

CASE STUDY: LESSONS ON IMPLEMENTING ASC 842 FROM A PUBLIC STEELMAKING COMPANY

Client situation

A large steelmaking company with manufacturing facilities throughout North America completed an ASC 842 discovery process in spring 2018 and determined that the complexity of the new lease standard and competing organizational demands for their time required them to seek an advisor and partner to help with their implementation. The manufacturer is a leading producer of flat-rolled carbon, stainless and electrical steel products, and carbon and stainless tubular products. Through its subsidiaries, the company also provides customer solutions with carbon and stainless steel tubing products, die design and tooling, and hot and cold stamped components.

The company's corporate controller reached out to RSM for technical accounting and consulting assistance for their lease accounting implementation.

Solution

Various phases and workflows for the engagement were managed and executed by RSM, while other portions of the implementation project were managed by the company. RSM was entrusted with a critical aspect of the project, which included the review of 125 complex service arrangements that are unique to the company's industry. RSM's review of these service arrangements resulted in the identification and documentation of over 65 embedded leases. RSM also prepared an implementation and transition memo, provided assistance with new accounting policies and procedures under ASC 842, and assisted with determining the right-of-use asset and lease liability calculations related to the company's traditional and embedded leases, which amounted to \$291 million at transition.

The service arrangements subject to review were both material and extremely complex. RSM conducted individual interviews with multiple staff members to understand the nature of the contracts in their respective areas of responsibility. RSM considered the business operations underlying their contracts when evaluating the unique aspects of their service contracts (assets utilized in providing the service, whether the assets

are customized, whether the assets were located on the premises, how the assets were used and who directed the assets, whether the economics resided with the client or with the vendor, etc.). Conclusions for all 125 contracts were based upon facts on the ground, and were extensively discussed and agreed with both the client and the external auditor.

For software, this client selected the LeaseAccelerator solution and implemented it without the use of an implementation partner, instead relying on internal resources and the vendor support team. However, the RSM team included employees with deep LeaseAccelerator experience, who consulted regularly with the client to assess implementation progress, share best practices and communicate common pitfalls identified from other LeaseAccelerator implementation projects.

Results

By collaborating with RSM for the ASC 842 implementation, the client successfully adopted ASC 842 and implemented a lease accounting software that will also support ongoing compliance and lease administration. As a trusted advisor, RSM provided value to the client by analyzing and evaluating complex service arrangements and embedded leases that would materially affect the client's financial statements to conclude on the appropriate accounting treatment. This collaboration also helped the client to gain greater efficiencies for the ongoing accounting after adoption of ASC 842.

In the end, the client reaped multiple benefits from adopting the standard, including the following:

- Enhanced understanding of new lease accounting treatment and policies
- Mitigation of risk through analysis of embedded leases
- Increased confidence in accuracy of transition adjustments
- Helped create team capacity to manage an accelerated adoption timeline
- Education on the lease standard and software for the internal staff
- Readiness for testing and external audit

+1 800 274 3978
rsmus.com

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