

ASC 842 LEASE ACCOUNTING COMPLIANCE

Successful ways to tackle the new lease accounting standard

Your presenters



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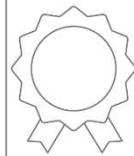
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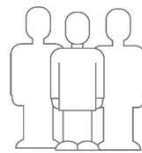
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RSM offices
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Regionally based Sage Intacct resources

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Sage Intacct Certified Consultants



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Sage Intacct Sage Partner Award
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2009
Sage Intacct practice began

Monthly webinar series

Month	Date & Time (EST)	Topic
August	On-demand	Budgeting and Planning for Sage Intacct
August	Thursday, August 18 th 1pm-2pm	ASC 842 Lease Accounting Compliance and Sage Intacct
September	Thursday, September 15 th 1pm-2pm	Sage Intacct Reporting Options
October	On-demand	Sage Intacct AP Automation Options
November	Thursday, November 10 th	Sage Intacct Sales Tax Options
December	TBD	Sage Intacct AR Automation Options
January	Thursday, January 12 th	Sage Intacct Artificial Intelligence and Automation
February	Thursday, February 9 th	Sage Intacct and Salesforce for Nonprofits
March	On-demand	Expense Management in Sage Intacct
April	Thursday, April 13 th	Global & Domestic Consolidations in Sage Intacct

RSM breadth of services

As a leading provider of audit, tax and consulting services, RSM is well-positioned to bring the network of experience and resources to help overcome any unexpected challenges.

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The RSM Consulting practice provides an extensive range of capabilities and expertise, from infrastructure set-up to strategic planning. Whatever the challenge, RSM can provide the right experts to help determine the right solution.

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- Business intelligence
- Business process improvement
- Cost optimization
- Finance and accounting outsourcing
- Information security
- Internal control consulting
- IT strategy and optimization
- Lease due diligence
- Operations and supply chain
- People and organization optimization
- Project management
- SOX compliance
- Systems integrations
- Systems selections

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- Derivatives (hedging)
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- Exclusivity agreements/purchase commitments
- Gift card accounting and related breakage
- Incentive compensation arrangements
- Lease accounting
- Loyalty programs
- Self-insurance

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Our Tax Services Include:

Credits and Incentives

- EOTCs
- Research and development
- TIPS credits
- WOTCs

Expenditure analysis

- Meals and entertainment
- Charitable
- Package design costs
- Research and development

Leasing

- Anchor tenant benefits
- Qualified leasehold improvements
- Tenant allowances

Fixed assets

- Bonus depreciation
- Cost segregation
- Retail depreciation
- TARS

State and local issues

- Sales and use
- Structuring/planning
- Unclaimed property/property tax

International

- Tax treaty/withholding comp.
- Transfer pricing
- VAT/GST

RSM consulting services overview

The right strategies and solutions require specialized knowledge, on-point experience and the depth of resources to respond quickly.

STRATEGY AND MANAGEMENT CONSULTING	TECHNOLOGY CONSULTING	RISK CONSULTING	TRANSACTION ADVISORY SERVICES	FINANCIAL ADVISORY SERVICES
<p>Business transformation and improvement</p> <ul style="list-style-type: none"> • Finance and accounting • Technology and digital • Human capital • Supply chain • Operations <p>Strategy execution</p> <ul style="list-style-type: none"> • Strategy and planning • Economic and social impact • Mergers and acquisitions • Program and project management • Change enablement 	<ul style="list-style-type: none"> • Business applications—enterprise resource planning (ERP) • Business applications—customer relationship management (CRM) • Corporate Performance Management (Budgeting & Planning) • Data and analytics • Finance and accounting outsourcing • Infrastructure • Cloud solutions • Managed services • Application development and integration • E-commerce solutions • Lease accounting, including LeaseQuery 	<ul style="list-style-type: none"> • Internal audit and controls • Cybersecurity and data privacy • AML and regulatory compliance • Technology risk • Risk management process automation • Enterprise and strategy risk • Third-party and credit risk • Systems and process assurance 	<ul style="list-style-type: none"> • Due diligence • Merger integration • Divestitures and carveouts • Portfolio optimization 	<ul style="list-style-type: none"> • Valuation services • Litigation and dispute advisory • Financial investigations

Polling question #1

How long has your organization been using Sage Intacct:

