OPPORTUNITY IN SIGHT

ASC 842: Lessons Learned From Early Adopters

Certified
B
Corporation

KNOWLEDGE

Learning Objectives

| Identify the most common pitfalls and how to avoid them | Evaluate the best lease accounting technology solutions for your industry | Create a plan to keep your organization compliant |

AREA OF FOCUS

Today, We're Covering

Navigating Disruption, Empowering Operations & Digital Transformation

QUICK TIPS

Zoom Webinars

Ask Questions in Q&A Box

- Click the Q&A button to open the window
- Type your response in the text field
- Click Send

Chat

- Click the Chat button to open the chat panel
- Type your message in the Text box at the bottom of the panel
- Press Enter to send your message

Raise Your Hand

- Click the Raise Hand button at any time to indicate to the host know that you have a question or need assistance
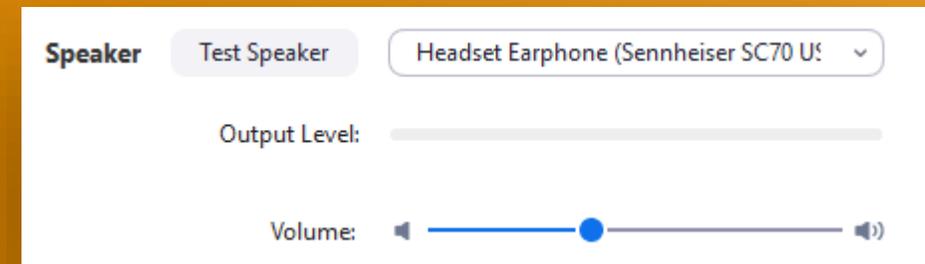- To lower your hand, click the Lower Hand button
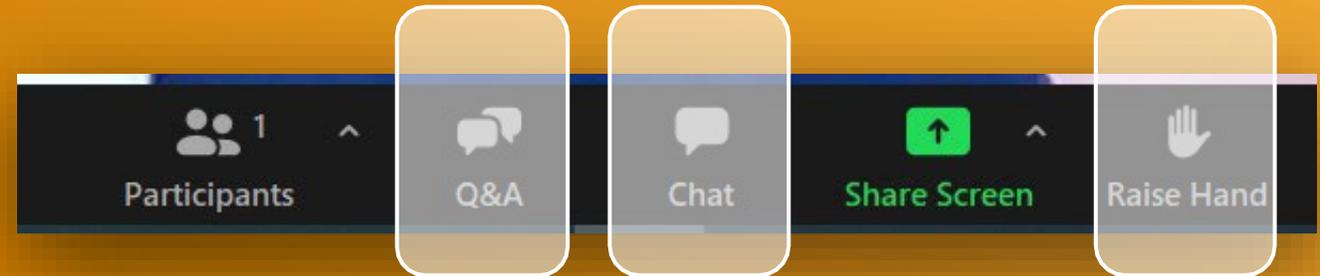
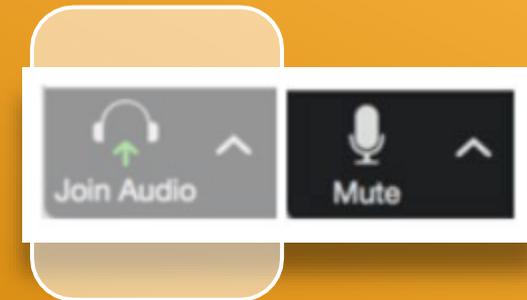QUICK TIPS

Adjust Audio Speakers

Audio Options

- Click Audio Options - this will open your audio settings
- Click Test Speaker to play a test tone
- If you cannot hear it, select a different speaker from the menu
- Try adjusting the Volume

QUALIFICATION

Requirements for CPE

RESPOND

Actively Respond to all Polling Questions

STAY ON

Stay on for the duration of the broadcast

- Log in as an individual

FOR QUESTIONS

If you have technical difficulties responding to the polls, please send an email to:

