

# Lease Accounting

Updates & Best Practices for Lease  
Accounting & Administration

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# Presenters

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## FRANK BALESTRERI

### » Partner

With almost 30 years of experience, Audit & Consulting Partner, Frank Balestreri, specializes in serving private and public clients in the retail, consumer products, manufacturing, distribution, energy and alternative energy industries. Frank has significant experience with both primary and secondary equity offerings, debt offerings, private placements, consolidations, internal controls, and SEC reporting. He has consulted on business combinations, divestitures, impairments and revenue recognition.



## JOE BRUNEL

### » Sr. Manager, Audit

With over 15 years of experience, Senior Audit Manager Joe Brunel specializes in delivering financial statement audit and review services for privately-held businesses. His expertise includes limited scope audit services related to employee benefit plans including 401(k), 401(a), 403(b), and full scope audit services for ESOP plans. He has worked extensively in the manufacturing, distribution, and construction industries.

# Guest Presenter

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LEASECRUNCH

## JESS VENTO

### » Senior Director of Accounting | Client Success

Jess has a knack for operations, process improvement, and helping her staff exceed expectations. Jess has an MBA in Leadership and Management and a BA in Accounting, both from Ottawa University's Brookfield, WI campus. Jess' varied professional experience includes working for companies like US Bank, Harley-Davidson Motor Company, Burke Properties, and Founders 3 Real Estate Services. She has spent the last few years working directly with clients to meet and exceed their goals while leading a large accounting team.

At LeaseCrunch, she serves as the go to resource for CPA firms, coordinating what they need to successfully implement the new lease standard and adopt lease accounting software. Jess has been President of the Accounting & Financial Women's Alliance (AFWA) Milwaukee Chapter where she is still a member and is also a member of TEMPO Milwaukee's Emerging Women Leaders group.

In her free time, she enjoys live music of her husband's band, helping out her daughter's sports teams and improving her golf game.

# Firm Overview



## TAX

Individual & Business • Preparation  
Planning • Representation • Appeals  
M&A • Multi-State & International



## AUDIT

Audit • Assurance • SOX Compliance  
Employee Benefits Plan



## TECHNOLOGY CONSULTING

Assessment • Implementation • Integration • Support



## BUSINESS ADVISORY CONSULTING

Outsourced Accounting • Executive Placement • Internal Audit /  
SOX • Sustainability

## HIGHLIGHTS:

- » 40+ Years in Business
- » US & International Clients
- » Thousands of hours dedicated to community service each year
- » Six locations throughout the West Coast



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# Consulting Overview

## TECHNOLOGY SOLUTIONS

INTERNAL AUDIT / SOX

OUTSOURCED ACCOUNTING



## TECHNOLOGY SERVICES:

- » Assessments
- » Implementation
- » Upgrades
- » Integration
- » Support

## CERTIFIED PARTNER:

Sage Intacct

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# Agenda

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- Discount rate(s) refresher
- Tax considerations under ASC 842
- Best practices for ongoing lease maintenance and administration
- Lessons learned from early adopters
- Demo of LeaseCrunch
- Q&A

# Lease Accounting Overview

EFFECTIVE DATE	
Public and international companies: <b>FISCAL YEAR AFTER DEC. 15, 2018</b>	Private organizations: <b>FISCAL YEAR AFTER DEC. 15, 2021</b>

- ASC 842 replaces ASC 840
- In ASC 840, capital leases were recorded on the balance sheet, while operating leases were disclosed as a footnote in financial statements. These “Off – Balance Sheet” operating leases were thereby excluded from important financial ratios that would allow stakeholders to evaluate a company’s performance
- The goal of ASC 842 is to overcome this blind spot and provide increased visibility into leasing obligations on financial statements

# Discount Rate(s) Refresher

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- **Implicit Rate (IR)** – defined as the rate of interest at a given date that causes the aggregate present value of (1) the lease payments and (2) the amount that a lessor expects to derive from the underlying asset following the end of the lease term.
- **Incremental Borrowing Rate (IBR)** – defined as the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.



# Discount Rate(s) Refresher

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- **Risk-Free Rate (RFR):** Practical expedient alternative for private companies. The RFR is the rate of a zero-coupon U.S. Treasury instrument using a period comparable with the lease term.
- **ASU 2021-09:** Amendment allows lessees that are not public businesses to make the risk-free rate election by class of underlying asset rather, rather than at the entity-wide level as required under the original standard.

