

## CHECKLIST

# Are You Ready for the New Lease Accounting Standard?

Implementing the new lease standard is not just a one-time exercise; it requires changes to accounting processes and financial reporting controls. Accounting policy elections and practical expedients will affect the overall process and timeline, so be sure to assess them early. Effective implementations require a thorough evaluation of resources and your organization should identify someone to take the lead for all of this work.

The following checklist will help you get started and walk you through key steps in the implementation process.

- Identify the entire lease portfolio and gather lease documents**
  - Consider all locations
  - Review recurring expenses to look for lease payments
  - Review GL expense accounts with key words that could indicate a lease (e.g. rent, lease, subscription, contractor)
  - Leases may include office space rental, vehicles, photocopiers, equipment, and embedded lease (equipment or other assets included in a service contract)
  - Be certain to exclude the following contracts that do not fall under the new lease standard:**
    - Leases of 12 months or less, if this is an elected policy
    - Intangible assets like SAAS software, although IFRS 16 has some scope limitations
    - Exploration of non-generative resources, e.g., minerals
    - Biological assets, e.g., crops
    - Inventory is excluded by ASC 842 and IFRS 16
    - Assets under construction are excluded but included under IFRS 16
    - Low-dollar leases, if this is an elected policy under IFRS 16

 **Review lease data in all lease contracts**

- Key dates: commencement, termination
- Lease term, early termination, and renewal provisions
- Asset details: type, description, and location
- Payment terms, termination penalties, bargain purchase options, renewal term payments, residual value guarantees
- Lease incentives and initial direct costs
- Variable lease payments tied to sales or an index receive special treatment:**
  - Variable payments tied to sales are expensed
  - If payments are tied to an index, organizations following ASC 842 use the index at lease start date or initial application date (whichever is later) to calculate the lease payments. Changes in the index are expensed. Organizations following IFRS 16 will modify their lease liability with every change in the index.
- Useful life of the asset to determine amortization period, e.g., right-of-use (ROU) asset life
- Other important data to track, such as taxable vs. nontaxable leases

 **Evaluate existing lease business processes**

- Who is responsible? Are current resources sufficient?
- Are areas other than Accounting involved (Procurement, Legal, Treasury)?
- Is lease processing and record retention centralized or decentralized?

 **Assess current systems and use of technology for lease processing**

- Are spreadsheets and manual tracking used?
- Is separate lease accounting software (not part of ERP, G/L) in place?
- Does the accounting software include all of the required general ledger accounts?  
This includes ROU Assets, Short-Term Lease Liabilities, Long-Term Lease Liabilities, Operating Lease Expense, Variable Lease Expense, Short-Term Lease Expense, and Finance Lease Expenses like Amortization Expense and Interest Expense
- Is there a lease module in the ERP and does it have future capabilities?



- Review new accounting and disclosure requirements, including judgment areas**
  - Accounting policy elections and practical expedients, including lease vs. non-lease components, short-term leases, leasehold improvements, and lease accounting during the transition period
  - Accounting for leases created after implementation using the new standard
  - Process for determining classification criteria, including the fair market value and economic life of the lease asset
  - Determine how ROU Assets and Lease Liabilities will be disclosed on the financial statements; separately in a footnote, or within the balance sheet and income statement itself. For new disclosures, consider data location and whether it is reliable and auditable
  - How will discount rates be determined and applied by Accounting? ASC 842 does provide a policy election to use a risk-free rate.
  
- Discuss the new standard with:**
  - The board or owners
  - The audit committee
  - Investors
  - Lenders