- ElevateLearn@armaninoLLP.com
- Please include the name/date of your session along with your poll response

OPPORTUNITY IN SIGHT

ASC 842: Lessons Learned From Early Adopters

Certified
B
Corporation

WELCOME

Today's Presenters

Dan Ward

Director
Armanino
Advisory
LLC

Courtney Edwards

Senior Manager
Armanino
Advisory LLC

armanino

WHAT WE'LL COVER

Agenda

- Overview of ASC 842 Leases

- Effective Date of Implementation

- Key Insights – Challenges Companies Face

- Checklist for ASC 842 Implementation

- Initial Questions to Ask for Implementation

- Tips on How to Approach Evaluating Technology and Other Solutions to Achieve Compliance

- Q & A

Overview of ASC 842 Leases

Changes for Lessees

Lessees will recognize both Operating and Finance (Capital) leases on the Balance Sheet

Recognize a Right Of Use Asset and Lease Liability

Retains concept of Operating vs. Finance (Capital)

Permitted to not recognize lease assets and liabilities for short-term leases of 12 months or less

Changes for Lessors

✓ Accounting applied by Lessors is largely unchanged from current GAAP

Retains concept of operating leases versus finance (capital) leases

Fewer leases will be classified as direct financing

Effective Date

JANUARY 1, 2022

For non-public business entities, the effective date for ASC 842 is fiscal years beginning after December 15, 2021 (effective starting January 1, 2022, for calendar year-end private companies).

Polling Question #1

How ready do you feel for ASC 842?

a) Totally ready

b) Somewhat ready

c) What is ASC 842?

d) N/A

Identify Key Insights from Early Adoption Projects

Challenges Companies Face

1. Contract Identification & Collection

2. Lease Determination

3. Data Capture & Management

4. Accounting Calculations & Lease Reporting

5. Internal Processes

Contract Identification & Collection

Potential Issues:

➢ **Resource intensive**

➢ **Difficult to identify all leases**, including embedded leases, and collect the necessary data.

IMPACT:

➢ *Not enough resources/time*.

Lease Determination

Potential Issues:

➢ Understanding ASC 842 implementation guidance requires knowledgeable resources who understand diverse and potentially complex leasing terms.

IMPACT:

➢ *Lack of skills/knowledge*

Data Capture & Management

Potential Issues:

➢ The new standard requires data points about leases that many companies have not previously tracked in their core systems.

➢ Collection of data

➢ Storing of data

IMPACT:

➢ *Lack of centralized lease management processes and systems*

Accounting Calculations & Lease Reporting

Potential Issues:

➢ Spreadsheets can be inefficient and risky

➢ Lack of software to effectively support the new standard's lease requirements

IMPACT:

➢ *New/updated technology required*

Internal Processes

Potential Issues:

- New internal controls likely required related for leases and maintaining an up-to-date lease inventory.
- Lack of processes for capturing every new lease that is signed across the company
- Lack of processes for tracking changes to leases that may impact value, liability or other aspects
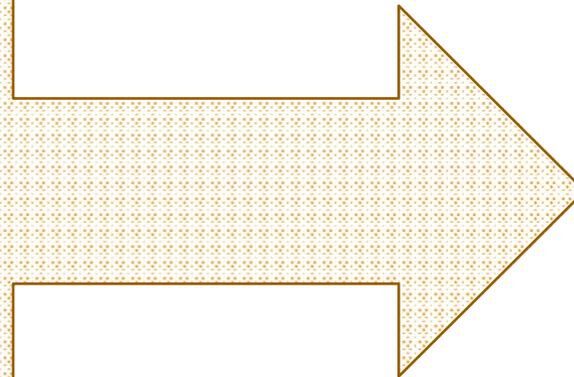
IMPACT:

- *Cross-functional involvement and support needed*

Polling Question #2

What is the most challenging part of implementing the new lease standard for your organization?

