

ASC 842

LEASE ACCOUNTING HANDBOOK

For companies who want to achieve and maintain compliance with the lease accounting standard



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Introduction to the ASC 842 accounting standard

Lessons learned from public company and earlier private company implementation projects demonstrate that ASC 842 often requires more effort than originally anticipated. Developing a strong understanding of the compliance requirements for the latest standards is crucial for lessees to adopt on time and without material weakness.

Why the standards were introduced

The change to lease accounting rules comes with many other accounting standard updates, all created with the purpose of closing loopholes in accounting guidance that could potentially allow private companies to mislead financial statement users as to the true nature of the company's financial state.

ASC 842 closes the lease accounting off-balance sheet loophole which allowed private companies to report their operating leases, often a major portion of the lease portfolio, in the footnotes of financial statements. Under the standard, private companies are required to capitalize operating leases on the balance sheet — reporting them as right-of-use assets and lease liabilities. As a result of the shift, operating lease obligations face increased auditor scrutiny, pushing private companies to focus on ensuring accuracy and completeness of what they report as well as leading to greater comparability of financial statements.

Knowing your deadline

The following is a table showing when private companies need to transition to the new rules:

If your year end is:	You must transition to the new standards by:
December 31	January 1, 2022
March 31	April 1, 2022
June 30	July 1, 2022
September 30	October 1, 2022

Given the significant work required for this transition, many private companies are considering starting the process well in advance of the deadlines.

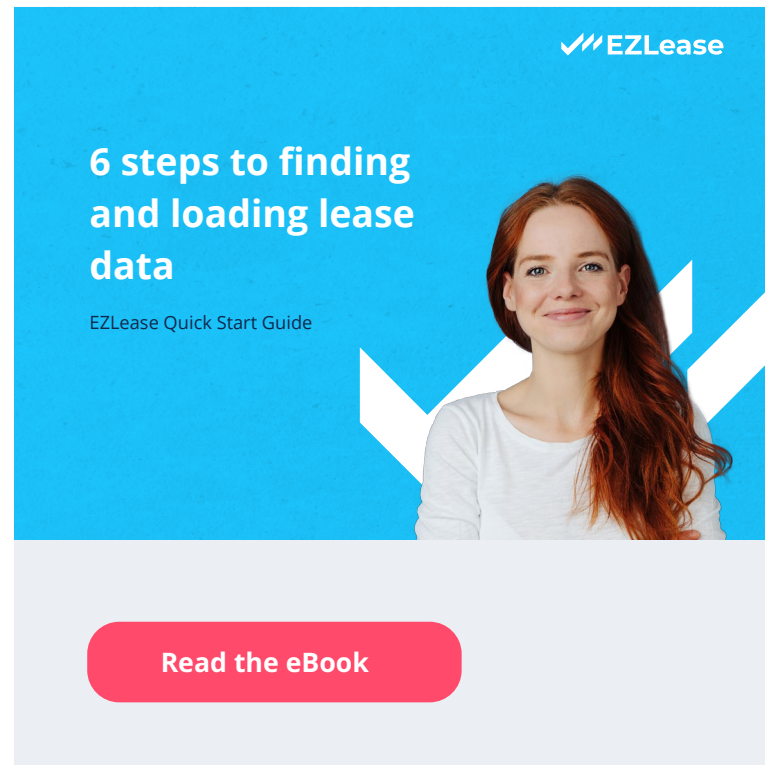
Organizations with sizable lease portfolios should make use of all the time between now and the deadline to identify leases, extract data, input data into a lease accounting system, and test the system under the standard's rules, among other steps.

Lessons learned from public companies

Most public companies significantly underestimated the complexity associated with implementing the lease accounting standards. They started late. They did not assign enough resources. And they did not allocate enough budget. A recent KPMG survey found that the cost of lease accounting projects increased at 62% of companies over the prior 12 months. And almost one-fourth of companies are spending more than \$500K on implementation.

