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Lease Implementation Update

June 21, 2022

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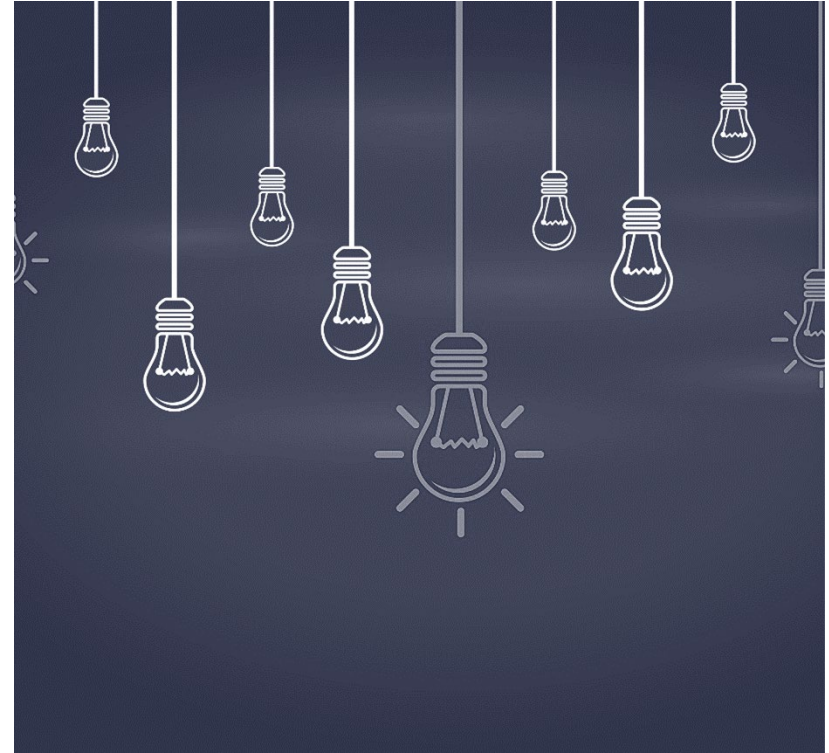


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Learning Objectives

- Recognize the changes associated with the new lease standard
- Identify helpful tips on implementation and how CLA can help



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Overview



ASU 2016-02 *Leases* Topic 842: Issued in February 2016



Effective fiscal years beginning after December 15, 2021 **and interim periods** within fiscal years beginning after December 15, 2022



Effort to increase transparency and comparability – provide faithful representation of leasing transactions



Lessee will be required to recognize a right-of-use (ROU) asset and lease liability generally for all operating and finance leases



Lessor accounting largely unchanged



Enhanced disclosures for lessees and lessors



Does not impact how leases are characterized for federal income tax purposes; however additional complexities for “book” and tax differences expected



What is a Lease?

