

The final countdown to ASC 842 to lease accounting compliance

August 10, 2022



Presenters



Brian Bartolucci

Manager
RSM US LLP

Becca Smith

Solutions Architect
NetGain



Agenda

| | | |
|---|---|----------|
| 1 | ASC 842 – The Big Picture | 5 mins. |
| 2 | Lessons Learned and Ways to Overcome Challenges | 5 mins. |
| 3 | Getting Compliant | 10 mins |
| 4 | Lease Technology as a Solution | |
| | Technology Software Options | 5 mins. |
| | Benefits of NetLease | 10 mins. |
| 5 | NetLease Demonstration | 20 mins. |
| 6 | Starting the Process with RSM and NetLease | 5 mins. |

Helpful insights on ASC 842 from RSM

You will find a link to both of these e-books in the **RESOURCES** section to the right of your screen.

Lease Accounting planning guide



ASC 842 software selection guide



Learning objectives

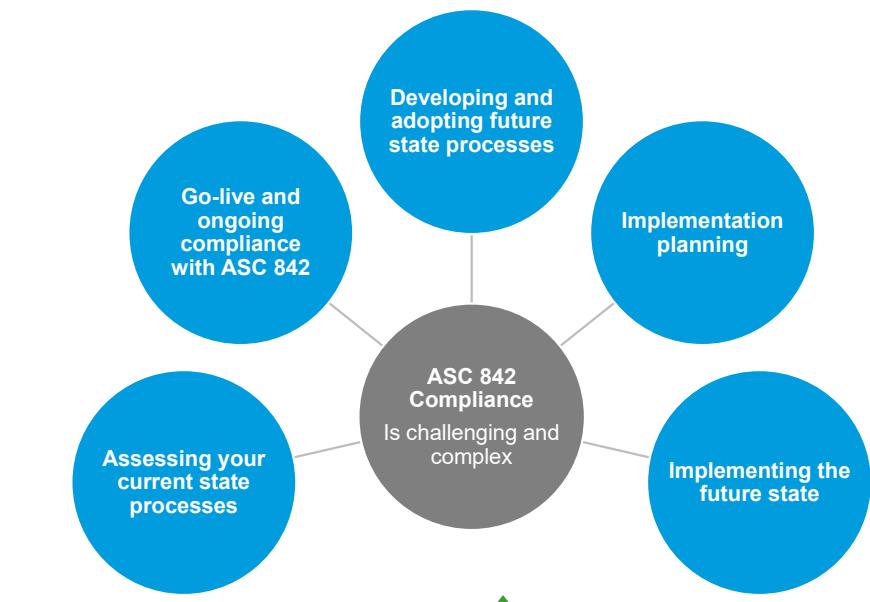


By the end of this course, you will be able to:

1. Understand ASC 842 requirements and disclosures.
2. Know what to avoid when implementing the new standard.
3. Learn how to leverage NetLease to ease the implementation process.

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
 - Rollforward 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.

