



Lease Accounting

Understanding Lease Modifications &
Footnote Disclosures Under ASC 842

Presenters



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.



KEVIN SHIVES

» Partner

Kevin has over 25 years of experience helping clients optimize their people, processes and systems for competitive advantage. Prior to joining SSF, Kevin has held senior finance and management positions in multiple companies in the SF Bay Area. In his current role as Technology Partner, he works with clients to develop highly effective and cost-efficient corporate governance, internal audit, Sarbanes-Oxley (SOX), accounting systems and process optimization solutions.

Presenters



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



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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LEASEERUNCH

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Agenda



- Lease Accounting Overview
- Lease Modifications
 - What Qualifies
 - Triggers & GL Adjustments
- Accounting Policy & Election Disclosures
- Lease Modification Disclosures for Financing & Operating Leases
- Demo of LeaseCrunch
- Q&A

Lease Accounting Overview

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

- 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

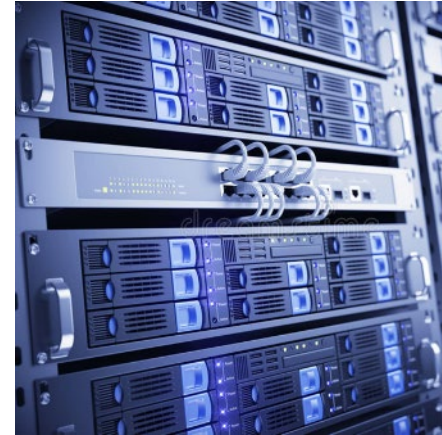
Adoption Requirements

- Lease policies and practical expedients are selected and disclosed in the footnotes
- Right of Use asset and lease liability are computed and recorded on the balance sheet using a discounted present value
- Operating and Financing leases are to be reported separately on the balance sheet and in the footnote disclosures
- Select an adoption reporting method
 - **Effective date method:** Comparative periods are unchanged (Retrospective application at the beginning of the period of adoption)
 - **Comparative method:** The earliest comparative period is restated (Retrospective application to each prior period presented)

What is a Lease Under ASC 842?

Lessee must have the **right to control** the use of the asset.

- Control exists if you have both of the following:
 - Right to obtain substantially all the economic benefits through the agreement term
 - Right to direct the use of the **identified asset**
- Lessor does not have substantial substitution rights
- Must be a physical asset explicitly or implicitly identified



Six Steps to Prepare

1. Review Your General Ledger Accounts
2. Inventory Contracts: Review Key Terms and Payments
3. Separate Fixed and Variable Payments
4. Consider Policy Elections and the Election of Practical Expedients
5. Evaluate Contracts to Determine Financing Lease vs. Operating Lease Classification
6. Evaluate Financial Statement Adoption Options

[Link to full article >](#)

A grayscale photograph of a woman standing and pointing at a whiteboard, while a man sits at a table in front of her, looking at a laptop. The scene is set in a modern office with large windows and indoor plants. A vertical lime green bar is on the left side of the image.

Lease Modifications

What Qualifies As a Lease Modification?

If a lease modification meets **both** of the following criteria, lessees account for the changes as **a new separate contract**:

1. The lessee obtains an additional right of use not included in the original or current lease
2. The additional right of use has a commensurable increase in the lease payments, taking the circumstances of the contract into account

Result: Lessee would need to recalculate the ROU, lease liability, discount rate at the time of modification, and journal entries associated with the modification.

What Qualifies As a Lease Modification? (cont'd)

If a modification is not deemed to be a separate contract, a lessee is still required to reassess the lease classification (finance vs. operating), reallocate the remaining consideration in the contract, remeasure the lease liability using the discount rate effective at the date of the modification and recalculate the right of use asset (ROU) as if it were a new lease **if any** of the following conditions are met:

- 1 The lessee's ROU changes – for example, reduction in square footage of lease space
- 2 The lease term is changed (reduced or extended)
- 3 The lease is partially or fully terminated
- 4 The consideration is changed (reduced monthly rent, timing of payments, etc.)