A grayscale photograph of a woman standing and pointing at a whiteboard in a meeting room, while a man sits at a table with a laptop. The scene is dimly lit, with a large window in the background showing a building. The image is overlaid with a dark gray gradient.

# Tax Considerations

# Tax Considerations Under ASC 842

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Generally, tax characterization of a lease does not follow its book classification.



- Accordingly, taxpayers should continue to perform a separate lease characterization analysis for tax purposes.
- Characterization for tax purposes is based on specific facts and circumstances that exist upon execution of a lease compared to traditional bright-line tests for book purposes.
- **Items to consider:**
  - Sales/financing arrangement vs. operating lease
  - Leases subject to IRC 467
  - Tenant improvement allowances
  - Lease acquisition costs

# Tax Considerations Under ASC 842

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- Sales/financing arrangement vs. operating lease – subject to IRC 167 and 168
- Leases subject to IRC 467 – three stipulations:
  1. Use of tangible property
  2. Total rent under agreement exceeds \$250K
  3. Rent agreement provides for increasing/decreasing rent, prepaid rent, or deferred rent

# Tax Considerations Under ASC 842

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- Lease acquisition costs
  - Book purposes these costs are included in the calculation of the ROU and lease liability.
  - For tax purposes, treatment varies depending on the nature of the costs.
- Tenant improvement allowances (TIA)
  - Book purposes results in reduction in total contract consideration and corresponding decrease in right-of-use (ROU) asset.
  - For tax, technical ownership of leasehold improvement governs treatment for the lessee and lessor.



# Best Practices & Lessons Learned

# Best Practices: Maintenance & Administration

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Identify and communicate to finance new and modified lease contracts through the contract review and approval process.



Capture variable lease and non-lease payments for disclosure on an ongoing basis.



Review recurring AP payments to identify potential lease changes.



Review lease data for completeness and accuracy.



Ensure lease renewal dates and other important dates are tracked.



Ensure your GAAP checklists have current lease standards for reviewed or audited financial statements.

# Lessons Learned From Early Adopters

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- Tracking lease activity via Excel is onerous. It also exposes the opportunity for manual errors which can compound over time.
- Variable payments, prepayments, deferred rent, rent abatement, reassessments, modifications etc. require additional calculations and analysis to ensure the calculated ROU and corresponding lease liability is accurate on each lease.
- Separate Excel tabs are required for each lease, and each tab may have up to 20 columns with data and complex formulas required to accurately calculate the activity for each lease.





# Lessons Learned From Early Adopters

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- Drafting accounting policies, selecting practical expedients, making various accounting elections, and preparing complete disclosures that meet the new standards under ASC 842 can be both challenging and time consuming.
- Auditing ASC 842 is more time consuming and challenging for CPA firms' clients that utilize Excel to administer their lease accounting. Leveraging a software solution to assist with ASC 842 adoption and administration will save time for both you and the auditor.
- Talk to your banker before adopting ASC 842 to determine if the new standard will affect covenants.

# Our Offering & Approach

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We provide a scaled approach to meet our clients lease accounting needs. From consulting and guidance to fully outsourced lease accounting implementation and administration—and everything in between.



## Assessment, Planning & Support Services

We help develop an effective implementation plan, including practical expedients, to meet new requirements now and in the future.



## Financial Reporting

We help the clients team optimize the time-consuming and complex work needed to gather and analyze the lease data required for effective financial reporting.



## Software Implementation

Our consultants help streamline, simplify and automate compliance by implementing a lease accounting solution for adoption and ongoing administration and reporting.



## Full Outsourced Administration

Eliminate the burden on staff and management with fully outsourced lease compliance and administration.

A grayscale photograph of a woman standing and pointing at a whiteboard, while a man sits at a table with a laptop, listening. The scene is set in a modern office or meeting room with large windows and indoor plants.

# LeaseCrunch Demo

# Pricing

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- LeaseCrunch Subscription is ~\$11 to \$15/Lease/Month depending on # of leases
- Implementation depends on need, we offer:
  - Guided, Self Implementation to Complete Setup & Maintenance



# Recap

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- ASC 842 is effective beginning January 1, 2022, for calendar year-end private companies and nonprofits
- Discount rate methods and allowable elections will vary and need to be analyzed for a company's specific circumstances.
- Relying on Excel to manage and account for lease activity under ASC 842 increases risk and provides an opportunity for errors.
- Reach out with questions, or if you need support, etc.



Questions?

# | Thank You!

*For questions, contact us:*

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