



Lease Accounting Standards: It's Time!

The Financial Accounting Standards Board (FASB) granted private companies, not-for-profit organizations, and certain small public companies additional time to implement the new ASC 842 lease accounting standard. Although a collective sigh of relief was heard, there is still a lot to get done and time is running short. If you haven't already done so, now is the time to shift into high gear. If we learned anything from both the revenue recognition delay and the public company implementation of lease accounting, it's that these projects take longer than you think.

While the FASB issued multiple extensions, it is anticipated that all entities will have started implementing for fiscal years starting after December 15, 2021 and internal periods within fiscal years beginning after December 15, 2022 (January 1 for calendar reporting periods).



Learning from Public Companies

Public companies have been reporting under the new standard since the beginning of 2019. The reason for prior extensions of the new standard was largely based on the adoption experiences of those public companies. Many found the process to be more time consuming and complex than initially expected. Data collection and abstraction, system selection and implementation, internal control design and assessment, and accounting policy development are just a few of the many challenges that management teams must tackle with the new lease accounting standard.

The Clock Starts Now

While the FASB issued multiple extensions, it is anticipated that all entities will have started implementing for fiscal years starting after December 15, 2021 and internal periods within fiscal years beginning after December 15, 2022 (January 1 for calendar reporting periods).

Implementation Process

The extent and magnitude of the change could be significant in lease-intensive companies, including potential changes to internal controls and systems for capturing contracts. However, even those with less significant circumstances face a challenge in successfully implementing the new standard. Successful adoption begins with fully understanding the requirements of the new lease accounting rules and the volume of potential lease contracts, as well as establishing an appropriate approach, timeline and budget. The typical roadmap for implementing the lease accounting standard spans anywhere from six (6) to twenty-four (24) months. Given the project duration, adhering to a strict timeline is essential to stay on track. There will be several factors that impact the length of the various stages of the process.

Select Your Software and Minimize Future Costs

Most companies will need to perform processes such as collecting significant amounts of data, managing multiple leases and performing complex accounting entries. Using excel spreadsheets within these processes carries inherent risks associated with data input errors, accidental changes, unintentional deletions, and the potential for incorrect formulas. The alternative is to deploy specialized lease accounting software that will prevent such issues and save significant time.

However, before moving forward with any system, a thorough consideration of business requirements and a due diligence process around software selection should be made. Furthermore, you will want to ensure the software is configured to meet your needs and the data input has been validated and entered correctly.

Also consider that any new lease system is effectively a sub-ledger to your ERP system. As such, an automated or manual process will need to be designed to transfer the monthly journal entries from the new lease accounting software to the general ledger.

Vendor Selection Process

This is easy to overlook but there are many lease management software options and not all function the same way or offer equal benefits. Ensure any roadmap reflects the timing of your procurement process including vendor demos, vendor evaluations and any RFP process and contract negotiations. From initial demo to final contract, these steps can take months depending on the organization and how your purchasing decisions are made. For more information, see our Vendor Selection Process white paper.

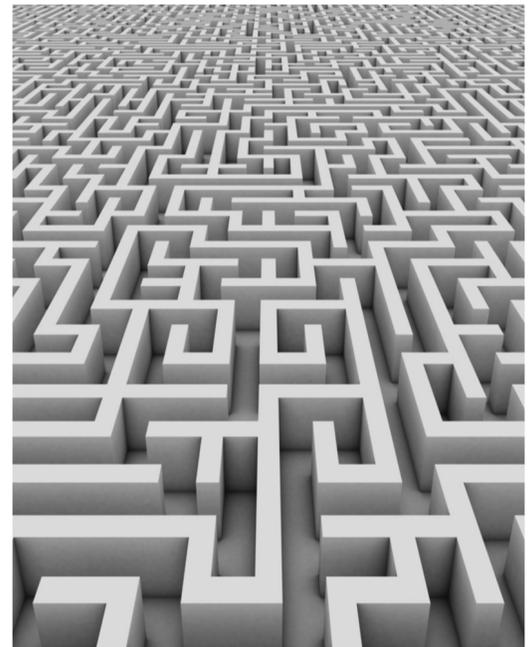
The CFO Suite can help you get through this time when you might need that additional capability or capacity for your team.