Effects of COVID-19 Pandemic on Lease Modifications

The FASB allows for a policy election to assume any concessions related specifically to COVID-19 are explicitly stated enforceable rights and obligations within a lease, whether they are explicitly stated or not. With this election, a lessee would not be required to analyze each lease contract and could elect to apply or not apply the lease modification guidance in ASC 842 to those contracts.



Accounting for a Lease Modification

If a modification is deemed to have occurred – whether deemed a separate contract or not – a lessee will need to address the changes in a timely and accurate manner. Lease modifications will have a pervasive effect on ROU and lease liability on the Balance Sheet, the amount of lease expense on the Income Statement, cash flows associated with leases, as well as additional financial statement disclosures regarding lease modifications.



Financial Statement Presentation & Disclosures

Lessee Financial Statement Presentation

Balance Sheet Presentation

- ROU asset for both financing and operating leases on the face of the balance sheet.
- Current and non-current component for both financing and operating leases stated separately for each classification, if applicable.

Income Statement Presentation

- Financing lease interest and amortization of ROU asset is presented separately consistent with similar assets.
- Operating lease expense is reported as one expense in the statement of operations.

Lessee Financial Statement Presentation (cont'd)

Cash Flow Statement Presentation

- Financing lease interest is reported as a non-cash operating activity - similar to the standard presentation of depreciation expense - and the repayments of the principal portion as financing activity.
- Payments for operating leases are presented as an operating activity in the changes in operating assets section of the cash flows statement.

Foreign Currency Presentation

Re-measurement method

- ROU asset is a nonmonetary asset therefore the ROU asset is re-measured using the exchange rate as of the lease commencement date (Historical Rate).
- The Lease Liability is a monetary asset therefore the liability is re-measured using the current month end exchange rate.

Accounting Policy Adoption & Election Disclosures

Upon adoption of ASC 842, lessees will need to consider and draft appropriate accounting policies surrounding treatment of leases (both financing and operating), election of practical expedients, and assumptions regarding discount rate application.

Accounting policy details:

- How a lease arrangement is determined (typically at inception) along with operating lease vs. finance lease classification and measurement (including where components are included in the Balance Sheet)
- Discount rates (which rate used, how rate is determined)
- Measurement of ROU (how it is calculated and what is included)
- Exclusion of short-term leases (less than 12 months)

Lessee Footnote Disclosure Requirements

A lessee shall disclose qualitative and quantitative information about **all** the following:

- Describe the entity lease arrangements.
- The significant judgements made in applying the requirements.
 - The determination of the discount rate
 - Election of practical expedients and which class or classes of underlying assets it has elected to apply the practical expedient. (Accounting Policy)
 - Election of the recognition exemption for short-term lease 12 months or less. (Accounting Policy)
 - Other items such as variable lease payments, terms and conditions of residual lease guarantees and restrictions or covenants imposed by leases.
 - Allocation of consideration in a contract between lease and non-lease components. (Accounting Policy)

Lessee Footnote Disclosure Requirements (cont'd)

- The amounts recognized in the financial statements for the ROU and lease liabilities for financing leases, operating leases and short-term leases separately.
- A lessee shall aggregate or disaggregate disclosures to enable users of financial statement assess amount, timing and uncertainty of cash flows.
- Segregate disclosures between financing and operating leases:
 - Cash paid for amounts included in the measurement of lease liabilities.
 - Supplemental noncash information on lease liabilities from obtaining ROU assets.
 - Weighted-average remaining lease term.
 - Weighted-average discount rate.
 - The minimum lease amounts of the first five years and the total of the remaining years.

Our Offering & Approach

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.



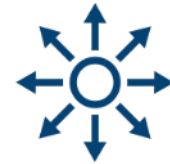
Financial Reporting

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.



LeaseCrunch Demo

Pricing

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

Recap

- ASC 842 is effective beginning January 1, 2022, for calendar year-end private companies and nonprofits
- Identifying lease modifications and understanding how to account for them under ASC 842
- Understanding changes to financial statement presentation and the new disclosures required under ASC 842 can be challenging
- Reach out with questions, or if you need support, etc.

www.ssflp.com/lease-accounting-advisory

Topics for our next webinar(s)

Next Topic: Post ASC 842 adoption best practices



Chat in additional lease
accounting topics you would
like us to cover!



Questions?

| Thank You!

For questions, contact us:

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