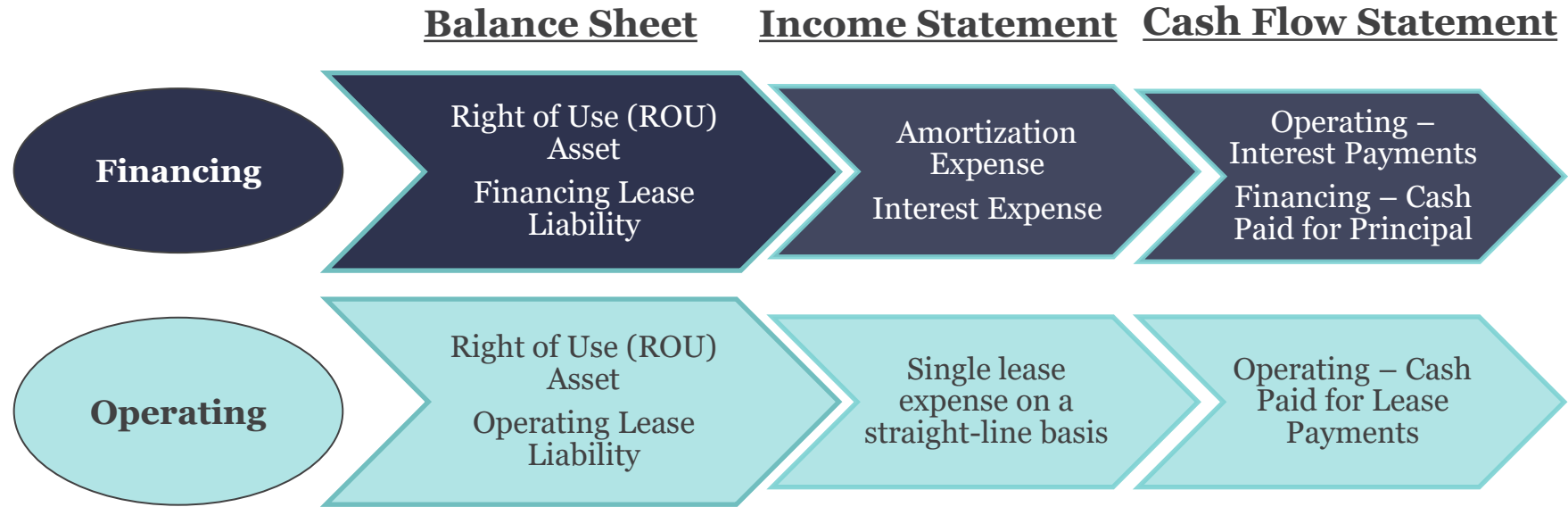
A contract, or part of a contract, that conveys the **right to control the use** of identified property, plant, or equipment (an **identified asset**) for a period of time in exchange for consideration.



NOT all leases are obvious or could be embedded in another agreement!



Lease Classification – Summary Accounting



Simple Example

Lease Term/ Consideration

Lease Payments

Year 1	12,000
Year 2	12,240
Year 3	12,485
Year 4	12,734
Year 5	12,989
Total	62,448

Lease Liability

Present
Value of
Lease
payments
not yet paid
is **\$55,264**
(5% discount rate)

Adjustments

Plus
Initial
Direct
Costs of
\$500

Less
Lease
Incentives
\$3,000

ROU Asset

ROU Asset of
\$52,764



Lease Components vs. Non-Lease

Lease Component

- The right to use an underlying asset

Non-lease Component

- An activity that transfers a separate good or service to a customer
- Example: Common Area Maintenance (CAM) services
- Example: Right to use crew to operate equipment

Non-component

- An activity that does not transfer a separate good or service to the lessee
- Example: Administrative tasks by the lessor to set up a contract
- Example: Reimbursement of lessor's costs (property tax/insurance)

