements. Therefore, reporting on assets and liabilities is extremely difficult without software.

Leases also may contain both lease and non-lease components, which in turn affects how leases are calculated.

The best lease accounting software simplifies all those risks and more. It puts a secure system in place for capturing all the necessary data, tracking changes, and reporting lease costs in accordance with your accounting policies and procedures as well as with ASC, IFRS, or GASB requirements.



BLOG: Lease accounting auditing risks multiply without software

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What to look for in lease software

Since there is significant time and cost involved in implementing lease accounting software, you want to be sure to choose a solution that (1) meets the needs of your accounting team and your business, and (2) helps you achieve compliance with lease accounting requirements. The information below will help in assessing the many options and benefits of different lease software platforms.

What different types of lease software platforms are there?

Lease accounting: Standalone lease accounting software

Lease accounting software helps accounting teams achieve compliance with ASC 842, IFRS 16, or GASB 87 and manage the financial reporting requirements associated with leases by providing capabilities including:

- ✓ Aggregation of the data associated with real estate, equipment, vehicles, land, and any other lease the organization holds
- ✓ Configuration of lease data to align with the organization's financial accounting systems
- ✓ Aggregation, calculation, and reporting of ROU assets, interest expenses, liabilities, and other financial elements required under FASB and IASB guidance

Lease management: All-in-one lease accounting and lease administration

A cross-functional lease management system provides full lease accounting capabilities along with lease administration function for day-to-day management of an organization's lease portfolio. This type of all-in-one software provides a single integrated source for accurate and up-to-date lease data.

By providing the tools for tracking and managing lease data on an ongoing basis, a lease management system:

<input checked="" type="checkbox"/>	Helps maintain up-to-date data for generating accurate lease accounting calculations and reporting
<input checked="" type="checkbox"/>	Provides checks and balances in the system's lease accounting functions
<input checked="" type="checkbox"/>	Alerts you to important dates and events, such as lease renewals, end dates, payment increases, and opt in/out effective dates
<input checked="" type="checkbox"/>	Uncovers location-level expenses, business risks, and possible opportunities to reduce costs
<input checked="" type="checkbox"/>	Helps reduce or eliminate auditing risks
<input checked="" type="checkbox"/>	Aids in achieving initial compliance and maintaining compliance for the long term financial elements



WHITEPAPER: Lease accounting and lease administration software: Why you need both

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What are some important lease accounting software features?

To meet compliance effective dates AND get optimal ongoing value from a lease accounting solution, you want to be sure it delivers the features and functions you need, and is as quick and easy to deploy as possible. The following are some features to look for and questions to ask when evaluating a solution.

Compliance

- Does the platform include the advanced accounting functions needed to support ongoing compliance with ASC 842, IFRS 16, or GASB 87?
- Can the solution be up and running in time to meet compliance requirements?

Reporting

- Does the solution offer both standard reports and configurable, ad-hoc reports?
- Does it support unique data fields, groupings, and financial categories to match your industry and organization?
- Does the software use lease data maintained within the platform to automatically generate calculations, journal entries, and disclosure reports?

Integrations

- Does the software platform integrate with your existing technology infrastructure?
- Will it integrate with your legacy ERP and financial systems?
- Does the software integrate with other third-party applications that your business uses?



Centralized accounting and administration

- Does the platform support both lease accounting and ongoing lease administration (a complete lease management solution)?
- Is lease documentation management part of the solution?
- Does the software support both initial lease data input and ongoing updates, remeasurements, and other changes?
- Does it provide tools for managing legal and financial obligations/payments?
- Does the system offer automated alerts, views, and reporting to track actionable lease data?



Ease of implementation

- Is the software cloud-based, secure, and designed for easy setup?
- Does it support the migration of lease data from existing sources into a centralized system?
- Are there helpful tools to further speed the process, such as migration templates and lease
- Does the software vendor provide implementation support?



Ease of use

- Is the user interface simple and user friendly?
- Does it offer intuitive tools for managing access, users, and permissions?
- Does it require significant training needed for users to get up to speed?
- Does the software vendor offer training support?



Security

- Is the platform backed by redundant, secure servers?
- Does the software use the latest security protocols to encrypt lease data?
- Does the solution use secure login and user authentication, including control of login credentials, password policies, multifactor authentication, and single sign-on (SSO)?
- Are there tools for administering individual and group users for system access, roles, and permissions?