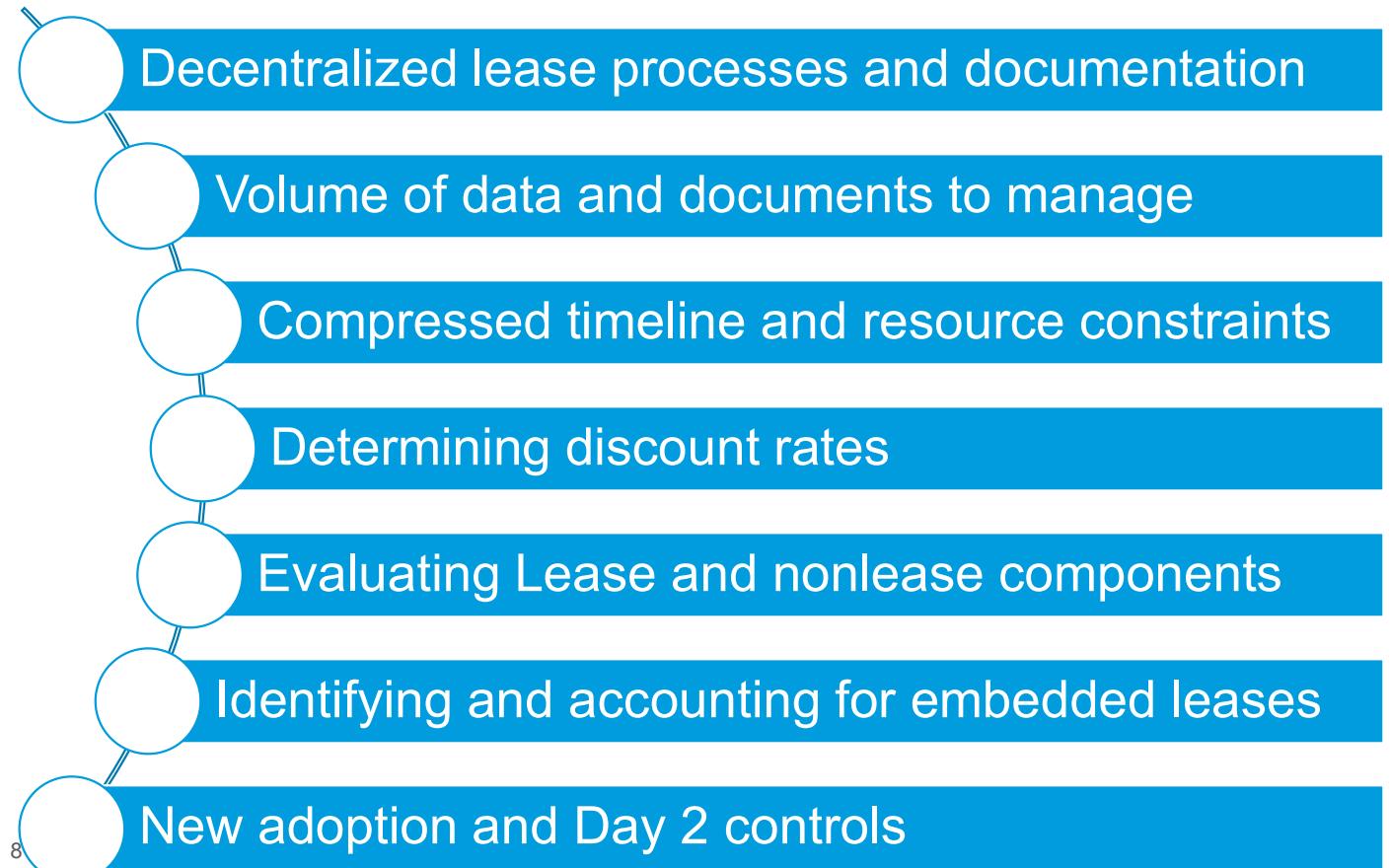


Some are calling ASC 842...
“the biggest accounting change ever.”



LESSONS LEARNED AND WAYS TO OVERCOME CHALLENGES

Why is implementation difficult?



- Decentralized lease processes and documentation
- Volume of data and documents to manage
- Compressed timeline and resource constraints
- Determining discount rates
- Evaluating Lease and nonlease components
- Identifying and accounting for embedded leases
- New adoption and Day 2 controls



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 in Day 2
 - Missed leases
 - Incorrect payment amounts or dates
- Be strategic when negotiating lease agreements

