

# NEW LEASE STANDARD-ASC 842

## WHAT YOU NEED TO KNOW



### SUMMARY OF STANDARD

The new lease standard is intended to account for all lease obligations on financial statements (with certain exceptions), rather than excluding operating leases as has been the standard.

What qualifies as a lease?

- It must be a physical asset
- You must have the right to control or use the asset
- The asset must be explicitly or implicitly identified

Examples include, but are not limited to: office rental, copy machines, computers, servers, vehicles, and equipment. Examples of what is typically not considered a lease are: software subscriptions, intangible assets, inventory, and assets under construction.

### TIMING OF ADOPTION

Adoption is effective for fiscal years beginning after Dec. 15, 2021, (interim periods within fiscal years beginning after Dec. 15, 2022).

For calendar year organizations:

- Adoption begins Jan. 1, 2022, for the year ending Dec. 31, 2022
- If you report on a monthly or quarterly basis, adoption for interim reporting begins Jan. 1, 2023, (monthly) or March 1, 2023, (quarterly)

For fiscal year organizations (ending June 30):

- Adoption begins July 1, 2022, for the year ending June 30, 2023
- If you report on a monthly or quarterly basis, adoption for interim reporting begins July 1, 2023, (monthly) or Sept. 1, 2023, (quarterly)

### IMPACT OF THE NEW LEASE STANDARD

**Debt covenants** – Changing accounting methods doesn't change your organization, but it can affect the way your financial results are viewed by outside parties. In particular, adding significant lease liabilities can impact your compliance with debt covenants. It's critical you get a handle on the potential impact and begin conversations with your bank as early as possible.

**Policy elections** – The standard requires organizations to make policy decisions about how they will handle leases. Many of these policies make implementation easier, but often will result in a larger asset and liability on the books. It's important to review and decide on the policies that are right for you.

**Process and controls** – Operating lease decisions are fairly decentralized, especially when multiple locations are involved. Decisions on leases should be documented and available for accounting, which introduces a need for new processes and controls.

## HOW WE CAN HELP

Our firm uses LeaseCrunch software as our tool to assist clients with implementation of the standard. LeaseCrunch is a simple cloud-based software solution for organizing and implementing the new lease standard. We are offering clients three options for assistance with adopting the new lease standard. They are as follows:

### MINIMAL ASSISTANCE

#### Client manages all aspects of adoption and implementation

Client will:

- Evaluate whether leases qualify as a lease under the standard
- Determine classification of the lease (operating vs capital)
- Determine and make policy elections
- Calculate the right of use asset and lease liability. This requires either a software or spreadsheet to perform the calculation so information can be captured for monthly journal entries and year-end disclosures.
- Compile all information required for disclosure in financial statements

### MODERATE ASSISTANCE

#### Client uses LeaseCrunch to implement standard with technical guidance from Barnes Wendling

Client will:

- Evaluate whether leases qualify as a lease under the standard
- Determine and make policy elections with technical guidance from Barnes Wendling
- Client will use LeaseCrunch software to enter the lease information needed to perform the calculation so information can be captured for monthly journal entries and year-end disclosures

### FULL ASSISTANCE

#### Client allows Barnes Wendling to use LeaseCrunch to input all information

Client will:

- Determine policy elections with technical guidance from Barnes Wendling
- Identify leases to be evaluated and Barnes Wendling will use LeaseCrunch software to enter the lease information needed to perform the calculation so information can be captured for monthly journal entries and year-end disclosures
- Client will approve all lease classifications, journal entries, calculations, and disclosure information

## COST OF IMPLEMENTATION

There will be a hard cost for use of the software plus our time for assistance. Hard costs are determined based upon the number of leases set up in the software and are billed monthly during the first year of implementation and then billed 100 percent up front after the first year. The cost is on a sliding scale.

## NUMBER OF LEASES

## PRICE PER LEASE

1-30	\$125
4-49	\$100
50-99	\$93