The good news is that private companies have been given extra time. And private companies can learn from the mistakes of their peers in public markets by avoiding the key pitfalls that created much of the last-minute chaos around the initial deadlines. Plan to address these challenges as you drive toward completeness and accuracy:

- **Finding leases**
- **Abstracting data**
- **Connecting decentralized systems and processes**
- **Engaging the business for ongoing compliance**
- **Training**

The image shows the cover of an eBook titled "6 steps to finding and loading lease data" by EZLease. The cover has a bright blue background with a large white arrow pointing downwards. A woman with long red hair is smiling on the right side. The EZLease logo is in the top right corner. Below the title, it says "EZLease Quick Start Guide". At the bottom, there is a red button that says "Read the eBook".

✓ EZLease

6 steps to finding and loading lease data

EZLease Quick Start Guide

Read the eBook

The major changes

The most notable change is the capitalization of operating leases, which occurs under both the Financial Accounting Standards Board's (FASB) ASC 842 and the International Accounting Standard Board's (IASB) IFRS 16. However, the FASB and IASB split on how to classify operating leases, with the FASB deciding to keep the dual classification model of operating and finance leases, and the IASB dropping the operating classification so that all leases greater than \$5,000 in value and longer than 12 months in length are classified and accounted for as finance leases.

Under finance lease accounting, an asset and liability are recorded at the present value of the lease payments on the balance sheet. On the income statement, the lease is recorded as a straight-line depreciation expense plus a front-loaded interest expense.

Under FASB's operating lease accounting, operating leases are capitalized but accounted for differently from finance leases (previously called capital leases). The present value of the operating lease payments is recorded as a separate asset and liability and the profit and loss (P&L) expense remains as the straight-line average expense.

Most notable is that the operating lease liability is not to be classified as a debt, but rather as an "other" operating liability. This is significant as it does not impact debt covenants that limit debt.

The FASB allows a short-term lease (12 months or less) exemption, but not an exemption for leases less than or equal to \$5,000 in value.

The FASB lease classification test is as follows:

A lessee shall classify a lease as a finance lease if the lessee effectively obtains control of the underlying asset as a result of the lease. A lessee effectively obtains control of the underlying asset when the lease meets any of the following criteria at lease commencement:

- a. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- b. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- c. The lease term is for substantially all of the remaining economic life of the underlying asset.
- d. The sum of the present value of the lease payments and the present value of any residual value guaranteed by the lessee amounts to substantially all of the fair value of the underlying asset.
- e. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

When determining lease classification, one reasonable approach to assessing the criteria for c and d would be to use the "bright line" tests of ASC 840 to determine how to define "substantially all".

- a. Seventy-five percent or more of the remaining economic life of the underlying asset is a major part of the remaining economic life of that underlying asset.
- b. Ninety percent or more of the fair value of the underlying asset amounts to substantially all the fair value of the underlying asset.

Exhibit 1

Executive summary of the lease accounting standard

Timeline

- The final standard was issued in 2016.
- Public companies began transitioning to the standard January 1, 2019.
- Private companies transition starting January 1, 2022.

Lessee accounting standard summary

- Capitalize all leases (except those exempt as noted above) at the present value (PV).
- For the FASB, all capitalized leases have a P&L pattern that is front-loaded (rent expense replaced by straight-line amortization of the asset and imputed interest on the liability).
- The initial measurement of variable lease payments included in lease assets and lease liabilities includes only variable lease payments that depend on an index or a rate, measured using the index or rate at lease commencement.

Variable rents based on a rate (e.g. LIBOR) or an index (e.g. CPI) are booked based on spot rates. Variable rents based on usage or lessee performance (e.g. sales) are not booked unless intended as a tool to avoid capitalization (also known as disguised minimum lease payments which have to be estimated and capitalized).

For the FASB, one should reassess and book variable lease payments that depend on an index or a rate only when the lessee is reassessing the lease liability for other reasons (e.g., when there is a change to the lease term upon the occurrence of a significant event or a significant change in circumstances within the lessee's control). The changed lease payment (due to changes in the rate or index) still needs to be tracked to provide footnote disclosure of future lease payments. The IASB voted to require reassessments whenever the reference index or rate in a variable rent cause changes to the future of contractual rents.

- For the FASB, short-term leases (with terms of 12 months or less), including renewals where the lessee is reasonably certain to exercise the renewal, can be accounted for under the off-balance sheet method with additional disclosure. For the IASB, short-term and low dollar value leases of \$5,000 or less (even if material in the aggregate) can continue to be accounted for off-balance sheet if so elected.