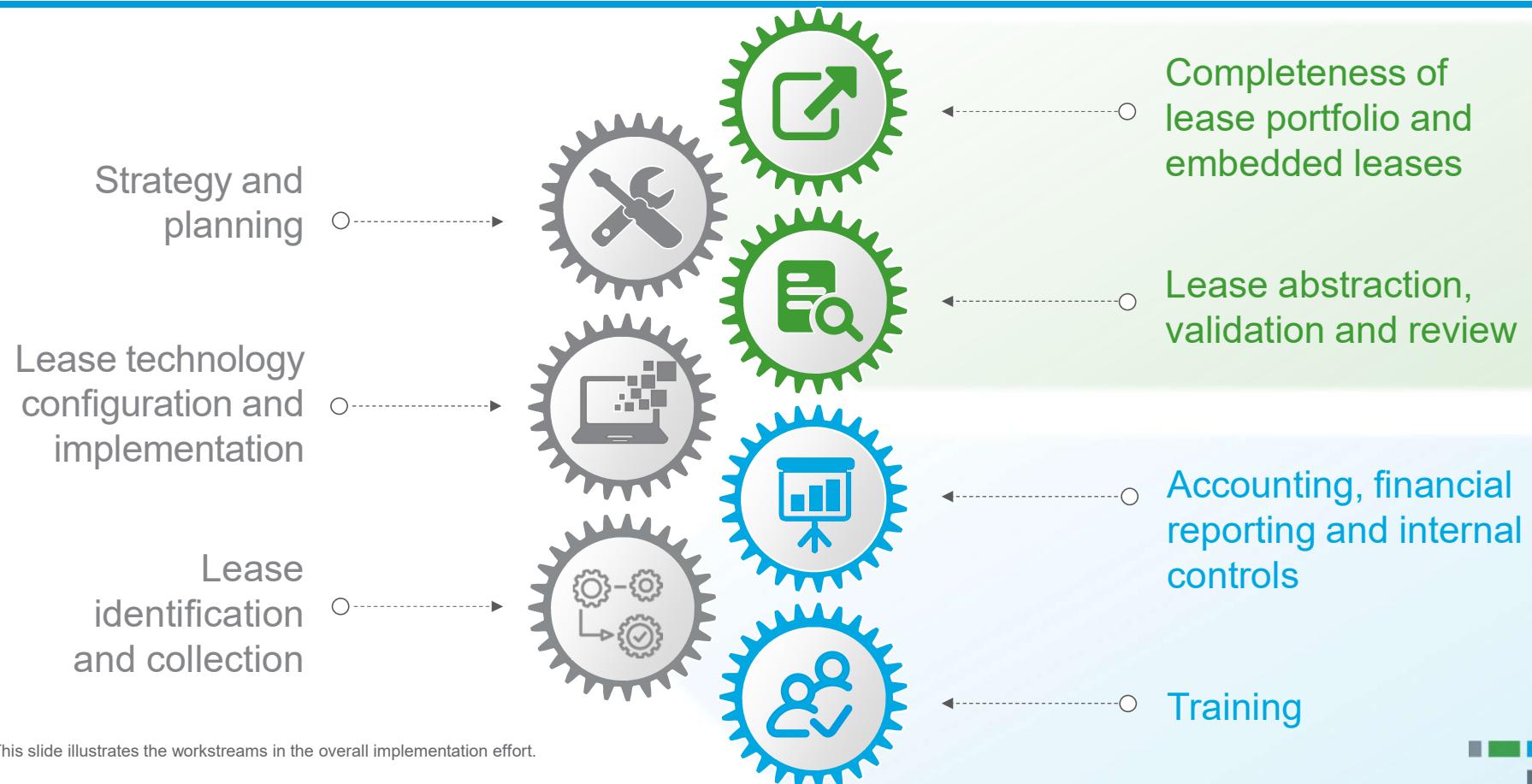
Keep Things Simple (cont.)

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

- Keep short-term leases out unless needed for lease administration
 - This reduces the subscription cost and the ongoing maintenance
- Keep variable charges out of the leasing tool, unless the leasing tool is aiding in the calculation of the variable charges (e.g. percent rent or CPI)
- Be strategic about accounting for variable and short-term lease expense account(s)
 - Make a materiality argument when you can
 - Get vendor reports to aid in the collection when you can
 - Create distinct GL accounts to track these expenses for disclosure
- Use an AP clearing account
 - Avoids duplication of expense recorded by AP and the leasing tool
 - Helps identify variable expense that is incorrectly coded

GETTING COMPLIANT

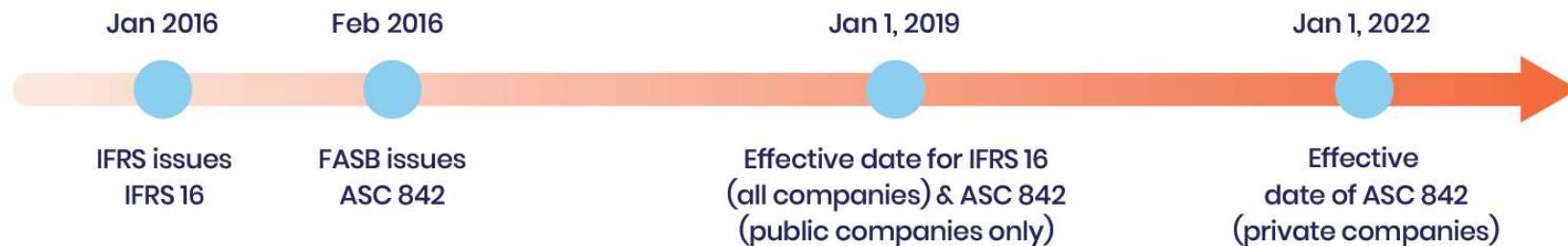
Quick overview of ASC 842 adoption activities



