



E-BOOK

ARE YOU PREPARED FOR ASC 842?

HOW TO SOLVE THE BIGGEST CHALLENGES OF ASC 842
WITH A LEASE ACCOUNTING SOFTWARE

CONTENT

| | |
|--|----|
| 1 INTRODUCTION | 03 |
| 2 CHALLENGES | 04 |
| Challenge 1: Identifying the data population | 04 |
| Challenge 2: Identifying lease data fields | 05 |
| Challenge 3: Complex calculations for a wide variety of leases | 05 |
| 3 THE SOLUTION | 06 |
| 4 CHECKLIST: THE BENEFITS OF AN ASC 842 TOOL | 07 |

1 INTRODUCTION

Are you prepared for ASC 842?

Fortunately, for many private companies, they will have the option to defer adoption of ASC 842 until years beginning after December 15, 2021 and interim periods beginning after December 15, 2022. In June 2020, the Financial Accounting Standards Board (FASB) delayed the required adoption of the new standard to give businesses a reprieve from having to deal with both the standard change as well as navigating the rough waters of 2020. The standard requires that companies recognize lease assets and lease liabilities on their balance sheets in order to improve the transparency surrounding the reporting of lease transactions. Many of these leases were off balance sheet transactions.

The standard change does not appear that difficult. However, when you start digging through all the details, you realize it will be more daunting than you anticipated. This standard change will impact multiple aspects of companies, not just the reporting

of financial statements. Companies will need to implement new processes, internal controls, and technology to guide them through the process from implementation of the standard to on-going maintenance.

What challenges are to be expected on your way to become ASC 842-compliant? And how can these challenges be solved with a simple solution? Read more in our e-book about ASC 842.



© Dimitri Otis/Getty Images

2 CHALLENGES

Challenge 1: Identifying the data population

First and foremost, companies will need to aggregate a complete population of their lease obligations. Most companies do not have a system in place to track and manage leases, causing this process to be very time intensive. Their lease landscape can be spread throughout the organization and through various forms of media (paper storage, electronic storage, etc.). To add to the

complexity, lease contracts may also have various amendments, multiple languages, and currencies. As a result, many companies do not have their lease data readily available.

During this process, companies must evaluate all of their contractual obligations. Is this contract a lease or does this contract contain an embedded lease? The FASB defines a lease as “a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an

identified asset) for a period of time in exchange for consideration. Control over the use of the identified asset means that the customer has both (1) the right to obtain substantially all of the economic benefits from the use of the asset and (2) the right to direct the use of the asset.”



Challenge 2: Identifying lease data fields

1. What components of this contract need to be separated from the non-lease components for compliant reporting under ASC 842?
2. How do companies allocate the contract price or consideration to both the lease and non-lease components?
3. How is the lease liability impacted by the election to not separate the components?

The answer may not be as black and white as it seems. The variation of lease complexities require a complete analysis and include some subjectivity. For most companies, this is one of the most time-consuming aspects of the standard.

Depending on the complexity of the lease contract, there could be numerous data fields required to implement the standard. This includes much more than the total

lease payments. Aggregating all the data required to properly perform the calculations can be disorganized and inefficient. Companies should consult their advisors when determining the lease components and data fields required for implementing the standard.

Challenge 3: Complex calculations for a wide variety of leases

Once the data population and the data sets required to perform the calculations have been identified, companies must perform the calculations. This is not easy. Many nuances must be taken into account. For example: How does the commencement date, purchase options, and overall lease term impact the calculation? What about fixed or variable lease payments? Sale-and lease-back transactions?



3 THE SOLUTION

With a professional lease accounting software, you can tackle the above-mentioned challenges and gain a lot more advantages, which include:

- Automated recognition and measurement of all leases, including modifications, foreign currency translation, and quantitative disclosures
- Use of a standardized system, no add-on solutions required
- Simple and intuitive user interface
- Flexible ways to display contracts and generate breakdowns and analyses

Why not make your life easier?

A lease accounting software gives you a simple, intuitive, and standardized way to enter your lease contracts, which will help you ensure consistency. You can start by importing your existing contracts into the lease accounting software using an Excel template.

After the importing process, you'll have a single source of truth to work with. You no longer need to use multiple tools to keep track of your leases. Instead, you can manage your leases in a single application and handle contracts with a large number of variables.

It's time to take control

Thanks to the clearly arranged formats in which a professional leasing software can display your many lease contracts, you'll be

able to achieve greater transparency. Clear structuring of your contracts will lead to improved traceability, as well. A lease accounting software enables you to break down all your ASC 842 accounts based on freely definable criteria (an asset class, for example).

Greater efficiency means having more time for other things

This is precisely what a lease accounting software for ASC 842 can give you in determining your right-of-use assets and lease liabilities. Based on all the relevant contract data, a lease accounting tool carries out the necessary calculations each month and shows you the trends in right-of-use assets and lease liabilities over the entire lease term in question.

4 CHECKLIST: THE BENEFITS OF AN ASC 842 TOOL

- ✓ You implement standard procedures for data entry and management of your contracts.
- ✓ You automate the complex calculations required by the standard.
- ✓ You obtain a clear overview of the impact of ASC 842 on your financial statements.
- ✓ You can trace the effects on the balance sheet and income statement to individual leases and generate simulations for budgeting and forecasts.
- ✓ You save time when monitoring leases and accounting for remeasurements and modifications.
- ✓ You facilitate the preparation of quantitative disclosures by creating automated reports and analyses.

TAKING THE COMPLEXITY OUT OF FINANCE

Every day, we prove that managing financial data doesn't have to be rocket science. Since 1999, our user-friendly software solutions for Financial Performance Management have been in a class of their own: automated processes that make your job a lot easier. A single tool that presents financial data in a transparent, easy-to-understand way. Robust figures to back up every one of your business-related decisions. And when you have questions, our consultants and software experts are here for you – always.

For financial experts, by financial experts. Always fostering the most intelligent solutions. After all: consolidation, planning, reporting, and data management know no limits – so why should we? We're constantly challenging ourselves, questioning the tried-and-true. And this is why we do more than just create powerful applications: we create user experiences, helping you to fully grasp and navigate the intricacies of your company's finances and pave the way for a strong future.

Berlin is our home, but you'll find us wherever reliable financial data is needed. With a growing national and international presence and a strong network of partners, every day we're that much closer to you. And we've come a long way with our approach to rethinking finance: more than 2,700 companies in over 50 countries trust in LucaNet, including names such as FTI Touristik, edding, Leica, Roland Berger and Vaude. Find out what they already know – and let us make finance easier for you, too.

CONTACT US

LucaNet (North America) LLC

Phone: +1 888 691 1523

Email: info@lucanet.us

Fax: +49 30 469910-29

Web: www.lucanet.us



ENHANCING THE LIFETIME SUCCESS OF OUR CLIENTS

Since 1968, PKF Mueller has provided accounting, tax, assurance, and management consulting services to privately held and publicly traded companies, local governments, and not-for-profit organizations in the Chicagoland area. We serve clients in the manufacturing, professional services, technology, life sciences, construction, and transportation sectors. PKF Mueller is a reflection of years of listening and caring for our clients. We are proud of the professional and personal relationships developed within our communities. Through growth and partnerships we have blossomed from a regional firm to an organization that provides services worldwide. As members of the PKF International network we have access to the talents of over 18,000 professionals from over 400 offices in 150 countries.

CONTACT US

PKF Mueller

Phone: + 1 847 888 8600

Email: dmedine@pkfmueller.com

Web: www.pkfmueller.com