Future readiness

- Is the system designed to adapt to future needs?
- Is the software regularly updated via the cloud?
- Is the software vendor committed to evolving the platform based on customer needs?



REPORT: Leverage the lessons public companies have already learned to help best target your compliance efforts



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What to do while evaluating lease software

Preparing for lease accounting compliance is a time-consuming and complex process. Therefore, even as you are evaluating software solutions and their providers, you can (and should) get a jump on preparing for compliance and the implementation of a lease accounting solution.

Preparing for lease accounting compliance within your business

Who in your business should be involved in lease accounting compliance?

Naturally, the accounting team is at the core of lease accounting compliance activities. However, this team will need help from others within the business to gather all the data required for lease accounting calculations and disclosures.

In addition, people in your business who regularly work with leases can offer valuable insights into how your company's leases function and where to find critical data. There may also be numerous departments or locations in your company that individually negotiate and manage leases.

Therefore, you will benefit from putting together a compliance team that includes accounting and other lease stakeholders within your organization. This might include executives as well as people from departments such as real estate, facilities, operations, procurement, and IT.

You might also consider using the services of an accounting advisor who is an expert in ASC/IFRS compliance.



**BLOG: Lease accounting decisions:
Why it's smarter to partner with an accounting advisor**

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What lease information do you need to gather?

The following tips will help in the process of identifying all the leases that your company holds and gathering the necessary lease data:

- ✓ Ask all lease stakeholders to begin conducting a lease inventory. This involves finding and reviewing all lease documents and contracts — most likely including paper records that may be tucked away in file drawers.
- ✓ Closely examine all contracts to identify embedded lease components, such as service agreements that are part of larger contracts.
- ✓ Review your company's AP check run to identify all the vendors your company pays on a recurring basis and find any leases that may be missing from other records.
- ✓ Select practical expedients, which affect which lease details you will need to collect.
- ✓ Determine which data points you need to track for every lease to calculate lease liabilities and ROU assets, as well as to create disclosure reports.
- ✓ In addition to payment information, gather details such as commencement dates, termination clauses, and options to renew or purchase.

For compliance, you'll also need to create:

- ✓ Policies that document how you have interpreted the lease accounting guidance
- ✓ Procedures that spell out the steps you'll take to achieve compliance according to your policies, including how you will collect, aggregate, and migrate data into your lease accounting system

Documenting these policies and procedures will not only prepare you to address any questions from auditors or your organization's financial officers — it will also help you maintain practices throughout your lease data collection and reporting process.



When should you start collecting lease data?

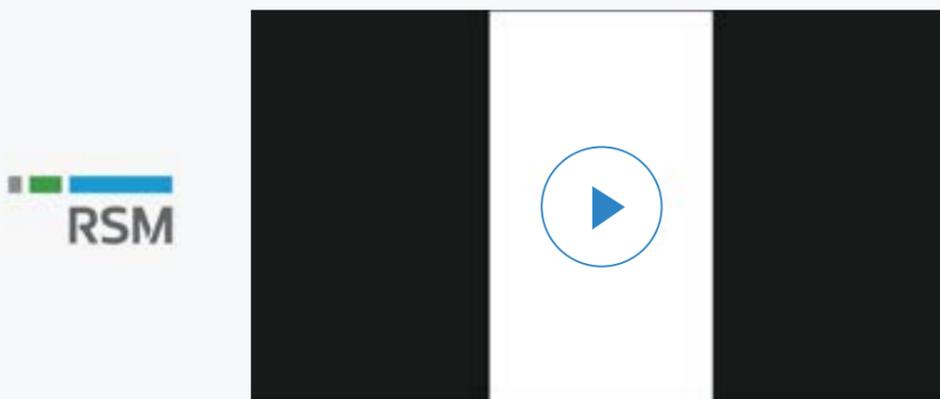
Collecting lease data is a lengthy and complex process — one that can take some companies many months, depending on how many leases and how they are currently stored. Even for a company with a relatively small number of leases, the task is time-consuming.

Companies often underestimate the time it will take to find documents, identify embedded leases, and identify and extract lease data. Waiting too long to begin the process can result in missing the compliance effective dates - or rushing the process and publishing incomplete and inaccurate financial reports.

Therefore, it is crucial to start the data collection process as soon as possible, even before you've selected a lease accounting product. In addition, software implementation can take a few months (depending on the product and the needs of your business), so it is vital to allow extra time for implementation before you can begin moving data into the lease accounting system.