Note: This slide illustrates the workstreams in the overall implementation effort.
12

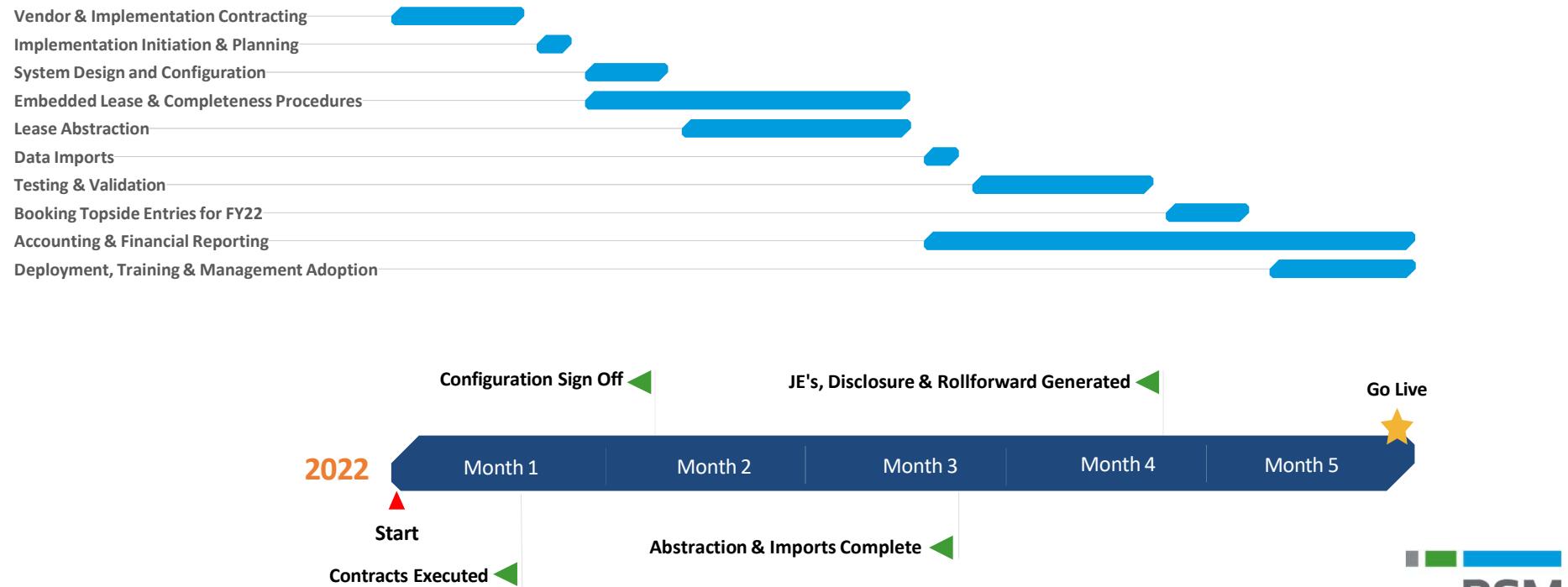
© 2022 RSM US LLP. All Rights Reserved.

When must I be compliant?



Example 842 Implementation Project Timeline

The below is an illustrative example for a client with roughly 100 leases that goes through the full assessment and implementation process



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 Portfolio – Do you have your total lease population identified? And are all of your lease documents centralized/available to begin abstraction?
- 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?

Audit readiness

What auditors expect from our clients

- ✓ Documentation!
- ✓ Lease completeness – have all signed leases and amendments available for the audit team.
- ✓ Embedded lease considerations
- ✓ Control environment and risk assessment
- ✓ Materiality considerations
- ✓ Accounting policy election memo
- ✓ Disclosure compliance and financial reporting support
- ✓ Consideration of other accounts

Key point: Audit cost increases as client readiness and documentation decreases

Post-Implementation Lease Management Challenges

1. Internal Resource constraints and turnover
2. Ongoing identification, collection, and abstraction of new leases
3. Maintaining skills in lease abstraction and working with lease system
4. Identifying and performing modifications, re-measurements and reassessment events
5. Internal reporting
6. Financial statement disclosure preparation
7. Review of service contracts for embedded leases
8. Keeping up with the latest discount rates as you add new leases and modify existing leases



LEASE TECHNOLOGY AS A SOLUTION



Technology Software – why not just use Excel?