- A. Implementation project in progress**
- B. 0-6 months**
- C. 6-12 months**
- D. 1-3 years**
- E. 3+ years**
- F. We use another ERP solution**

Agenda

1	ASC 842 – The big picture	5 mins.
2	Lessons learned and ways to overcome challenges	10 mins.
3	Three paths to compliance	5 mins.
4	Implementation approach and considerations	
	Path 1: Basic implementation	10 mins.
	Path 2: Full implementation	10 mins.
	Path 3: Lease Accounting outsourcing	5 mins.
5	Adoption considerations	5 mins.
6	Questions	



ASC 842 – THE BIG PICTURE

ASC 842 – the big picture

- Adoption effective January 1, 2022, for calendar year reporting companies (private).
- Long-term leases (operating and finance) will be recorded on the balance sheet.
- 2022 reporting requirement considerations:
 - Enhanced footnote disclosures
 - Roll forward reporting
- Existing leases and service contracts are being assessed.
- Processes, internal control, and system changes will be required.
- Lease characterization for federal income tax purposes has not changed.
- Potential impact on debt covenants needs to be assessed.



**Some are calling ASC 842
the biggest accounting change ever.**

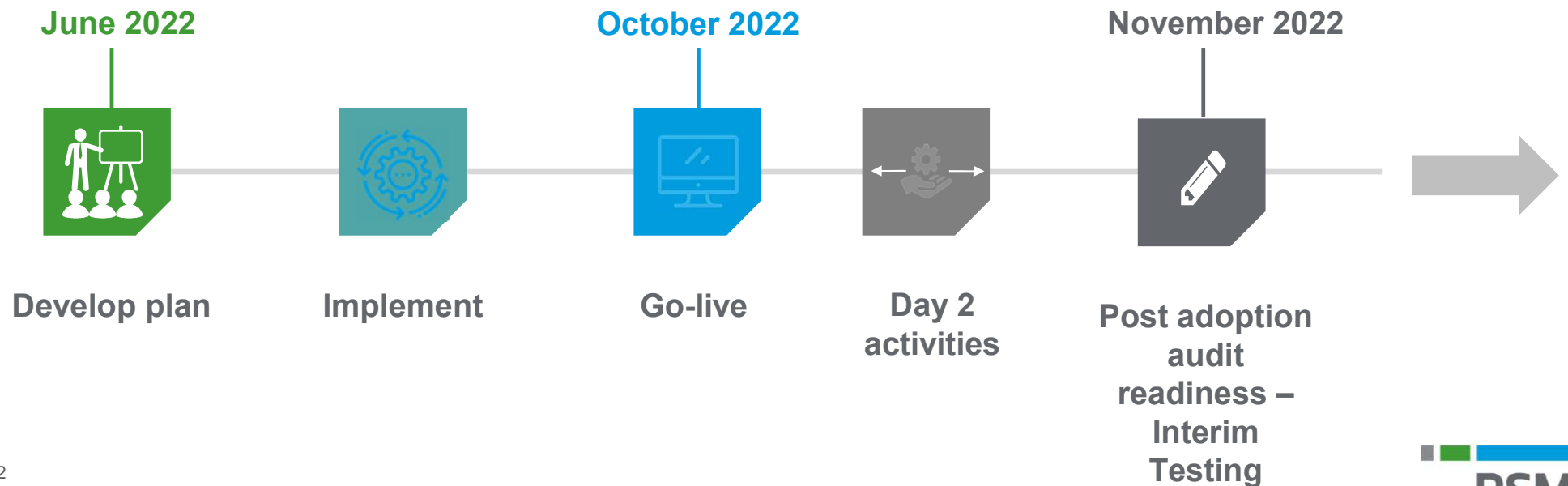
Why is implementation difficult?

- Decentralized lease processes
- Volume of data and documents to manage
- Technical accounting requirements
- Determining discount rates
- Reassessment of lease assumptions upon transition
- Lease and non-lease components
- Identifying and accounting for embedded leases
- New adoption and day 2 controls
- Compressed timeline and resource constraints



General timeline – private companies

- ASC 842 is effective for reporting periods beginning after December 15, 2021.
- Private companies with a calendar year-end will start reporting under ASC 842 for the year beginning January 1, 2022, although disclosures may be required in their 2021 financial statements.