SECTION I

The ASC 842 lease accounting standard: Timing, key provisions, and changes in direction

Key changes

For US lessees, adoption of the rules creates a significant change from ASC 840 reporting where operating leases are off-balance sheet.

Leases capitalized

The rules require a lessee to capitalize all leases longer than 12 months. While leased assets are capitalized normally, lease obligations should be recorded using the lease term and lease payments based on assumptions related to contractual rents, including

- Bargain or compelling renewal rent and purchase options where the lessee is reasonably certain to exercise the options
- Variable (contingent) rents
- Likely payments under residual guarantees

Estimates of lease term and lease payments

For purchase and renewal options, a lessee should reassess whether the exercise of an option is “reasonably certain”

(and thus must be recognized) only upon the occurrence of a significant event or a significant change in circumstances that is within the lessee’s control.

Transition

Existing capital leases are grandfathered under ASC 842.

For the FASB, lessees may choose between two available transition methods. The first is a “modified retrospective” approach where all operating leases existing at or entered into after the date of initial application are booked on a prospective basis, but those that expire in the periods of comparative statement will not have to be rebooked. The asset and obligation are booked at the PV of remaining rents at the earliest date presented in the financial statements.

The second transition option is a practical expedient that was approved in 2018 which allows private companies to “recognize a cumulative-effect adjustment to the opening balance of retained earnings” at their adoption date. Both transition methods must be applied in the same way.

Present value calculation

The lessee calculates the PV of the estimated lease payments using the implicit rate in the lease, if it is known to the lessee, or the company's incremental borrowing rate (the interest rate the lessee would incur to borrow under a secured loan with terms similar to those of the lease). The implicit rate is defined as follows in the FASB standard:

"The rate of interest that, at a given date, causes the aggregate present value of (a) the lease payments and (b) the amount that the lessor expects to derive from the underlying asset following the end of the lease term to equal the sum of (1) the fair value of the underlying asset minus any related investment tax credit retained and expected to be realized by the lessor and (2) the deferred initial direct costs of the lessor ".

The PV is considered to be both (1) the value of the right to use the leased asset (ROU asset), and (2) the "principal" balance of the obligation to pay rent (lease liability). This amount is recorded as both an asset and a liability.

The Profit & Loss statement

For finance leases, the asset is amortized as an expense in the P&L over the estimated lease term on a straight-line basis (SL). Interest expense is imputed on the lease liability. The sum of the interest and amortization creates a front-loaded lease expense pattern. Capitalized operating leases continue to use the straight-line average rent as the expense, and operating lease assets and liabilities are reported separately from capital lease assets and liabilities.

Lease payment breakdown

Under the standard, the lease payment for a finance lease is broken down into: (1) an interest component (charged to P&L), and (2) a principal component.

Lease cost for operating leases

The reported lease cost for those leases that qualify as operating leases is the same as it is under current GAAP, that is, the straight-line average of the lease payments reported as rent expense. The "rent expense" is the sum of the imputed interest on the liability and amortization of the asset.

Exhibit 2

Lease accounting under the standard: A real-world example

Operating lease example

Here's an example of how the lease accounting standard under the FASB's approach would work for an operating lease based on provisions of the standard.

A company leases several computers for three years. The rent is \$1,700 a month for 36 months (\$61,200 in total). Under the standard, this lease would likely be considered an operating lease as the PV is less than 90% of the fair market value. Thus, the lease must be capitalized and reported as a right-of-use asset and liability on the balance sheet.

At a 5.5% incremental borrowing rate, the present value of the rental payments is \$56,557. This is the amount that is capitalized on the balance sheet.

The lessee's initial balance sheet entries are:

- Debit Right-of-Use Lease Asset = \$56,557
- Credit Capitalized Lease Obligation = \$56,557

On the P&L, the first year's imputed interest expense is \$2,572 and the amortization expense is \$17,828. Together, these two items total \$20,400 for the first year's lease expense. Under the current FASB standard, the rent expense would total \$20,400 on a straight-line basis.

