



4 STEPS

to Implementing the New Lease Accounting Standard ASC 842



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04



Prepare a Complete Listing of Your Leases

Having a complete lease inventory is critical if you want to implement the standard accurately. It begins with performing a review of all your lease agreements and gathering all the related contracts. It is also important to scrutinize your service agreements to determine whether there are any embedded leases within the contracts.



Determine Your Organization's Policy Elections

This analysis should include any practical expedients your organization intends to implement. There are a variety of policy election options, including:

- Electing not to apply the new lease accounting rules to leases with a term of 12 months or less.
- Electing to combine lease and nonlease components as a single lease component.
- Electing to use the risk-free rate in lieu of determining the implicit rate for each lease or incremental borrowing rate for the entity.
- Electing to define the "major part" of the economic life of an asset to be 75% and electing to define "substantially all" of the fair value of the asset as 90% when evaluating the classification of a lease between finance and operating.
- Electing to adopt the standard only in the current period (without restating prior-year financial statements).
- Electing not to reassess the lease classification upon adoption of the new standard (i.e., an operating lease remains an operating lease and a finance lease remains a finance lease).



Determine Calculation Method: Software or Manual?

Organizations can perform the lease accounting calculations in one of two ways: by using a software provider or doing manual calculations. While utilizing spreadsheets to perform calculations may suffice if there are relatively few leases, the calculations required become cumbersome and susceptible to error as an organization's leasing activities grow or become more complex. Organizations with a large volume or complex lease agreements will benefit from the improved controls over the calculation process and the automatic aggregation of lease information required for disclosure purposes provided by specialized lease accounting software.



Determine Which Lending Arrange- ments Need to Be Altered

Adopting the new lease accounting standard could affect your current lending arrangements. You should determine which of your arrangements need to be altered (including debt covenants) as a result of adopting the new standard, so you can work through them one by one.