a) Contract Identification & Collection

b) Lease Determination

c) Data Capture & Management

d) Accounting Calculations & Lease Reporting

e) Internal Processes

f) I don't know

Understand What Level of Preparation Must Be Done to Avoid Time Delays

Checklist for ASC 842 Implementation

1. Assess Required Resources

2. Identify Existing Leases

3. Examine for Embedded Leases

4. Update Lease Inventory and Make Appropriate Transition Elections & Policy Choices

5. Identify Data Gaps

6. Evaluate the Impact

7. Assess and Revise Internal Controls & Policies

8. Identify and Deploy Supporting Technology

9. Abstract & Store Lease Data

10. Review & Revise for Ongoing Compliance

Checklist for ASC 842 Implementation

1. Assess Required Resources

   - Determine whether **external resources** are needed, particularly for *lease abstraction* and *implementing technology*.

2. Identify Existing Leases

   - **Locate** all your company's lease documents.

   - **Evaluate completeness of lease population**

     - Entity-wide workshops / diagnostic surveys

     - Reconciling various data sets

     - Sample contract reviews

     - Relevant general ledger data analytics

3. Examine for Embedded Leases

   - Review service contracts, analyze them for embedded or implied leases and document them for your auditors.

Checklist for ASC 842 Implementation

4. Update Lease Inventory and Make Appropriate Transition Elections and Policy Choices

- Create or update a complete lease inventory.

- Ensure transition elections and practical expedients were appropriately considered and applied

5. Identify Data Gaps

- Reconcile the lease data you have in current systems or spreadsheets with data points needed for compliance

- Market value of a leased asset or discount rate likely was not previously tracked

- Identify all the missing data types and create a plan for how to obtain the data for current and future leases.

6. Evaluate the Impact

- Assess the impact of the new standards on your company's financial statements, ratios, metrics and debt covenants.

- Work with stakeholders, such as investors, banks and external auditors, to disclose the expected impact and mitigate any risk

Checklist for ASC 842 Implementation

7. Assess & Revise Internal Controls & Policies

- Significant process changes to comply with ASC 842.

- Evaluate and redesign processes across departments.

8. Identify & Deploy Supporting Technology

- Relying on manual efforts to collect, manage and track lease data, perform calculations and create reports for compliance can be labor intensive and error prone

- Consider deploying new technology such as lease accounting or lease management software to automate the lease accounting effort

Checklist for ASC 842 Implementation

9. Abstract & Store Lease Data

- Takes place in parallel to some of the other steps

- **Easily one of the most labor-intensive and time-consuming activities**.

- You'll need to analyze every existing lease contract and extract and store all the relevant data points.

- Allot time for collecting additional data needed that isn't found in the individual contract, such as the discount rate.

10. Review & Revise for Ongoing Compliance

- Maintain compliance going forward.

- Review the effectiveness of your policies and processes around lease management, the accuracy and completeness of the data you're collecting, the effectiveness of the software you've deployed and the impact of the new lease accounting requirements on your staffing levels.

Polling Question #3

Now that we reviewed the checklist, where are you in the process of implementation?

a)   Haven't started

b)   Early in the process

c)   Somewhere in the middle

d)   Almost done

e)   Completed

f)   N/A

Initial Questions to Ask for Implementation

1. How many leases do you have?

2. How complex are your typical arrangements (mostly ordinary real estate and equipment leases or any complex structured financing arrangements?)?

3. What processes, if any, are in place for identifying embedded leases?

4. Where are all of your leases?

5. Are your lease processes (tracking, accounting, document storage) centralized or decentralized?

6. Do you have any sublease arrangements?

7. How many functions or people are involved in your end-to-end leasing processes?

8. How many resources does your transition plan require? Can you meet those needs with internal resources alone?

9. How will the change impact potentially sensitive financial metrics, such as debt-to-equity ratio, other liquidity ratios, or non-GAAP metrics (e.g., EBITDA)?