Table 1. Computer lease example: Assumptions and calculations

Assumptions		
Rent in advance	\$1,700	
Term in months	36	
Incremental borrowing rate	5.50%	
Fair value of leased assets	\$65,000	
Calculations		
PV of payments - Inception	\$56,557	87% of \$65,000 FV
PV of payments - Year 2	\$38,729	
PV of payments - Year 3	\$19,896	
Total rent	\$61,200	

Table 2. Annual journal entry summary

Assumptions		
ROU asset	\$56,557	
Capitalized operating lease liability		\$56,557
Entry to record first year's liability and expense activity		
Rent expense (imputed interest)	\$2,572	
Liability	\$17,828	
Cash		\$20,400
Entry to record asset activity		
Rent expense (amortization of asset)	\$17,828	
Asset		\$17,828

Finance lease example:

Below is an example of the IASB's approach for the same lease as in the example above.

A company leases several computers for three years. The rent is \$1,700 a month for 36 months (\$61,200 in total). Under IAS 17, this is considered an operating lease, as the PV of the payments is less than 90% of the fair value of the assets and is accounted for as an off-balance sheet transaction. Under the IFRS 16 standard, the lease must be treated as a finance lease. That is, it is capitalized and reported as an asset and liability on the balance sheet with interest expense and amortization expense reported on the P&L statement.

At a 5.5% incremental borrowing rate, the present value of the rental payments is \$56,557. This is the amount that is capitalized on the balance sheet. The lessee's initial balance sheet entries are:

- Debit Right-of-Use Lease Asset = \$56,557
- Credit Capitalized Lease Obligation = \$56,557

On the P&L, the first year's imputed interest expense is \$2,572 and the amortization expense is \$18,852. Together, these two items total \$21,424 for the first year's lease expense. Under the current IASB standard, the rent expense would total \$20,400 on a straight-line basis. Thus, capitalizing the lease has increased the company's lease expense by \$1,024 in the first year. The cross-over point occurs in the second year of the lease, when the total lease expense under the IASB standard would be less than the expense under the current FASB standard.

Table 1. Computer lease example (IASB method): Assumptions and calculations

Assumptions	
Rent in advance	\$1,700
Term in months	36
Incremental borrowing rate	5.50%
Fair value of leased assets	\$65,000
Calculations	
PV of payments - Inception	\$56,557
Total rent	\$61,200

Table 2. Annual journal entry summary

Entry to capitalize the lease at inception		
ROU asset	\$56,557	
Finance lease liability		\$56,557
Entry to record first year's liability and expense activity		
Imputed interest expense	\$2,572	
Liability	\$17,828	
Cash		\$20,400
Entry to record first year's asset activity		
Amortization expense	\$18,852	
Right-of-use Asset		\$18,852

Table 3. Income statement impact of front-ended lease expense

Expense comparison over the life of a lease			
Year	1	2	3
Operating lease P&L impact over lease term	\$20,400	\$20,400	\$20,400
Finance lease P&L impact over lease term	\$21,425	\$20,419	\$19,357
Operating lease B/(W) Finance lease	(\$1,024)	(\$19)	\$1,043
P&L variance %	-5%	0.1%	5%

Evolution of key issues regarding lease payments

Lease term

The FASB and IASB decided that the lease term is defined at inception as the contractual term plus renewal or purchase options, where the lessee is “reasonably certain” to exercise the option to renew or purchase. This is essentially a reversion to ASC 840. Under ASC 840, a renewal or purchase option is included in the lease term if there are bargains or if there is “compulsion” to exercise --- where the lessee would incur an economic penalty for failure to exercise the option. Under the standard, for purchase and renewal options, a lessee should reassess whether the exercise of an option has now reached the level of “reasonably certain” (and thus must be recognized) only upon the occurrence of a significant event or a significant change in circumstances that is within the lessee’s control. The FASB and IASB agreed that the term “reasonably certain” is a high hurdle.

Variable lease payments

Only certain variable lease payments are included in the lessee’s lease capitalization, including:

- Variable lease payments that depend on an index (like the CPI) or a rate (like LIBOR), using the spot rate at lease inception for floating leases.
- Variable lease payments that are “disguised” as minimum lease payments based on usage of the underlying asset or on lessee performance—in other words, payments that are “reasonably certain,” in which case an estimate of the expected rents must be capitalized.