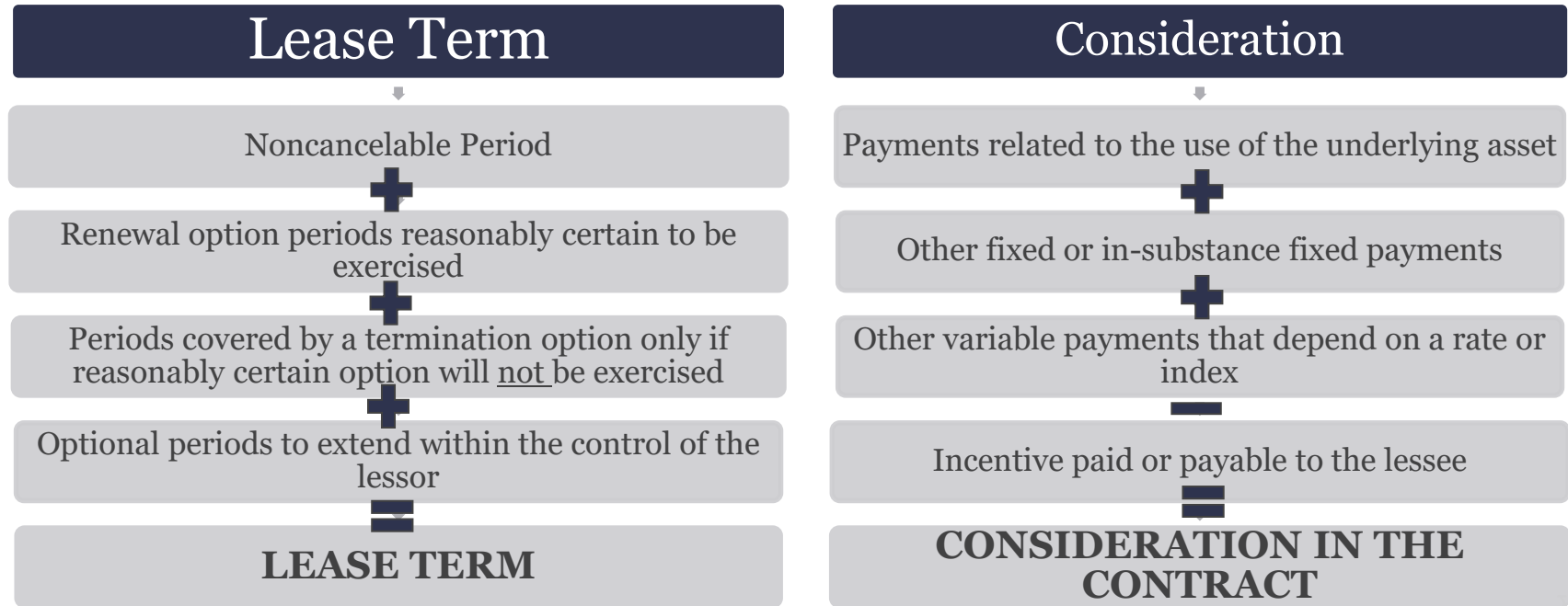
Allocate Consideration between Components

Practical Expedient to Combine (Not Separate)



Measurement – Lessee

Measure the consideration in the contract for **Lease Components** by identifying the **Lease Term** and **Consideration**



What discount rate to use?

Rate implicit in
lease

(only if readily
determinable)

Lessee's
Incremental
Borrowing
Rate
(IBR)

Non-public
entities may
elect to use the
risk-free
discount rate
by asset class**

**risk-free rate will
generate higher
lease liability



Additional Considerations

Accounting Policy Elections:

- “Package of Three” Practical Expedients – **Reduce cost and ease the transition process**
- Exclude short-term leases (less than 12 months) – **Save time and decrease liabilities**
- Elect the risk-free discount rate – **Save time, but increase liabilities**
- Don’t separate lease and non-lease components – **Save time, but increase liabilities**

Use Professional Judgment:

- Amount of lease term and renewal options – **impacts classification/measurement**
- Fair value of underlying asset – **impacts classification**
- Increment Borrowing Rate (IBR) – **impacts classification/measurement**
- Remaining economic life of underlying asset – **impacts classification**
- Lease Capitalization Threshold – **Impacts identified leases**
- Related Party Leases and Leasehold Improvements



Lessee Disclosures

Existing	New Requirements
Information about the nature of its leases	Information about leases that have not yet commenced, but that create significant rights and obligations for the lessee
Terms and conditions of sale-leaseback transactions	Disclose if the practical expedient to combine non-lease components with lease components has been elected and to which class of underlying assets
Lease transactions between related parties	Information about significant assumptions and judgments
<ul style="list-style-type: none"> • Finance (Capital) lease cost • Operating lease costs • Variable lease costs 	Cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows
Short-term lease cost, excluding expenses relating to leases with a lease term of one month or less	Supplemental noncash information on lease liabilities arising from obtaining ROU assets
Sublease income, disclosed on a gross basis, separate from the finance or operating lease expense	Weighted-average remaining lease term
Net gain/loss recognized from sale leaseback transactions	Weighted-average discount rate
Maturity analysis of lease liabilities for each of the first five years after the balance sheet date and in total thereafter, including a reconciliation of the undiscounted cash flows to lease liabilities on the balance sheet	