Bottom Line

1	2	3
START NOW	Get mobilized / learn from others	Get help where needed

Tips on How to Approach Evaluating Technology and Other Solutions to Achieve Compliance

Technology Readiness Questions

1. Have you inventoried and located all your leases?

2. Have you created and mapped the chart of accounts to manage the lease standard?

3. Have you identified all the practical expedients and accounting policy elections which will impact application of ASC 842

4. Have you determined the level of integration you will require with your ASC 842 and current accounting information and resource planning software?

5. Have you decided the path you would like to follow to be compliant (basic, tailored, outsourced)?

Implementation Consideration and Options

1. Number and complexity of your lease portfolio

2. Economic value and materiality of your leases

3. In-house expertise and time availability

4. Existing technology solutions and environment

Basic Implementation

Leverage a preconfigured "off the shelf" lease accounting application   (excel?)

1. Upside

    - Speed

    - Cost – utilize internal staffing

2. Downside

    - Staff allocation of time and resources

    - Lack of customization

Full or Tailored Implementation

Select and implement a technology that is configured specifically for your organization which has the capabilities based on your industry and requirements

1. Upside

   - System designed or modified for your specific requirements

   - More robust/customizable lease administration and reporting capabilities geared to your industry type

2. Downside

   - Staff allocation of time and resource

   - New software to manage and integrate

Outsourced Lease Accounting Services

Leverage Armanino or another service provider to provide lease accounting support

1. Upside
   - Leverage outside experts
   - Focus on compliance aspect of lease accounting and reporting
   - Internal staffing is minimal or not necessary
   - Continues after implementation
2. Downside
   - Focuses on compliance aspect of lease accounting and reporting

Polling Question #4

What path have you chosen to become compliant with ASC 842?

a) Basic

b) Full implementation

c) Outsourcing

d) I need help deciding

Implementation Discussions

1. Assess and strategize

2. Implement and go-live

3. Customize

Major Software Solutions

1. ASC 842, IFRS 16, GASB 87

    ▪ Trullion, LeaseQuery, NetLease, LeaseCrunch

2. Lease management features – tailored (real estate and lessor)

    ▪ CoStar, LeaseHarbor, TurboLease

3. Two leases or less

    ▪ LeaseQuery – LeaseGuru solution

    ▪ Excel?

Common Pitfalls Noted in Early Adopters

1. Not "one and done"

   - Year 2

2. Testing and verification

   - Software is new, accounting and reporting is new

3. Deliverable needs

   - What do you need?

4. Moving list of requirements

   - Scope creep.

Bottom Line

1

ASC 842 is here, and no further extensions will be granted

2

Substantial impacts are expected for many

3

You will be judged by your auditor and users of the financial statements

Q&A

armanino

Thank you for attending

Additional Questions?

