Lease Accounting Update (ASC 842)—How to Create a Plan for Adoption Before It Is Too Late

BPM is finding companies are largely unprepared for substantial changes to lease accounting, which is expected to impact virtually all businesses. In order to comprehend the changes, you would need to have a deep understanding of the new 191-page leasing standard. We know your time is valuable, so our advisors did that for you. They came up with the following process and advice to help you understand how the changes may affect your business.

Step 1: Review all recurring monthly expenditures and future expected expenditures to see if they contain contracts that could meet lease criteria;

Step 2: Review all material contracts to determine whether they contain leases, defined as contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration;

Step 3: Evaluate leases in light of new accounting requirements;

Step 4: Calculate financial statement impact on debt covenants and other financial metrics.

The process of identifying leases is not straight-forward under ASC 842. The following are some items that warrant further analysis under the new standard:

- Substantial substitution rights
- Determining the lease-term with renewal options
- Lease-commencement date
- Non-lease components
- Variable payment terms
- Revenue recognition considerations (ASC 606)
- Initial direct costs
- Allocation of consideration
- Bank covenant analysis

There are two methods for adoption:

1. Modified retrospective transition method—The entity applies the new lease standard at the beginning of the earliest period presented. The result would be a restatement of the comparative periods presented with an adjustment to beginning retained earnings for the earliest period presented. Leases effective during this period would need to be re-measured.
2. Adoption date method—The entity applies the new standards at the adoption date. This method would result in a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. While this new method changes when to apply the standard, it does not change how the accounting standard is applied or the additional disclosure requirements associated with both methods.

The standard is effective for reporting periods beginning after December 15, 2018 for public companies and one year later for private companies. For calendar year reporting public companies, this means the new standards will be applicable for the first quarter of 2019.

BPM Can Help

Does your Company want to effectively implement the new standards without interrupting operations? If your current job demands do not provide you with the time to perform the above research and analysis, BPM's Technical Accounting and SEC Advisory Service Groups can help. We scale up with your company during the transition and implementation phase related to complicated accounting projects or periodic reporting and scale down when operations resume normality. We pride ourselves in collaborating with our clients to achieve your accounting and reporting goals in a cost effective manner. Please reach out to us to discuss how we can help you implement this new standard.

Contact Us

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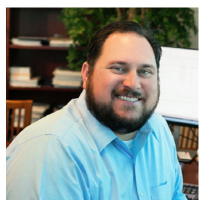

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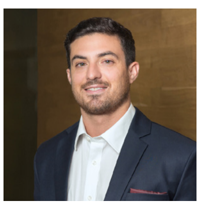

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