Although FASB has proposed an effective date deferral to allow companies more time to assess their current lease portfolios, businesses should still begin their ASC 842 implementations, according to Visual Lease accounting partner RSM.

Watch this 3-minute RSM video to see why it's important to start implementing NOW.



What benefits can you anticipate once lease accounting software is in place?

Lease accounting may have been manageable in the past using a spreadsheet or other manual method. However, the added complexity due to the new lease accounting standards, ASC 842 and IFRS 16, means there are:

- ✓ **Many more data points to track and audit**
- ✓ **More demanding disclosure requirements**
- ✓ **Greater impact on financial statements**

Once you have implemented a lease accounting system and populated it with your lease data, the business will benefit from:

- ✓ **Improved efficiency with the ability to automatically generate calculations, journal entries, and disclosure reports**
- ✓ **More consistent and accurate calculations with an automated system that mirrors your accounting policies and procedures**
- ✓ **Improved accountability with audit trails for tracking changes and drilling down to lease data details**

What to know about the rules of ASC 842

How does ASC 842 change the balance sheet?

Previously, only capital leases — those leases that are essentially purchase agreements — needed to be recorded on the balance sheet. But under ASC 842, most leases except for short-term leases must also be included on the balance sheet.

In addition, FASB has changed the treatment of all leases to be **intangible assets**. This changes the terminology for capital leases, or leases that represent a purchase agreement. These leases are now called **finance leases**.

That means companies must report ROU assets and lease liabilities for operating leases as well as for finance (capital) leases under ASC 842. So now IT and office equipment, vehicles, construction equipment, and other leased assets must appear on the balance sheet along with real estate leases.

All the leases recorded under ASC 842 will now be part of the total reported assets and liabilities on an organization's balance sheet — significantly changing the company's financial statements.

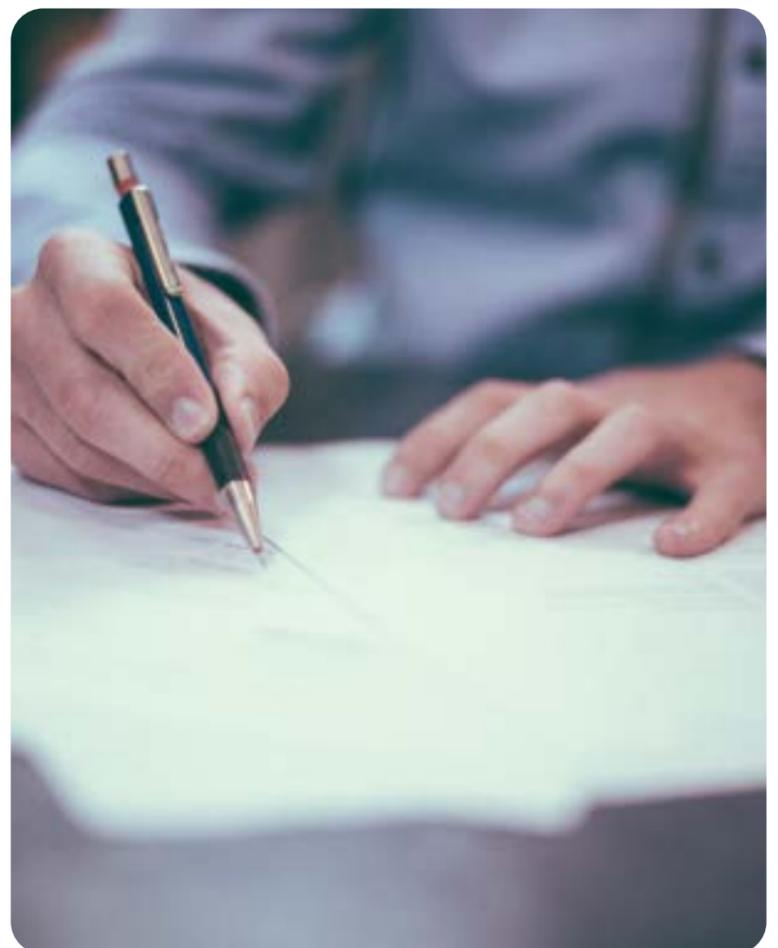
What is considered a lease under ASC 842?