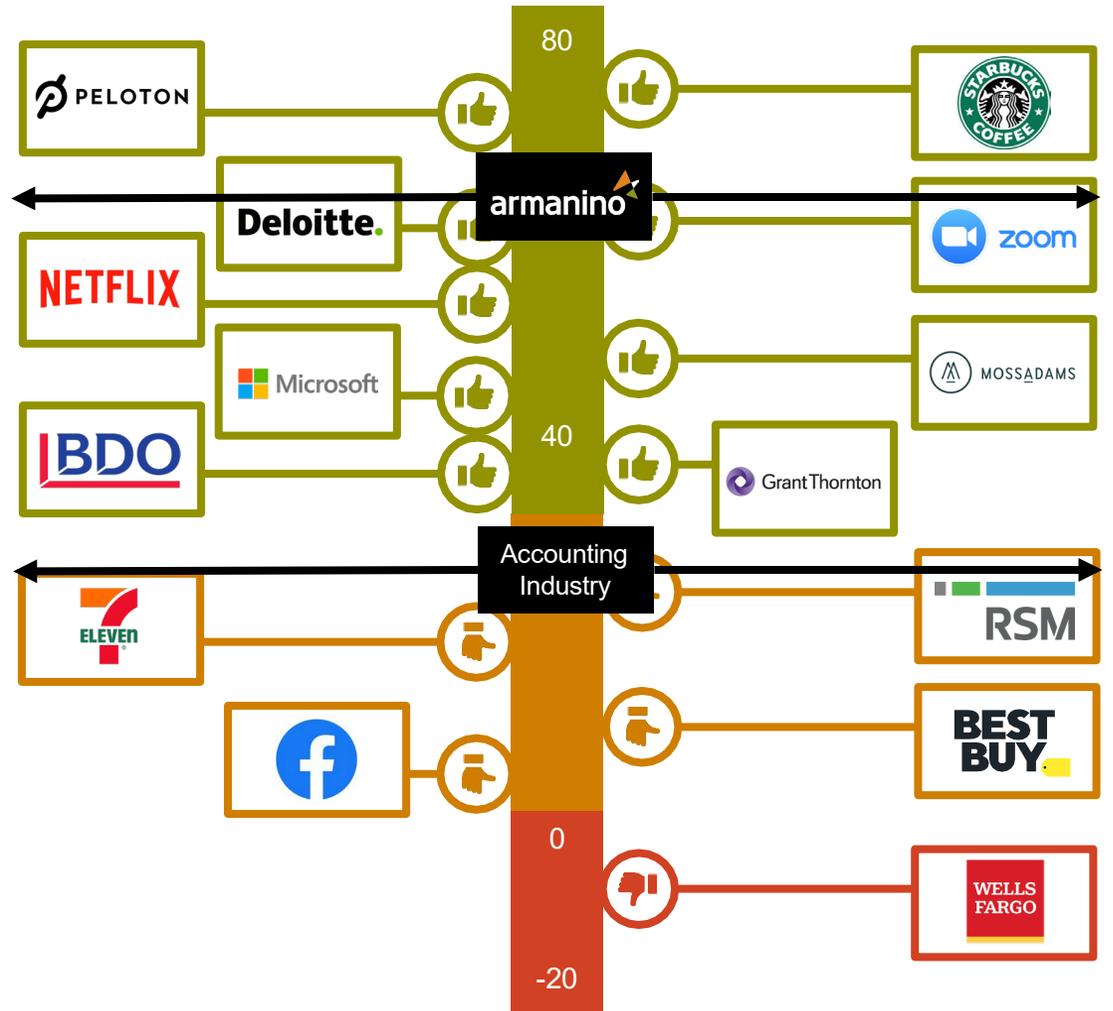Reach out to us at

Experts@armanino.com

→

OUR CLIENTS' VIEW

We Know You'll Love Us

A Net Promoter® Score (NPS) is used by more than two-thirds of Fortune 1000 companies. **Armanino's NPS (68) is almost two times higher** than the accounting industry average (38), and it places the firm scores closest to household name brands such as Starbucks, Peloton and Zoom.

Armanino offers **clarity** in a disruptive, ever-evolving world

Equipping you with the insights and tools needed to succeed today, and in the future

COMPLIANCE & REGULATORY

- Tax Planning
- Trust & Estate
- SOX
- Contract

ASSURANCE & ADVISORY

- Cybersecurity
- SOC
- Restructuring
- Revenue Recognition

STRATEGY & PLANNING

- Corporate Strategy
- Strategic Advisory
- Benchmarking
- Business Transformation

STAFFING & DEVELOPMENT

- Payroll
- Health Benefits
- Executive Search
- Interim Placement

TECHNOLOGY SYSTEMS

- ERP
- CRM
- Business Intelligence
- Managed Services

ACCOUNTING & BACKOFFICE

- Bookkeeping
- Budgeting/Forecasting
- Account Receivable
- Accounts Payable

Armanino Operates in an Alternative Practice Structure:

"Armanino" is the brand name under which Armanino LLP, Armanino CPA LLP, and Armanino Advisory LLC, independently owned entities, provide professional services in an alternative practice structure in accordance with law, regulations, and professional standards. Armanino LLP and Armanino CPA LLP are licensed independent CPA firms that provide attest services, and Armanino Advisory LLC and its subsidiary entities provide tax, advisory, and business consulting services. Armanino Advisory LLC and its subsidiary entities are not licensed CPA firms.