Meeting timelines saves money



Polling question #2

Has your company begun planning for the adoption of ASC 842?

- A. Yes, we have completed implementation
- B. Yes, we are in process of implementing
- C. Yes, we have starting thinking about it
- D. No, we don't know where to begin

A decorative graphic on the left side of the slide consisting of two vertical bars: a thin green bar on the left and a wider blue bar on the right.

LESSONS LEARNED AND WAYS TO OVERCOME CHALLENGES

Summary of common implementation challenges

1. Resource constraints and turnover
2. Ongoing collection and abstraction of new leases
3. Maintaining skills in lease abstraction and working with lease system
4. Modifications, re-measurements and reassessment events
5. Financial statement disclosure
6. Review of service contracts for embedded leases

Keep things simple

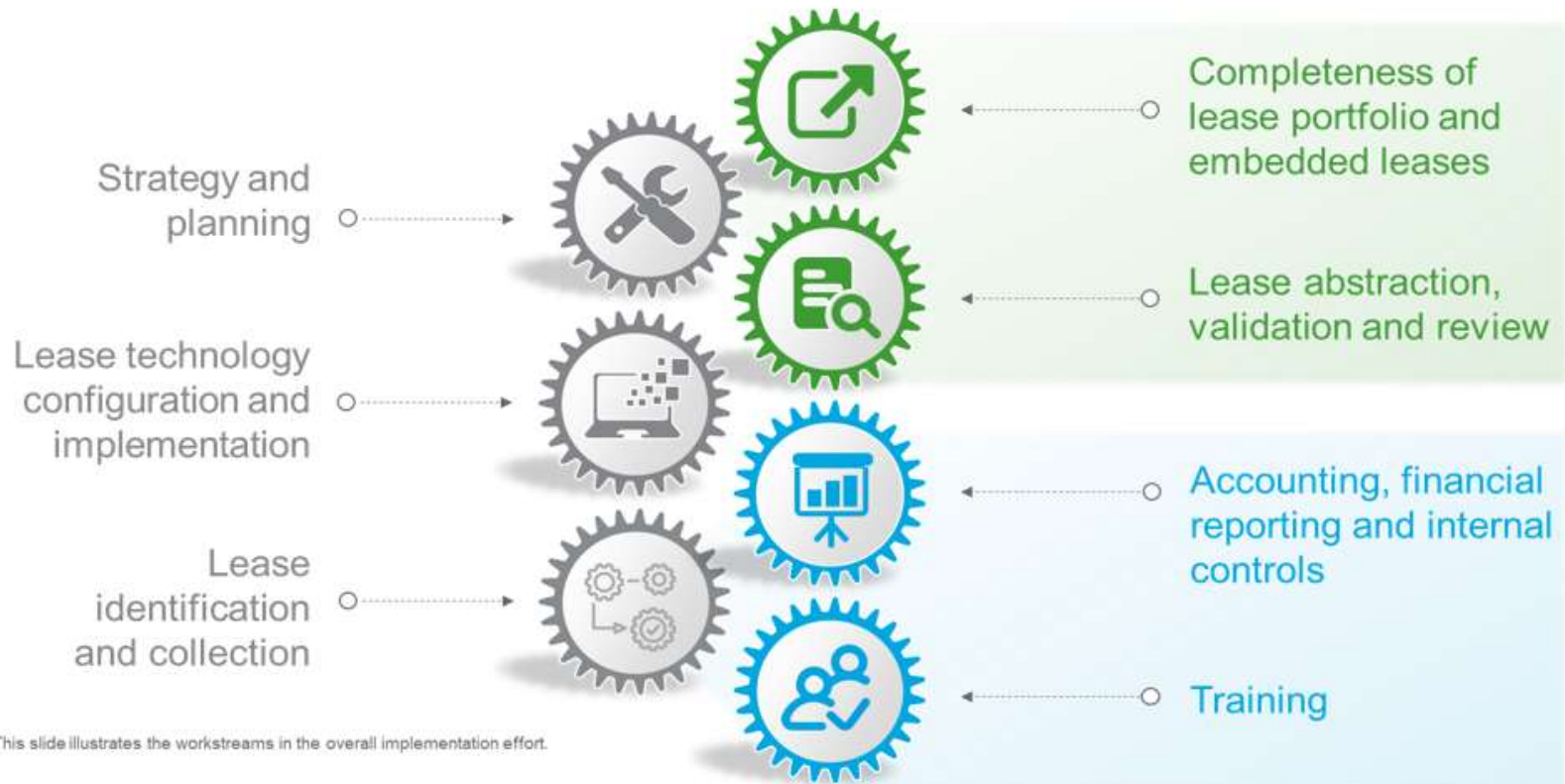
The new leasing standards are complex, so keep things simple where you can:

- Use one lease accounting and administration system when you can
- Risk-free rate election if you can
- Determine an appropriate capitalization threshold
- Correct immaterial errors prospectively
 - missed leases
 - incorrect payment amounts or dates
- Be strategic when negotiating lease agreements



PATHS TO COMPLIANCE

Overview of ASC 842 adoption activities



Disclosure report

Report Name: Complete Disclosures Report
FOR THE PERIOD: 1/1/2021 - 12/31/2021
As Of Date: 6/9/2021
Currency: Reporting Currency
View By: Total Organization

	2021
Amortization of ROU Assets - Finance Leases	9,076,976
Interest on Lease Liabilities - Finance Leases	4,526,220
Operating Lease Cost (Cost resulting from lease payments)	49,677,375
Short-term Lease Cost	0
Variable Lease Cost (Cost excluded from lease payments)	751,848
Sublease Income	(240.00)
Total Lease Cost	64,032,180
Finance Lease - Operating Cash Flows	4,441,244
Finance Lease - Financing Cash Flows	5,197,594
Operating Lease - Operating Cash Flows (Fixed Payments)	66,638,779
Operating Lease - Operating Cash Flows (Liability Reduction)	15,493,235
New ROU Assets - Operating Leases	14,246,185
New ROU Assets - Finance Leases	0
Weighted Average Lease Term - Finance Leases	28.36 yrs
Weighted Average Lease Term - Operating Leases	19.00 yrs
Weighted Average Discount Rate - Finance Leases	2.60%
Weighted Average Discount Rate - Operating Leases	4.54%

In addition to the maturity analysis that is very similar to what was disclosed under ASC 840, ASC 842 has added a number of other quantitative disclosures as illustrated in this graphic.

Clients typically follow 3 paths to compliance

Path to compliance options



Basic implementation

Self-service implementation using pre-configured database:

- For smaller lease populations with limited complexity
- Focused on accounting
- Self-service Lease Accounting software
- Accelerated implementation
- No integrations to Sage Intacct



Full implementation

Tailored implementation of solution:


- For higher volume of leases, more complexity and lease spend
- Robust lease accounting and administration solution
- Integrations into Sage Intacct
- Consulting assistance ranging from full services to advisory support
- Optional ongoing lease accounting services and support from advisor



Lease accounting outsourcing

Simplified ongoing accounting:

- Reduced ongoing client effort for day two accounting
- Can scale from small to large enterprise portfolios
- Leverage existing tools, experience and support for ongoing lease accounting compliance
- No need to build internal lease accounting expertise or database



IMPLEMENTATION APPROACH AND CONSIDERATIONS

Path 1: Basic implementation

When to take a basic/self-service approach to implementation

Basic Implementation may be the right choice for you if:

- You have a small, less complex lease portfolio.
- You are looking for lease accounting compliance only.
- You are looking for a cost-effective alternative to excel.

You may want to consider an alternate path if:

- Leasing has a significant economic impact on your business.
- You need to report on leases in conjunction with a 4-4-5 or 13-period calendar.
- You are looking to fully integrate to your ERP.
- You have a need to allocate lease expense.

Pros	Cons
Speed to compliance	No integration with ERP system – manual entry of JE's
Leverage proven standard configuration	Using predefined structure and reporting – no customizations
Lower time and cost of implementing technology to be compliant	Limited lease administration functionality

Technology software – why not just use Excel?

- Software solutions are affordable and effectively tailored to the specific complexities of the new lease accounting standards.
- General recommendation is companies with 5 or more leases purchase a lease accounting software. The value of automated disclosure content alone makes this worthwhile for most clients, let alone the enhanced ability to handle any changes to the lease portfolio down the road.

- Software eases initial implementation.
- Supports ongoing lease accounting.
- Provides auditors information required throughout the audit process.