Change in required adjustment of variable rents

Lessees are required to reassess index- or rate dependent variable lease payments only when they are reassessing the lease liability for other reasons. For example, reassessment may be required when there is a change to the lease term upon the occurrence of a significant event, or when there is a significant (but controllable) change in the lessee’s circumstances. Do not overlook the requirement to disclose future lease payments, meaning that although a FASB company is not required to rebook when variable rents change, it is required to disclose the adjusted payments.

Residual guarantees

Lessees need only include the likely payment under a residual guarantee in the lease payments capitalized – not the full amount of the residual guarantee. Residual guarantees are common in synthetic leases, TRAC leases, split TRAC leases, and open-ended fleet leases.

Impact of the ASC 842 standard

Financial impact – significant, but less than originally envisioned

For many US private companies, the overall financial impact of the lease accounting changes is not as great as originally thought. Certainly, the impact of capitalizing leases is significant, as it puts new assets and liabilities on the balance sheet. However, due to the FASB decision on the operating lease expense pattern, the impact on profitability for many private companies is not significantly different from what was true under the legacy standards. Some financial ratios and measures are impacted. However, FASB companies are seeing many more significant changes including higher debt amounts, permanent lost capital, new permanent deferred tax assets, and temporary reduced earnings.

For most leases, the amounts capitalized are generally the same as the estimates used by major ratings agencies. For FASB companies, the increase in liabilities classified as “debt” due to capitalizing operating leases may result in debt covenant breaches that require negotiation and adjustment. US bankruptcy laws do not consider operating lease obligations as debt, as do many other countries, so the FASB decided to classify operating lease obligations as non-debt “other” liabilities. Also, financial measures like return on assets, liabilities to net worth, etc., may change, so a lessee should make pro forma calculations to determine if loan covenants, other contracts, or internal performance and incentive plans using those measures are affected.

Tax impact — minimal, depends on jurisdiction

Lessees should investigate the following areas further with their tax departments to determine if there are any tax changes that may result with the standard:

- In many taxing jurisdictions, typically in North America, the income, sales, and property tax

code for leases are entirely independent of the accounting treatment. Regardless of what changes take place, there is expected to be no impact on taxing in these jurisdictions. As such, the lease versus buy decision is not impacted by taxes. In the same jurisdictions, however, the changes to lease accounting for IASB companies may increase the administrative burden with regards to tracking differences, which are expected to occur under capitalized operating leases. IASB companies also have to track operating leases for personal property tax purposes, as they are not taxable for the lessee. The difference in administrative cost of tracking tax treatments that differ from book treatments is not expected to be material for private companies with lease accounting software that has strong accounting and reporting capabilities.

- In other taxing jurisdictions, and as sometimes seen in Europe, the tax code makes reference to or uses the accounting treatment for the purposes of calculating taxable income without any adjustments. The new standards may in fact impact the amount of taxes paid in these jurisdictions. However, there are certain taxing jurisdictions taking action to ensure that such accounting changes do not impact taxes by revising the tax code to be consistent with the existing standards. Again, where timing differences occur, you are required to track deferred tax amounts.
- Personal property tax and sales tax could possibly be impacted in some taxing jurisdictions. Ordinarily, the responsibility to pay these amounts is determined by the legal substance of the lease contract or within the lease contract terms. The accounting treatment would not impact either the amount or responsible party for these payments. Nevertheless, private companies should consult with their tax departments to ensure there are no tax consequences as a result of the lease accounting changes in all of the countries and taxing jurisdictions in which they transact or a nexus exists.

Operational impact — substantial increase in administrative burden

The ASC 842 lease accounting standard increases a lessee's administrative burden due to the required increase in process controls; data collection, analysis, and maintenance; monitoring; internal reporting systems; and, most importantly, audit scrutiny. Here are some of the key factors contributing to the added burden.