- Software solutions are affordable and effectively tailored to the specific complexities of the new lease accounting standards.
- We generally recommend clients with 5 or more leases to purchase lease accounting software such as NetLease. 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 rollforward) |
|  | 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 |

842 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.

NetSuite Users FAM vs NetLease



NetSuite

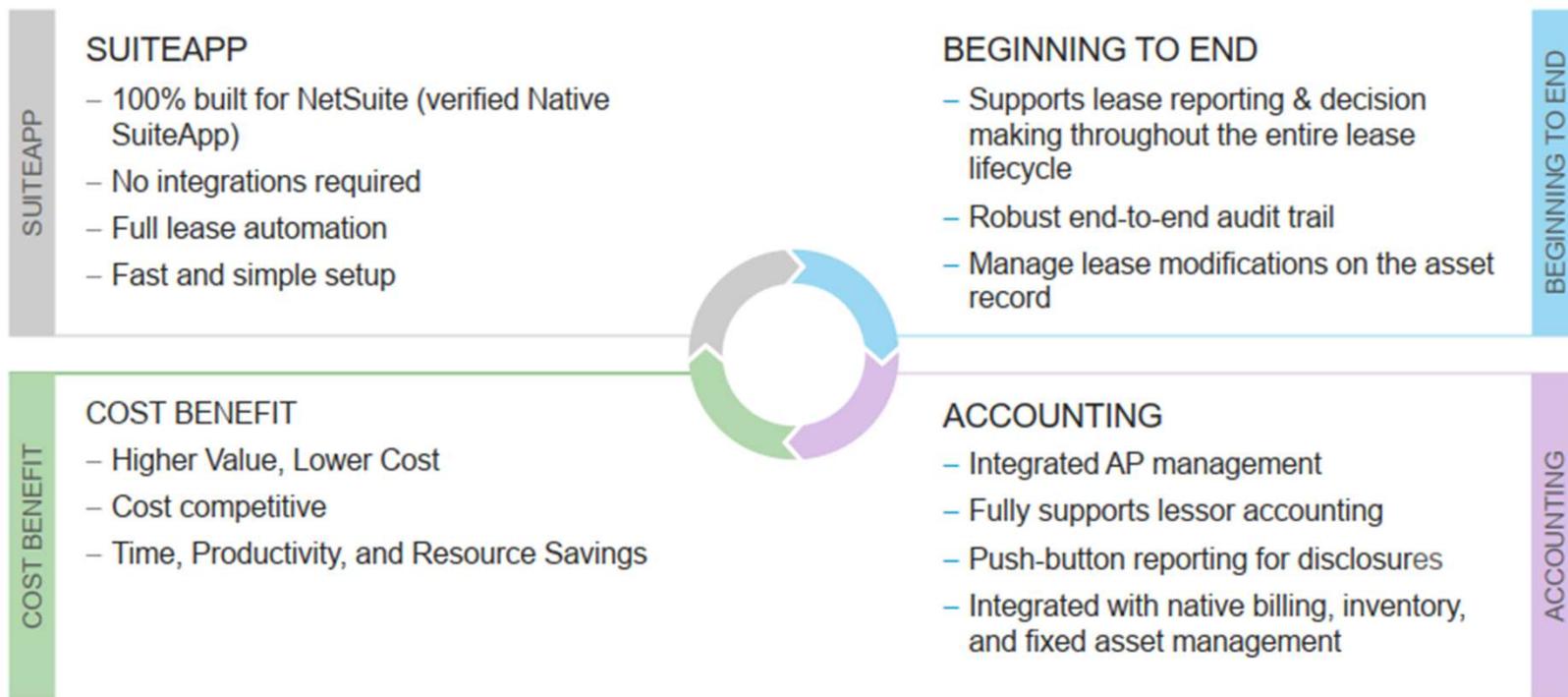
- ✓ Included in FAM
- ✗ Limited audit trail
- ✗ Limited 842 accounting functionality
- ✗ No modifications
- ✗ No foreign currency
- ✗ Inadequate disclosure reporting



NetLease by Netgain

- ✓ Embedded in NetSuite
- ✓ Supports all 842 accounting needs
- ✓ Supports modifications and terminations
- ✓ Supports FX and Multi-Book
- ✓ Automates journal entries
- ✓ Integrated AP functionality
- ✓ Comprehensive disclosure reporting with audit trails
- ✗ Not included in NetSuite subscription

Why NetLease?