A lease is defined as a contract or element of a contract that convey the right of use (ROU) of a physically distinct **identified asset** for a specified period of time in exchange for payment.

The identified asset can be property, equipment, or other tangible assets. The period of time can be described in terms of the amount of use of the identified asset, such as the number of production units a piece of equipment will be used to produce, rather than in terms of time per se.

However, ASC 842 does not include assets that are covered in other standards:

- ✓ **Intangible assets (ASC 350)**
- ✓ **Minerals and biological assets including timber (ASC 930, 932)**
- ✓ **Inventory (ASC 330)**
- ✓ **Assets under construction (covered under ASC 360)**

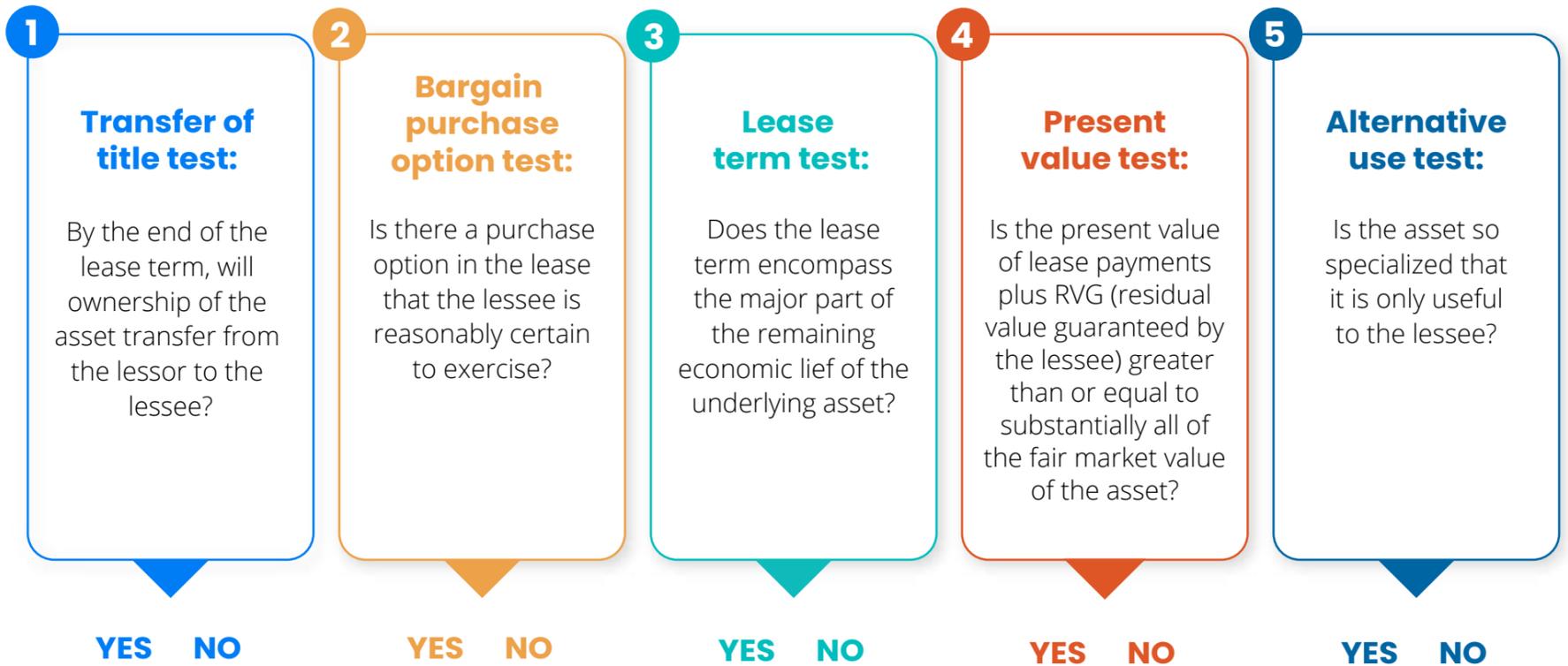


How has lease classification changed under ASC 842?

Besides renaming capital leases “finance leases,” ASC 842 added a fifth lease classification question (“Is the asset so specialized that it is only useful to the lessee?”) to the test that determines whether a lease is a finance lease or an operating lease.

Essentially this question says that after the asset is returned to the lessor, if the asset will have no value to anyone else without a major overhaul by the lessor, then the lease would be classified as a finance lease.