- There is an expanded definition of what is included in lease payments – in particular variable payments and expected payments under residual guarantees.
- Data to calculate payments come from several sources in the organization.
- Calculation of lease payments is complex.
- Non-lease components in gross or bundled billed payments must be separated (unless the practical expedient not to separate is selected for all asset classes).
- Calculation of some payments involves judgments and estimates.
- Calculations to determine the amounts to record in order to capitalize operating leases are complex.
- Financial disclosure requirements are expanded.
- Income tax reporting and accounting may be more complex.
- For most private companies, the scale of the administrative requirements means additional systems and tactical support.

To meet the timetable for implementation, lessees must prepare now

For those lessees that have not already adopted, it is critical to not underestimate the timetable for implementation. This is especially true if a company's lease portfolio includes many lease schedules with multiple assets, non-homogeneous assets, lessors, countries, or languages.

It is likely to take months for some private companies to fully overhaul the lease accounting processes, systems, and controls that are required to comply with the standard. Private companies must: (1) understand the rules to determine compliance requirements, (2) start and complete a transition process, and (3) develop an ongoing process for complying with the new standard beginning on the effective date.

The lease accounting rules are complex and lessees must read them in detail to understand how to comply and what the implications are.

Setting objectives and defining compliance and ROI success

To address the lease accounting changes, private companies have to change how they manage their leasing activities. Accounting for operating leases was relatively simple, since those leases were treated as operating expenses. Accounting for capitalized operating leases, however, requires a much more rigorous approach, given the increase in risk and complexity. Such complexity issues include the impact of estimation errors as well as the increased compliance requirements of the Sarbanes-Oxley Act.

As with any change management project, you should start by defining the objective, scope, and strategy of the project or process. See an example of an objective that you might establish for your company's transition to the standard. The objective is not exclusively focused on compliance. Instead, it is designed to yield financial returns from the investment in compliance by improving the financial performance of your leasing process and portfolio.

Objective example

By the implementation deadline for the lease accounting changes, we will have developed, deployed, documented, and iteratively refined a leasing process that is compliant with the lease accounting standard. This process will be well-controlled, auditable, automated, and scalable, and we will be able to demonstrate that we made good economic decisions throughout the process.

See the metrics you can employ to measure how well you achieved the objective.

Metrics example

We know we have been successful in meeting this objective because:

- We can generate reports with the push of a button, quickly and easily, for:
 - The lease accounting changes that reflect the final lease accounting standard.
 - Preparation of our financial reporting disclosures, including SEC-required comparable, with full auditability.
 - Internal management of all lease terms that require timely decision making.
 - All stakeholders who use the data, trust the data.
- All stakeholders in the leasing process receive timely, accurate, and complete reporting and notifications, especially notifications about the end of term.
- The financial performance of our lease portfolio, process, and people is measurable and continuously improving. For example, we know quantitatively how much money we are saving by leasing rather than buying. And we know how much money we could be saving if specific underperforming people and groups managed their leased assets at the end of term more effectively and returned assets on time. We can provide those underperformers with the automated notifications and scorecards that they need to improve their performance quickly and easily.

SECTION II

Transitioning to the standard: How to meet the requirements while delivering savings and ROI

Introduction

The transition process requires the collaboration of many individuals and departments within your company. At the same time, the process we recommend here delivers major efficiencies in the handling of lease-related information across your entire company and improves the financial performance of your leasing process and portfolio. The result: significant, recurring, annual cost savings for the company as a whole and a measurable, quantitative, positive ROI for your compliance project. Thus, while this transition process is motivated by the need to comply with the standard, it is also an investment in managing the company's leasing activities more efficiently and effectively. Therefore, if properly implemented, the process will pay for itself and bring continuous, sustainable, and annual returns.

Review your leasing policies

In view of: (1) the complexities of the standard, (2) the additional administrative burdens, and (3) the changes that are required, it is critical at the start of the transition process that you thoroughly evaluate your company's leasing policies.

Lease vs. Buy

Review of your leasing policies includes reviewing your Lease vs. Buy (LvB) analyses. Previously, LvB analysis and decision making were primarily based on economics, as operating leases were off-balance sheet and treated as an operating expense. Now that operating leases have to be capitalized, there are financial metrics that must also be considered.