Business Requirements and Potential Benefits

As part of the implementation process, the company needs to agree upon the business requirements, as well as look to identify and document key requirements for accounting and administration functions. Companies should also use this time to ensure that this will not solely be a simple compliance exercise. Any financial or process review, update or adoption, presents an opportunity to uncover potential benefits through software updates, vendor rationalization and spend reductions. Processes or data that may have been decentralized, over or under managed or utilized, can now be analyzed and made more efficient. Furthermore, leases properly managed can give rise to significant efficiencies in their use and substantial cost savings.

Lease portfolio size, complexity and collection

The data required for compliance is directly dependent on accounting policy decisions, lease administration needs and system selection. However, every lease portfolio is unique given the size and variety of lease types (operating vs. capital, real estate vs. equipment, embedded lease, variable payment leases), their locations (international entities may have varying in-country compliance requirements) and that some leases require tracking of both lease and non-lease components. The complexity of the leases will impact the timing of almost every phase of the project and needs to be considered early in the implementation process. In our experience, public and private companies alike have found it difficult to locate all their lease contracts, identify embedded leases in other contracts, and extract the data needed to comply with FASB's rules.



Furthermore, companies need to address lease portfolio completeness early to streamline data abstraction efforts and policy decisions. Identifying and gathering a complete population of potential lease contracts has proven to be a time-consuming effort for many companies. Collecting and validating the data needed to account for leases under the new standard is often one of the most challenging aspects of implementing the new standard. Onerous clean-up tasks—including recording a large volume of adjustments needed to ensure accurate financial reporting—are now emerging for the many companies that did not run comprehensive pre-adoption checks and processes.

The CFO Suite is your trusted resource for interim, project and direct-hire accounting and finance game changers.



Here's how The CFO Suite can help:

Implementing the new FASB ASC 842 lease accounting standard can have wide-reaching impacts across an organization. The entire undertaking can be an enormous burden on any operational, accounting, finance, and IT infrastructure. Companies need to consider whether they have sufficient resources to effectively implement the new standard or if they will need to engage subject matter experts.

Being uber prepared and having the right support will ensure a smooth transition and maximize the benefits from the implementation. Our experienced, game-changing consultants have actively participated in numerous public and private company implementations. Here's just a few ways we are ready to help you navigate all the necessary steps through to compliance:

- Implementation Process - Provide project management support including evaluating potential changes to internal controls and systems for capturing contracts.
- Select Your Software and Minimize Future Costs - Evaluate selection process and implement lease accounting software.
- Vendor Selection Process - Assist creating a roadmap that reflects the timing of your procurement process.
- Business Requirements and Potential Benefits - Conduct a facilitated session to agree upon the business requirements.
- Lease portfolio size, complexity and collection
 - Provide technical accounting leaders with 15+ years of experience of reviewing complex accounting issues and preparing technical memos/white papers.
 - Review of lease contracts, complex transaction documents and purchase orders and perform technical assessments to determine lease arrangements.
 - Conduct data abstraction for lease attributes.

**We are a unique firm dedicated to finding game changers to just get it done!
We know what it takes to build the right team to support your organization
through challenges and change.**

**If you're interested in learning more Lease Accounting Standards
and how The CFO Suite can help you, reach out to:**

Sabiha McConnell
Director of Advisory Services

713-398-5664

Sabiha.McConnell@CFOSuite.com



The CFO Suite is your trusted resource for interim, project and direct-hire game changers that maximize the capabilities and capacity of your accounting and finance department.

Through our consultative approach, founded upon years of practical experience in public accounting, industry and professional services, we are a unique firm dedicated to finding game changers to just get it done! We know what it takes to build the right team to support your organization through challenges and change.

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If you have any questions, please feel free to email us at info@cfosuite.com