Excel cons

- ▶ **Prone to error**
- ▶ **Difficulty in aggregating data (e.g., for JE's, disclosures, and roll forward)**
- ▶ **Fx translation issues**
- ▶ **Parallel reporting (e.g., ASC 842 and IFRS 16)**
- ▶ **Miss key terms (e.g., renewal options, termination options)**
- ▶ **Lack of audit trail**

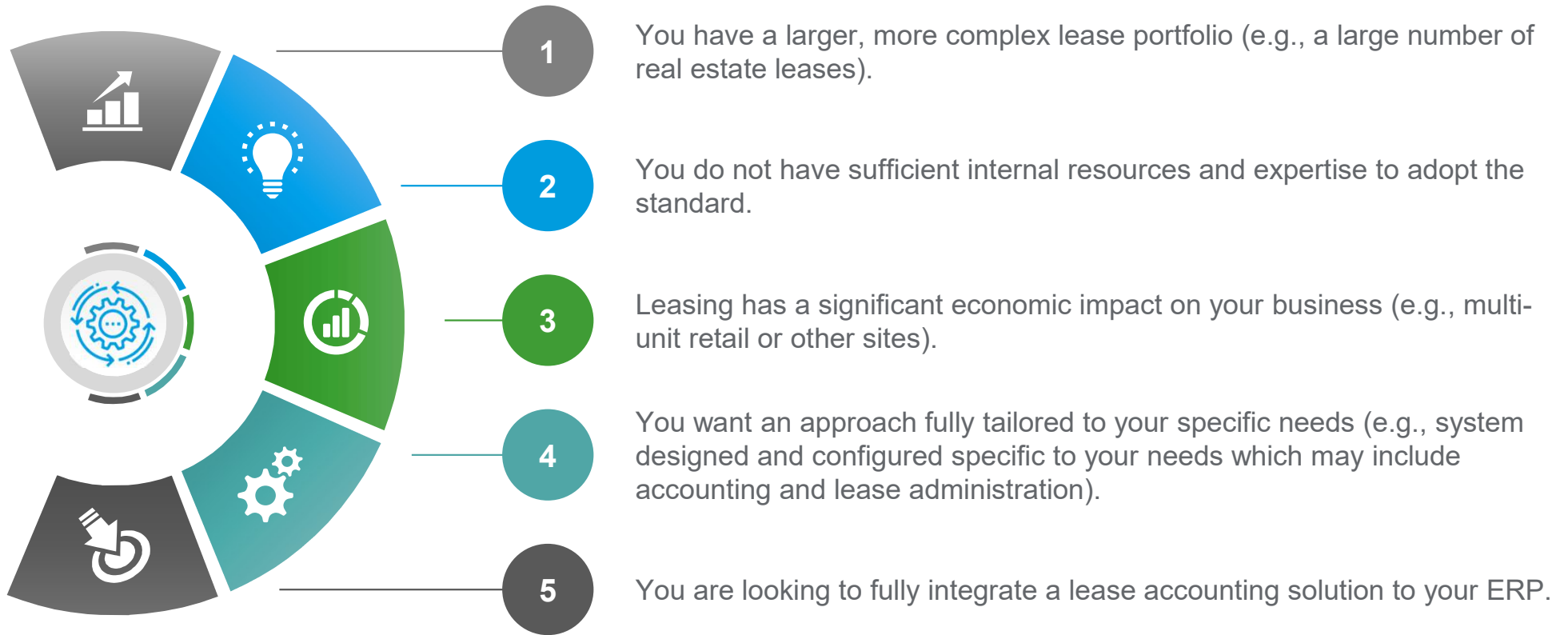
Polling question #3

How many leases does your portfolio contain?