In addition, ASC 842 removed the so-called **bright lines** for the lease classification test. Previously these percentages were used to indicate what constitutes a “major part” of economic life (75%) or “substantially all” of the fair market value (90%); now these percentages are considered guidelines and you can elect whatever percentage you choose to use.



What is a lease classification test and what does it tell you?

Although almost all leases must be capitalized on the balance sheet under ASC 842, it is still necessary to classify them as either a finance lease (previously capital) or an operating lease. That's because finance leases and operating leases are measured differently.

The lease classification test determines whether a leased asset is essentially an alternative method of financing the purchase of an asset, or if the majority of the life and/or value of the underlying asset is controlled by the lessee; if so, it must be classified as a finance lease. Otherwise, the lease must be classified as an operating lease.

Is there a low-value lease threshold under ASC 842?

Under IFRS 16, there is a threshold under which leases can be considered "low value" and do not have to be capitalized on the balance sheet. However, FASB has not specified a low-value threshold for excluding leases from the balance sheet under ASC 842. If this is an issue for your organization, you can discuss it with your auditors to determine if you can use a materiality threshold.

What is lease liability and how is it calculated under ASC 842?

Lease liability represents the current value of minimum future lease payments. To calculate it, you need to make assumptions about:



- ✓ The likely amounts owed under residual value guarantee
- ✓ Whether you are reasonably certain to exercise lease renewal options, termination options, or purchase options

The discount rate to use for the calculation is either the rate implicit in the lease (if known) or your organization's incremental borrowing rate (IBR). Privately-held firms have the option to use a risk-free rate.

Keep in mind that the assumptions you make about lease options at the beginning of the lease often change over time. If during the term of a lease you change your mind about whether you are likely to exercise any lease options, you may need to remeasure both your lease liability and your ROU asset.

How is ROU calculated under ASC 842?

The ROU asset is calculated as the lease liability, plus or minus these adjustments:



- ✓ Plus initial direct costs and prepaid lease payments
- ✓ Minus lessor incentives, accrued rent, and ASC 420 liability at transition date

The ROU is amortized linearly over the life of the lease. All of the assets and liabilities that adjust the ROU asset are now reclassified from the balance sheet and included as one number to show the total leased asset.

The different types of leases and lease components

What are finance (capital) leases and how are they treated under ASC 842?

A **finance lease** is one that essentially represents a purchase agreement or uses substantially all of the life or value of the underlying asset, and qualifies according to at least one of the lease classification test questions (above).

Although the name has changed, the way finance leases are capitalized on the balance sheet under ASC 842 is essentially the same method used for capital leases under the previous (840) standard.

When you transition existing leases to the new standard, you need to reclassify capital lease assets and capital lease liability (840) as ROU assets and lease liabilities (842). Any prepaid rents, lease incentives, and initial direct costs should be rolled up into the ROU asset.

What is an operating lease and how is it capitalized?

An **operating lease** is defined as a lease in which the lessee gets control over the use of the underlying asset without ownership. Previously, operating leases were unrecorded liabilities, so the balance sheet only included prepaid or deferred rent.

Now, all operating leases (except for short-term leases) must be capitalized as ROU assets and lease liabilities on the balance sheet, in the same way you record finance (previously called capital) leases.

The operating lease liability is accounted for using an amortized cost basis. Amortization of the ROU asset is calculated as the difference between straight-line rent and interest expense for the period. These two expenses added together give you the total lease expense to book on your P&L.

How do you measure a finance lease vs. an operating lease?

When measuring a finance lease, the ROU is amortized on a straight-line basis, and the lease liability is amortized using the effective interest. The lease liability is increased by the interest incurred in the period, and the carrying amount is reduced by the lease payment.

When measuring an operating lease, a single lease cost is calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis. This single cost includes the interest charge and ROU amortization; the straight-line lease expense is calculated by dividing the undiscounted payments by the lease term.

What is a short-term lease and how is it treated under ASC 842?

According to ASC 842, a short-term lease is one that has a term of 12 months or less at commencement, and that does not have a renewal or purchase option that the lessee is reasonably certain to exercise.

While you don't have to include short-term leases on the balance sheet under ASC 842, you can recognize short-term lease payments on a straight-line basis over the lease term. However, this option must be elected at the asset class level. In other words, you can't pick and choose which leases to define as short term; you need to define the entire asset class as a practical expedient.