The analysis will focus on the after-tax implicit cost considering timing of lease payment cash disbursement, tax cash flows, and non-accounting expenses. Nevertheless, the changes in financial ratios should be analyzed to the extent that they impact the LvB decision. In an asset purchase, depreciation is stretched out over the asset's useful economic life. For IASB lessees, if an asset is leased, depreciation may be accelerated and spread over a shorter lease term. Thus, under the latest lease accounting rules, because of additional assets on the balance sheet and the acceleration of lease costs (at least for IASB lessees), the return on assets/return on equity calculations will look worse for a now capitalized operating lease.

However, for FASB lessees, under these rules operating leases will still look better than buying. That's because the amount recorded will be less than the cost of the asset and the reported lease cost will be level—not front-ended.

Why leasing is still attractive despite the accounting changes

Your review of leasing policies should also take into account the quantitative and qualitative reasons why leasing is still a strategic financial tool.

Under the rules, the accounting benefits for leasing (off-balance sheet financing) only partially recede. They remain only to the extent that the PV of the rents is less than the cost of the asset, in which case the lessee capitalizes only the PV. In that case, from a budget perspective, the

amount of capitalized lease payments is less than the cost amount had the asset been purchased. Under certain leases (like synthetic leases, TRAC leases, and auto/truck fleet leases), the amount capitalized may be significantly lower than the cost of the asset.

There are many reasons why private companies lease, and most still remain favorable, per the chart below.

A likely outcome of the changes in the accounting rules is that private companies may decide to negotiate different lease terms — possibly shorter terms. They may also choose CPI variable rents versus stepped up contractual rents.

Reason for leasing	Details	Status after latest rules
Raise capital	Additional capital source, 100% financing, fixed rate, level payments, longer terms	Still a major benefit versus a bank loan especially for SME & non-investment grade lessees with limited sources of capital
Low-cost capital	Low payments/rate due to tax benefits, residual & lessor low cost of funds	Still a benefit versus a bank loan
Tax benefits	Lessee can't use tax benefits & lease vs. buy shows lease option has lowest after-tax PV cost	Still a benefit
Manage assets; Residual risk transfer	Lessee has flexibility to return asset	Still a benefit — if lessee can manage end of term
Service	Outsource servicing of the leased assets	Still a benefit
Convenience	Quick & easy financing process often available at point-of-sale	Still a benefit
Regulatory	Capital issues	Regulators should still treat ROU assets as "capital free" as they are an accounting contrivance and do not represent an asset in a bankruptcy liquidation
Accounting	Off-balance sheet	Partial benefit if the PV < cost of the asset, which should be true for all operating leases, especially high residual assets with tax benefits. The operating liability is not debt—no impact to debt covenants

Source: <https://www.elfaonline.org/docs/default-source/industry-topics/accounting/leaseacctingleasebuydecisionqb07132016.pdf>

The bottom line: If you haven't already, start now

Getting ready for the implementation of the ASC 842 lease accounting standard is easier with a fast, simple lease accounting solution. Consider one that helps you get compliant quickly and that allows you to upload and change leases easily.

First steps:

- Budget the time and resources required to perform the work.
- Determine the proportions of internal resources vs. outsourcing to deploy the process.
- Determine whether a behind-the-firewall or SaaS application is best for the company. Conduct a build versus buy analysis for this decision.
- In planning, build out the timeline for your project, allowing time for finding your leases.

In summary

Your transition process to the latest lease accounting standards can include the development of a new leasing strategy; the creation of new processes and controls; and the selection, management and implementation of new software. Throughout the process, it will be important to incorporate lessons learned from public and private companies that have already adopted the standards in order to continuously improve the implementation and ongoing, sustainable processes for lease accounting.



LeaseAccelerator provides enterprise lease lifecycle automation software that ensures long-term compliance, improves operational efficiency, and frees up cash. Thousands of users rely on our secure Software-as-a-Service (SaaS) platform to manage and automate 800,000 real estate and equipment leases valued at \$200 billion across 5 million assets in 172 countries that generated 8 billion journal entries.

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EZLease provides fast, simple lease accounting software for ASC 842, GASB 87, GASB 96, and IFRS 16 that ensures long-term compliance across equipment and real estate assets for lessees and lessors. With over 15 years of implementations across private, government and public organizations of all sizes, EZLease manages and automates lease data management and lease accounting and reporting processes, leveraging customer-first support and deep accounting expertise.

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