- A. 1-20
- B. >20
- C. >50
- D. >100
- E. >500

Path 2: Full implementation

When to take the full implementation approach



Full implementation (path 2) vs. basic implementation (path 1)



Pros

- ✓ Minimizes the need for additional internal staff (vs. self-service)
- ✓ Solutions customized to meet your needs
- ✓ Integrations can be more fully built out
- ✓ Tailored reporting to better assist with economic decisions
- ✓ Leverage expertise of professionals who can help you proactively address issues and challenges

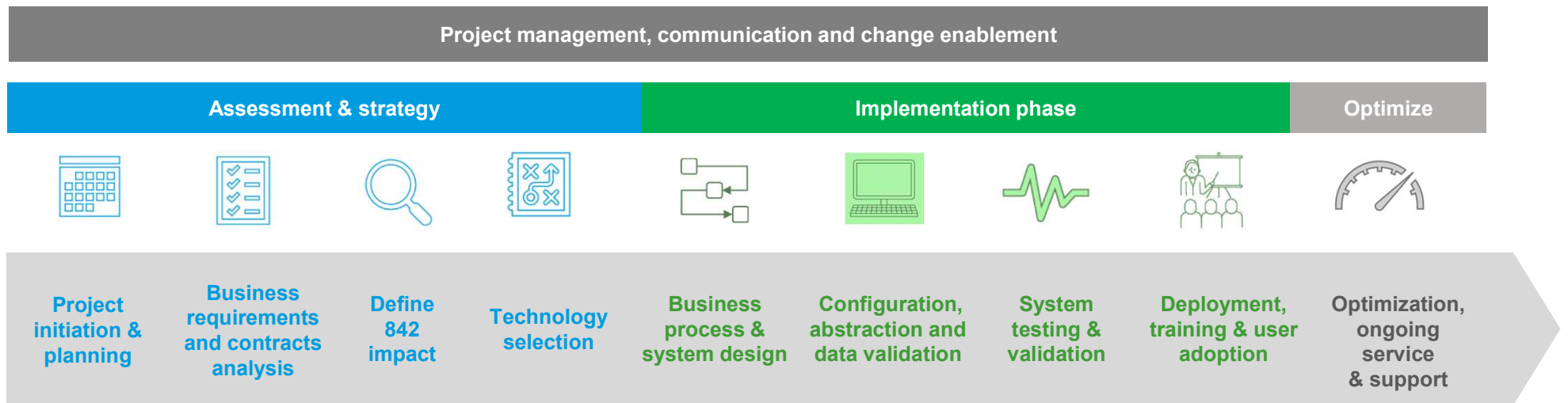


Cons

- ✗ Speed to compliance
- ✗ Cost of implementation and future licenses fees

Implementation life cycle framework

Sample end-to-end approach encapsulates each required work stream in the implementation of ASC 842



Polling question #4

How much time do you expect to spend transitioning to ASC 842?

- A. 1 – 2 months
- B. 2 – 3 months
- C. 4 – 6 months
- D. 6 + months

Path 3: Lease Accounting outsourcing

Day 2 ASC 842 activities

Lease collection

- Preparation and organization of lease collection workbooks each quarter.
- Coordination, tracking and collection of leases across the enterprise.
- Resolution of issues (i.e., missing workbooks, incomplete or missing information, etc.) directly with operating companies.

Lease software

- Upload of abstraction templates each quarter.
- Quarterly updates to support lease accounting entries (IBRs, foreign exchange rates, etc.)
- Generation of journal entries and reports by segment.
- Generation of recalculations needed for lease modifications or terminations.
- Assistance with ad-hoc requests.

Valuation

- Preparation of USD and any foreign currency IBRs each quarter.
- Assistance with determining fair value for new real estate leases (lease classification test).
- Assistance with ad-hoc fair value requests, such as valuation of tenant improvements.



Lease abstraction

- Abstraction of new and modified leases into templates each quarter.
- Abstraction of certain vendor lease reports obtained directly from vendors (e.g., fleet, copiers).
- Coordination of lease-specific questions that arise during abstraction with the operating companies.

Technical accounting

- Reviews of new/modified service arrangements for embedded leases each quarter.
- Analysis of immaterial embedded leases each quarter.
- Quality review of abstracted leases compared to source documents.

Financial reporting

- Preparation and organization of lease disclosure workbooks for annual disclosures.
- Coordination, tracking and collection of lease disclosure workbooks from operating companies.
- Reconciliation of G/L detail provided by operating companies to Visual Lease and/or vendor reports to calculate short-term & variable lease expense.
- Preparation of annual ASC 842 disclosures.