NETLEASE DEMONSTRATION

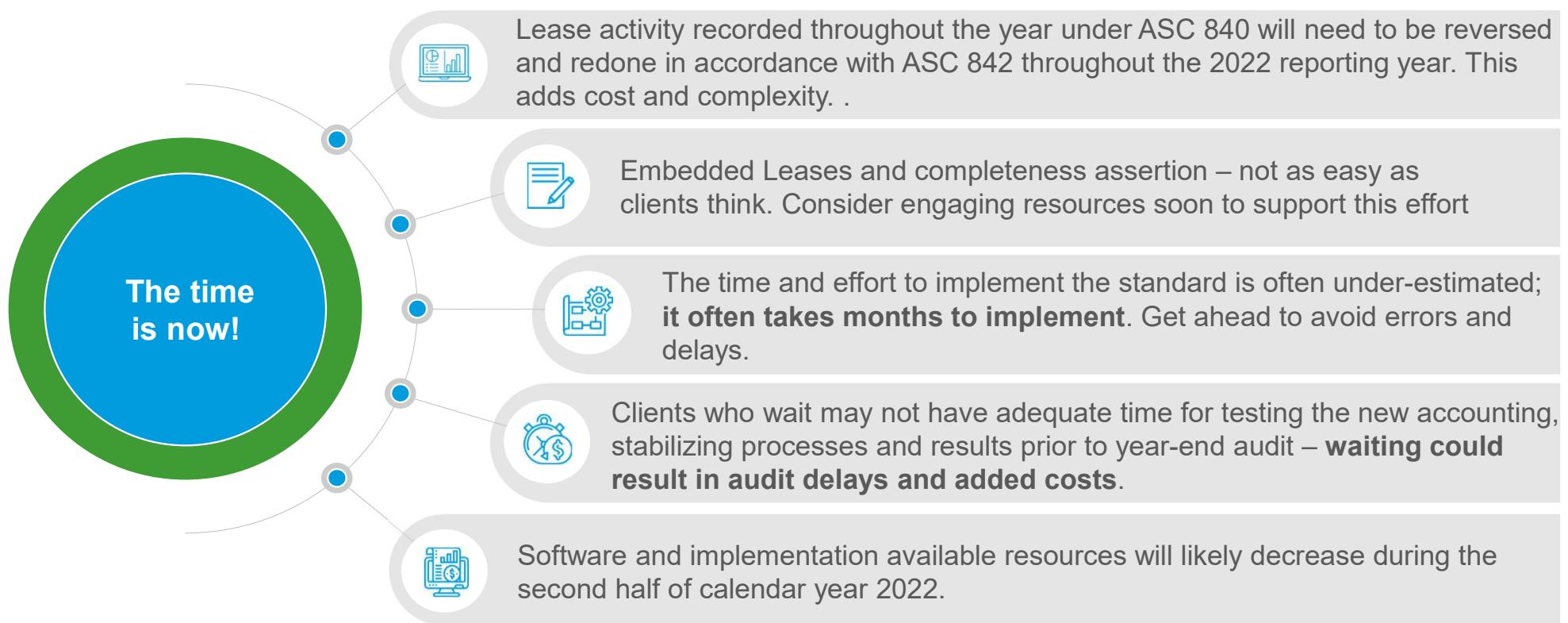




STARTING THE PROCESS WITH RSM AND NETLEASE



Urgency for clients to start now



How to start the process with RSM and NetLease

Contact our lease accounting team
ASC 842 compliance | Services | RSM US

Helpful insights on ASC 842 from RSM

You will find a link to both of these e-books in the RESOURCES section to the right of your screen.

Lease Accounting planning guide



ASC 842 software selection guide



THANK YOU FOR
YOUR TIME AND
ATTENTION



RSM US LLP

+1 800 274 3978

rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and the power of being understood are registered trademarks of RSM International Association.

© 2022 RSM US LLP. All Rights Reserved.

