

New Lease Accounting Standard Readiness Checklist

Implementing the new lease standard is not just a one-time exercise. It requires changes to accounting processes and financial reporting controls. Accounting policy elections and practical expedients will affect the overall process and timeline. Effective implementations require a thorough evaluation of resources, and your organization should identify a team to take the lead for all of this work.

The following checklist will help you get started and walk you through key steps in the implementation process.

Establish a cross-functional team.

- Include all relevant departments (Accounting, Finance, Procurement, Legal, Treasury)
- Identify all individuals who can initiate and sign contracts
- Evaluate existing business processes related to leases
- Is lease processing and record retention centralized or decentralized?
- Will lease administration be conducted by individual department/location or by the accounting department?
- Discuss how lease reassessments and modifications will be handled

Identify the entire lease portfolio and gather lease documents (Leases may include office space rental, vehicles, photocopiers, equipment, and embedded leases, which are equipment or other assets included in a service contract.)

- Consider all locations/departments
- Discuss existing lease process with department heads to identify all current leases
- Identify unknown leases
 - Review recurring expenses on general ledger to look for possible previously unknown leases
 - Review general ledger expense accounts with key words that could indicate a lease (e.g. rent, lease, subscription, contractor)
- Be certain to **exclude** the following contracts that do not fall under the new lease standard:
 - Leases of 12 months or less, if this is an elected policy (see policy elections below)
 - Intangible assets like Software as a Service (SaaS)
 - Exploration of non-generative resources, e.g., minerals
 - Biological assets, e.g., crops
 - Inventory
 - Assets under construction

Review new accounting and disclosure requirements, including judgment areas

- Determine management elections/policies (policy election template provided by Cherry Bekaert)
 - Short term leases
 - Nonlease components
 - Discount rate
 - Classification criteria
 - Presentation
 - Initial application date
 - Practical expedients permitted by the new standard

- Conduct impact analysis
 - Debt covenant calculations
 - Compensation agreements
 - Tax analysis
 - Budgeting
 - Balance sheet ratio analysis
 - Review ASC 842 disclosure checklist (provided by Cherry Bekaert)

Review lease data in all lease contracts

- Key dates: commencement, termination
- Lease term, early termination, and renewal provisions
 - Determine management intent to exercise termination/renewal options
- Asset details: type, description, location, level of specialization
- Payment terms, termination penalties, bargain purchase options, renewal term payments, residual value guarantees
- Lease incentives and initial direct costs
- Variable lease payments tied to sales or an index receive special treatment:
 - Variable payments tied to sales are expensed
 - If payments are tied to an index, use the spot rate at lease start date or initial application date (whichever is later) to calculate the lease payments. The effect of changes in the index are expensed.
- Remaining economic useful life of the underlying asset to determine lease classification and amortization period, e.g., right-of-use (ROU) asset life
- Fair value of the underlying asset to determine lease classification

Assess current systems and use of technology for lease processing

- Which systems and/or spreadsheets are currently used to track leases?
- Does the accounting package include the required general ledger accounts?
 - ROU Asset - Operating Leases
 - Long-term Lease Liability - Operating Leases
 - Short-term Lease Liability - Operating Leases
 - Rent Expense
 - ROU Asset - Finance Leases
 - Long-term Lease Liability - Finance Leases
 - Short-term Lease Liability - Finance Leases
 - Amortization Expense
 - Interest Expense
 - Variable rent expense - Operating Leases
 - Variable rent expense - Finance Leases

Discuss the new standard with:

- Board or owners
- Audit committee
- Investors
- Lenders
- Auditors

