



THE POWER OF BEING UNDERSTOOD

LEASE ACCOUNTING CONSULTING

Now is the time to prepare your company

Lease accounting is experiencing revolutionary changes across all industries. The new standard, ASC 842, brings a wide range of implications across most organizations. ASC 842 will require most operating leases to be reflected on the balance sheet, which by itself is a sizeable task. In addition, the standard may have far-reaching implications for a company's finances and operations, including information technology (IT) systems and tax accounting.

The data and systems challenges ASC 842 will bring to companies are significant and, without adequate planning and preparation, may be overwhelming. Given the time commitment required to implement the standard and the level of complexity involved, companies should start gathering data, abstracting leases, and selecting and implementing technology solutions soon to avoid challenges down the road.

Most companies will need to prepare for the required new or updated applications to assist with the management, accounting and reporting challenges that ASC 842 presents. For calendar year-end public business entities applying U.S. generally accepted accounting principles (GAAP), the new standard will be effective Jan. 1, 2019 and, therefore, must be applied to all leases that existed at or commenced after the beginning of the earliest comparative period presented (Jan. 1, 2017), with the option to utilize certain practical expedients.

Fundamental change

The new standard is a fundamental change from historical accounting standards. It is complex and requires careful consideration. Key items to address include:

- **Modified retrospective transition**—There are many specific transition requirements, practical expedients and accounting policies to consider.

- **IT systems**—Implementation will likely require new IT applications, processes and controls.
- **Judgments and estimates**—More judgments and estimates will likely be required as well as more ongoing evaluations of lease arrangements and reconsideration events.
- **Embedded leases**—Embedded leases which historically have been classified as operating leases will now be recorded on the balance sheet, making the assessment of potential embedded leases of the utmost importance.
- **Financial statements and metrics**—The gross up on the balance sheet could cause deterioration of debt ratios and return on assets compared to current lease accounting as well as affect how stakeholders view the company's performance.
- **Tax considerations**—Recognition of lease-related assets and liabilities that are not on the balance sheet will likely affect many aspects of accounting for income taxes, such as deferred taxes and, potentially, property taxes and other state and local taxes.
- **Interaction with other guidance**—Understanding the interaction of the new lease standard with the new revenue recognition standard will be key to successful implementation, especially for lessors.

Our collaborative team of accounting, tax, real estate, systems and IT professionals will assist you with the assessment of the effects of ASC 842 as well as help recommend and guide the best implementation plan to address both your accounting and business requirements.

Implementing the new lease standard involves significant judgments and requires detailed evaluation, documentation and disclosures.

Organizations—especially those with multiple business units and locations—will have different requirements that require customized solutions. We can help companies every step of the way, providing comprehensive documentation and processes, tools and templates to support current and future assessments, assistance for IT to design potential technology solutions, and guidance for the ongoing lease management.

A comprehensive approach

Our comprehensive approach starts with an overall assessment to determine areas of potential impact regarding the adoption of the new standard and to understand the business requirements. The assessment is a critical first step to enable a company to develop a robust and customized implementation plan.

Our focused, integrated impact assessment includes:

- **Identification of critical details** related to the company's lease portfolio, including the volume of leases by type and geography, the identification of existing lease data and any data gaps, and an evaluation of the current lease management systems.
- **A deep dive into a sample of leases and possible embedded leases** to identify data gaps and potential issues and risks in implementing the standard. Service contracts, IT agreements, power purchase contracts, supply arrangements and transportation contracts are examples of the contracts that require review.
- **Establishment of a cross-functional implementation team**, including corporate accounting, corporate IT, procurement, treasury and internal audit.
- **Preparation of a customized implementation plan** to manage the effort across multiple business units and geographies as well as organizational functions.
- **Evaluation and recommendations of technology solutions** to support the company-wide lease management and accounting requirements.

We work with our clients to support and help lead the project through every step of the process. We will:

- **Define the effects of adoption**, including determining the appropriate recognition of the right-of-use asset, lease liability and related balances under the new standard for each lease; assisting with the determination of the appropriate practical expedients and accounting policy elections and assessment of key judgments; and working with external auditors to discuss findings and preliminary conclusions.
- **Develop technology and implementation strategies**, including mapping business requirements to applicable applications and testing system changes to ensure they are responsive to those requirements.
- **Implement standards changes**, including supporting or drafting key policy memos and position papers on areas of judgments and key estimates, developing templates and checklists to be utilized for ongoing assessments of contracts and leases, evaluating the income tax effects, assessing internal controls, and interacting on an ongoing basis with both external auditors and audit committees to ensure everyone is aligned.

An integrated team

RSM has assembled an integrated team comprised of members specializing in technical accounting and technology solutions to assist companies in implementing ASC 842.

This multidisciplinary team addresses technology issues, internal controls, income tax effects and technical accounting questions. We also can help companies identify the best technology solution and ensure it is implemented to meet current and future business needs.

Experience the power of being understood®

Understanding is the key to service. Understanding your industry, your goals, where you are and where you want to be. That's our commitment to every client on every engagement—to deliver the power of being understood.

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