What is an embedded lease?

An **embedded lease** is a component within a contract for other goods or services, which includes the use and control of a particular related asset. An embedded lease can exist within a contract even though the contract never uses the word “lease,” sometimes making it easy to overlook lease elements.

For example, embedded leases are often found in IT service contracts where a vendor provides service-related equipment (such as onsite servers). Embedded leases may also be found in supply contracts, dedicated manufacturing capacity contracts, and advertising agreements.

Why do embedded leases have a bigger impact under ASC 842?

Previously, because operating leases were not on the balance sheet, embedded leases had little impact on the income statement since the expense was usually being straight-lined. But now that all leases must be capitalized on the balance sheet, you need to:

- ✓ **Examine all contracts to find any embedded leases within them**
- ✓ **Separate the lease components (for use of assets) from non-lease components (payments for the service) within the contract**

Identifying embedded leases and their components is a complex task that takes time, judgment, experience, and consistency. It is another area where you might want to enlist the help and guidance of an accounting advisor.

What are lease components?

When a contract contains one or more leases, ASC 842 requires that the contract be separated into the various components. According to ASC 842, a contract can contain the following:

- ✓ **Lease components — the right to use an underlying asset, such as the rent for the right to use office space**
- ✓ **Non-lease components — an activity that transfers a good or service to the lessee, such as CAM charges on office space**
- ✓ **Non-components — costs that are incurred regardless of whether a lease exists, such as property taxes on the lease**

Note that under ASC 842, non-lease component costs/revenues are accounted for under different standards rather than according to lease accounting guidance.



ASC 842 FAQ: How to Account for real estate CAM charges and leasehold improvements

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What is a direct financing lease?

In a direct financing lease, the lessor acquires an asset and leases it to a customer/lessee to generate revenue from the resulting interest payments. Under this arrangement, the lessor recognizes the gross investment in the lease and the amount of related unearned income.

Under a direct financing lease, the lessor cannot be a manufacturer or dealer. This type of arrangement is usually offered by financing institutions, such as equipment leasing companies.

What are initial direct costs?

These are costs that would not have been incurred without the execution of the lease. In other words, they are costs that are directly attributed to negotiating and arranging the lease. For example, payments made to an existing tenant to terminate a lease and real estate commission payments are deemed initial direct costs.

What are prepaid lease payments?

These are lease payments made by the lessee to the lessor before or at the commencement of a lease.

What are lease incentives?

These are (1) payments made by the lessor to or on behalf of the lessee, or (2) any losses incurred by the lessor from assuming a lessee's pre-existing lease with a third party.

The types of standard lease accounting reports

Under ASC 842, disclosure reports must provide more qualitative and quantitative details, including:

- ✓ **Weighted average discount rate**
- ✓ **Weighted average remaining lease term**
- ✓ **Cash paid for amounts included in lease liabilities**
- ✓ **A more descriptive maturity analysis, which must be also be tied back to the balance sheet**

Lease accounting software provides reporting capabilities to support compliance and data management.

What are the different types of standard reports (disclosures) under ASC 842/IFRS 16?

Lease Accounting Disclosure

A Lease Accounting Disclosure report provides the required values for quantitative reporting as prescribed by the latest lease accounting standards. It includes sections for lease expense, other information including ROU assets obtained in exchange for lease liabilities, and maturity analysis.

Lease Accounting Standard

A Lease Accounting Standard report provides a detailed view of the calculation inputs and resulting lease schedules for the lease accounting calculations included for a specific date range.

Journal Entry Summary

A Journal Entry Summary report that detailed journal entries for the calculations included for a specific date range. It typically includes totals for debits and credits by calculation and period.

Change Log

A Change Log report provides a detailed audit log of records and selected fields that have been added, edited, or deleted within a specific date range. Data points include the user who made each change, the date/time of each change, and the field name, as well as the old and new values. This type of report allows the user to track/audit changes that impact lease accounting calculations, such as useful life or fair market value.



WHITEPAPER: 15 things to know about ASC 842

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Understanding financial aspects of a lease

Right-of-use (ROU) asset

This new feature of the lease guidance represents the unused value of the leased asset remaining over the lease term. It is measured by taking the lease liability, adding in the initial direct costs and any prepaid lease payments, and then subtracting any lease incentives.