Why Lease Accounting outsourcing



Accounting for leases under ASC 842 requires expertise in multiple areas

- ✓ Accounting
- ✓ Systems



Considerations



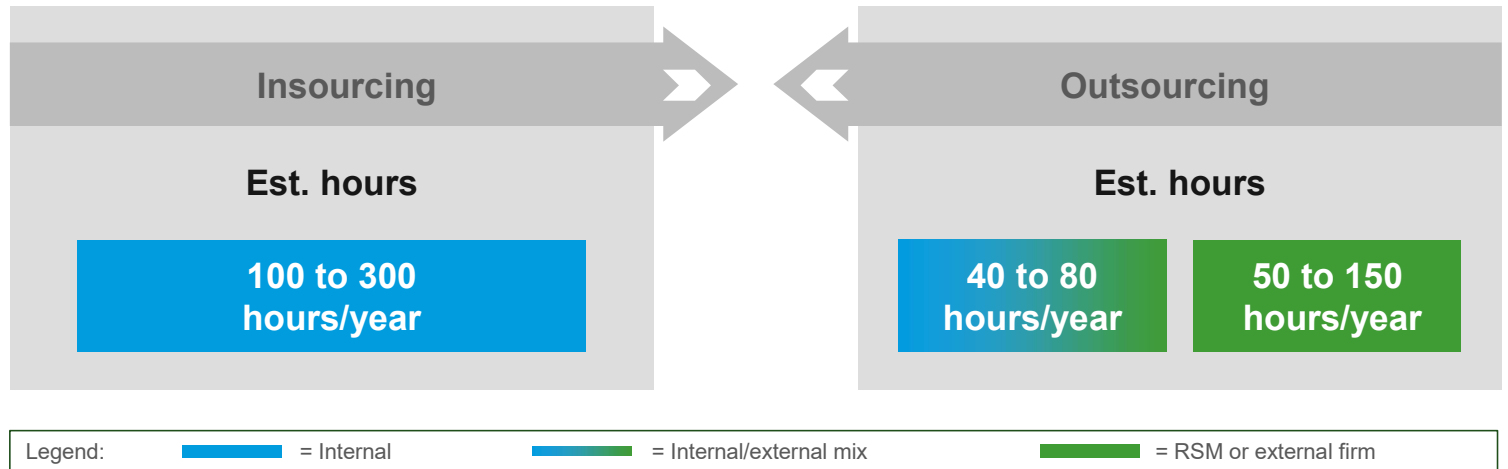
- Implementing the standard often requires multiple FTEs on a full-time basis for several months or longer.
- Ongoing compliance may require one or more additional FTEs.
- It may not be practical to maintain internal staff that possess all necessary skillsets.
- Accounting compliance may not be a strategic priority.
- Corporation might merge or be purchased in the future.
- Reduced system implementation time.
- Speed of abstraction and stand-up accounting.

Level of effort: illustrative comparison

Note: Approximate illustration based on a lease portfolio of 50 centrally managed mix of real estate and equipment leases. Actual results will vary and should be based on a tailored implementation plan for your organization.

Ongoing accounting & disclosures

Lease modifications, re-measurements, journal entries, reporting disclosures, audit readiness.



Polling question #5

How much interest would your firm have in outsourcing lease accounting?

- A. Definitely interested
- B. Interested, but would need more time to evaluate
- C. Doubtful, but worth considering
- D. None at all



ADOPTION CONSIDERATIONS

Items that slow down implementations

When implementing ASC 842 there are several decisions that firms must make in order to be successful. The following items identify decisions that companies should consider prior to implementing to avoid delays:

- Lease materiality threshold – what is the materiality threshold when determining is a lease is immaterial?
- Likely term – should renewal options be included or excluded when determining the “likely term”?
- Embedded leases – have embedded leases been identified?
- Incremental borrowing rate – can you use the risk-free rate, or will you need to calculate the IBR?
- Lease portfolio – do you have your total lease population identified?

Do not wait - start implementation now

1. The time and effort to implement the standard is often under-estimated; **it often takes months to implement.** Get ahead to **avoid errors and delays.**
2. Lease activity recorded throughout the year under ASC 840 will need to be reversed and redone in accordance with ASC 842 throughout the 2022 reporting year. This adds cost and complexity.
3. Software and implementation available resources will likely decrease during the second half of calendar year 2022. It's a risk not every client will get done in time to avoid significant audit delays.
4. Clients who wait may not have adequate time for testing the new accounting, stabilizing processes and results prior to year-end audit – **waiting could result in audit delays and added costs.**



QUESTIONS AND ANSWERS

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