Lease liability

The lease liability is the current value of all outstanding lease payments that are not yet paid. It is discounted by using the incremental borrowing rate (IBR) or the implicit rate in the lease and calculated using an NPV (net present value) of all known payments that are unpaid.

Discount rates

A lease accounting discount rate is the implicit lease discount rate or the incremental borrowing rate (IBR) used to measure your operating and finance lease liabilities under ASC 842.

Incremental borrowing rate (IBR)

According to FASB, IBR is “the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.”

Importance of lease transitions

The transition from the previous lease accounting standards to ASC 842 compliance requires making decisions about a variety of practical expedients that affect how leases are defined and accounted for moving forward. Without these transition relief options, companies must reassess all existing contracts to (1) determine which ones contain leases and (2) classify (or reclassify) those leases.

Lease remeasurements

When there is a material change to a lease — something that causes a change in either the payments or the value of the lease asset itself — it triggers the need for lease remeasurements. For example, remeasurements may be needed due to abandonments, asset impairments, and other causes.

Read more in our blog: 6 frequently asked questions about lease accounting reameasurements

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Interest expense

In the accrual method of accounting, this is the amount of interest incurred on debt during a particular period of time and appearing as a separate line on a company’s income statement for the period cited. The interest expense is also used, along with depreciation, when a lease is capitalized and posted as an asset on the balance sheet.

Disclosures

The purpose of lease disclosures is to provide clarity around financial statements, giving users insight into the “amount, timing, and uncertainty of cash flows arising from leases.” Under ASC 842, lessees must disclose quantitative and qualitative information about their leases, including the judgments made in measuring leases and the amounts recognized in their financial statements.

Practical expedients

Practical expedients are options created by FASB to simplify certain practices under the latest ASC 842 lease accounting standards.

Read more in our blog: ASC 842 practical expedients and transition requirements

[Read Now](#)

Impact of different currencies on lease accounting

For companies that do business outside of the United States, some leases might contain figures in a currency other than U.S. dollars — bringing exchange rates into ROU asset remeasurements and other lease accounting processes.

Download white paper from KPMG: SEC staff provides guidance on lease exchange rates

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Amortization expense

An amortization expense is the write-off of an intangible asset over its expected period of use, representing consumption of the asset and resulting in a decline of the residual asset balance over time.

Amortization is generally calculated on a straight-line basis. The write-off amount appears in the income statement, usually in the depreciation and amortization line item.

Terminations

A lease termination occurs when you are not using a leased asset and the lessor agrees to let you out of the lease agreement. Termination triggers the need for a remeasurement including any one-time termination fee you might pay, along with writing down the asset and the liability.

Key aspects of software implementation

What do you need to do to prepare for implementation?

Assemble your compliance team.

As mentioned earlier, it's important to start as soon as possible on collecting lease data and preparing it to be moved into a lease accounting system. Gathering all the key stakeholders — such as real estate, legal, IT, and procurement staff in addition to the accounting team — into a compliance team is the first step.



Gather your lease data.

From there, the team can set to work locating all your leases and related data. Doing this while you're evaluating which software to use will give you a head start on the project and help to keep things moving forward as smoothly as possible.



Move the data into a lease accounting system.

Once all the lease data is gathered, you may need to convert it before migrating the data into your lease accounting system. If your data is currently in a legacy solution or excel spreadsheets and you are sure about the integrity of the data, it can be brought into the lease accounting system.

However, if you don't have good legacy data, you will need to extract the critical data needed for compliance and long-term lease management. Ideally, your software provider can help in this step.



What should a software provider offer during implementation?

With the complexity of lease accounting and ongoing lease administration, it is not enough to buy lease accounting software. You should be able to enlist the help of your software provider for not only software implementation but also ongoing support.



Implementation support

Your lease accounting software provider should work closely with you to understand your goals/needs and create a comprehensive plan for implementing your solution, with timeframes for each step and milestones such as:

- ✓ Identifying key project goals
- ✓ Best practice consultation
- ✓ Data migration
- ✓ Testing and validation
- ✓ User training, sign-off, and support
- ✓ Going live with the system

This will help ensure your lease accounting software is implemented quickly and successfully so you can meet compliance effective dates and business needs.

Your software provider can also help guide you through steps such as data gathering, lease abstraction, and data preparation and migration.



Testing support

Your software partner should work with you to validate your lease accounting platform and show proof of concept from the database perspective:

- ✓ **Are you running the right reports?**
- ✓ **Are you capturing all the right information for all business stakeholders?**
- ✓ **Have you configured all the fields that are important to you?**

Allowing extra time for testing and validation once the system goes live helps you make sure the reporting results (1) accurately represent your lease portfolio and (2) meet FASB /IFRS compliance requirements.

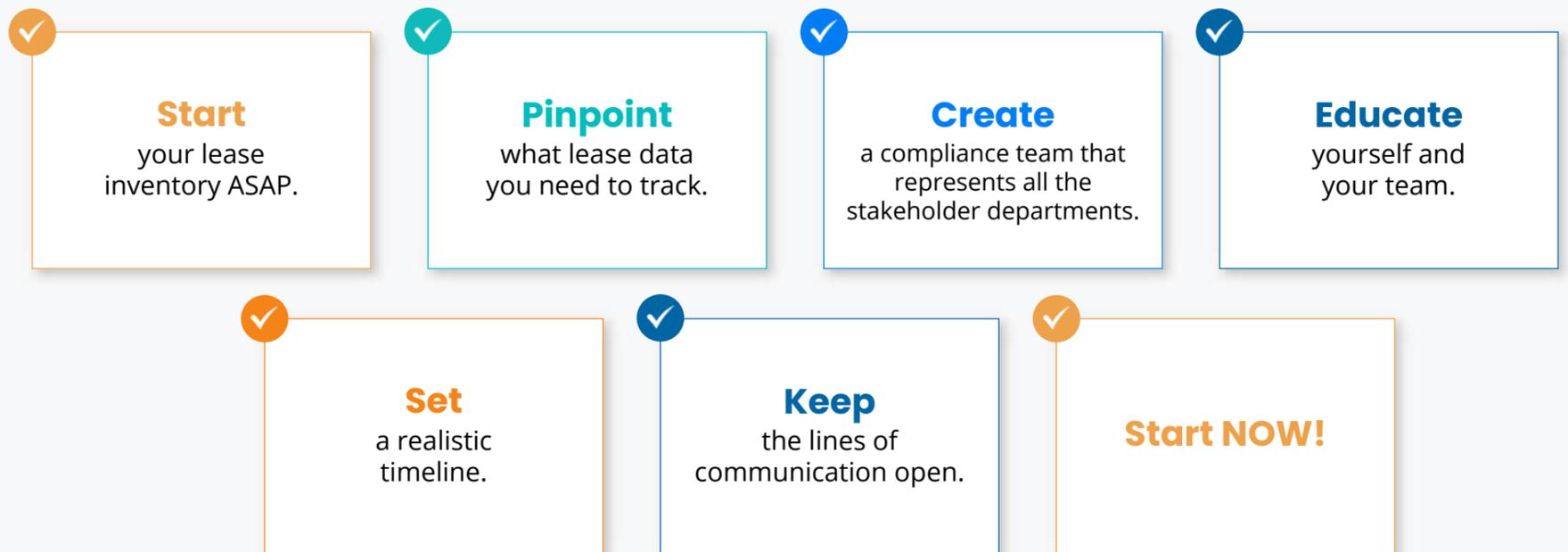


Ongoing customer support

The best software partner will help you maintain compliance moving forward by offering a “Day 2” plan including policies and procedures for ongoing collection, updating, and reporting of lease data. In addition, the ideal partner offers ongoing customer support such as education, manuals and “how to” guides, new release training, help desk assistance, and account management.

Tips for successful implementation

What are the secrets to a successful lease accounting platform implementation?



BLOG: How to prepare for lease accounting implementation: 7 essential tasks

[Read Now](#)

Obviously, there is a lot to consider when evaluating lease accounting software and getting ready for ASC 842, IFRS 16 and GASB 87.



Start today by downloading the Lease Accounting Milestone Planner

[Download Now](#)

About Visual Lease

Visual Lease is the #1 lease optimization software provider. We help organizations become compliant with FASB, IFRS and GASB lease accounting standards, while simultaneously improving the financial, legal and operational performance of their leases. Our easy-to-use SaaS platform is embedded with more than three decades of best practices from major corporations and leading industry professionals. Our award-winning solutions are used by 800+ organizations to manage 500,000+ real estate, equipment and other leased assets. Committed to ongoing innovation and unparalleled customer service, Visual Lease helps organizations transform their lease compliance requirements into financial opportunities. For more information, visit visuallease.com.

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