Transition Methods Available

CY = year of adoption

PY = comparative period

Original
Transition
Method

(ASU 2016-02)

- CY – Topic 842
- PY – Topic 842

Cumulative effect
adjustment at the
beginning of the
earliest period
presented

Additional
Transition
Method

(ASU 2018-11)

- CY – Topic 842
- PY – Topic 840

Cumulative effect
adjustment at the
beginning of the
CY





How to prepare for Implementation



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Road Map to Implementation

Plan

Develop lease implementation plan



Identify Leases

Determine lease population and completeness assessment



Review Leases

Review and assesses agreements



Lease Calculations

Import lease data, and produce journal entries and disclosures



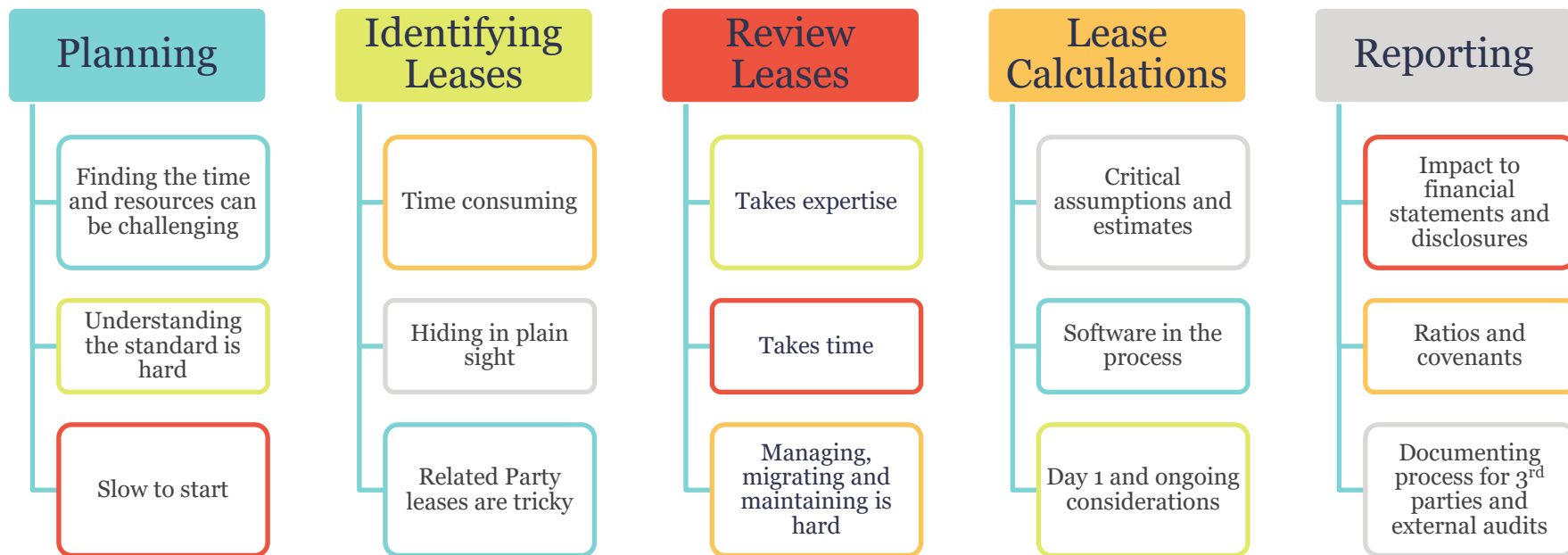
Reporting

post journal entries and update financial statements

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Lessons Learned and Best Practices for Implementation



How do I start ?



Understand
and know the
standard



Assess your
situation and
resources
(People &
Technology)



Define your lease
implementation
project – *start
with the end in
mind*



Take inventory
of your leases
and assess
completeness

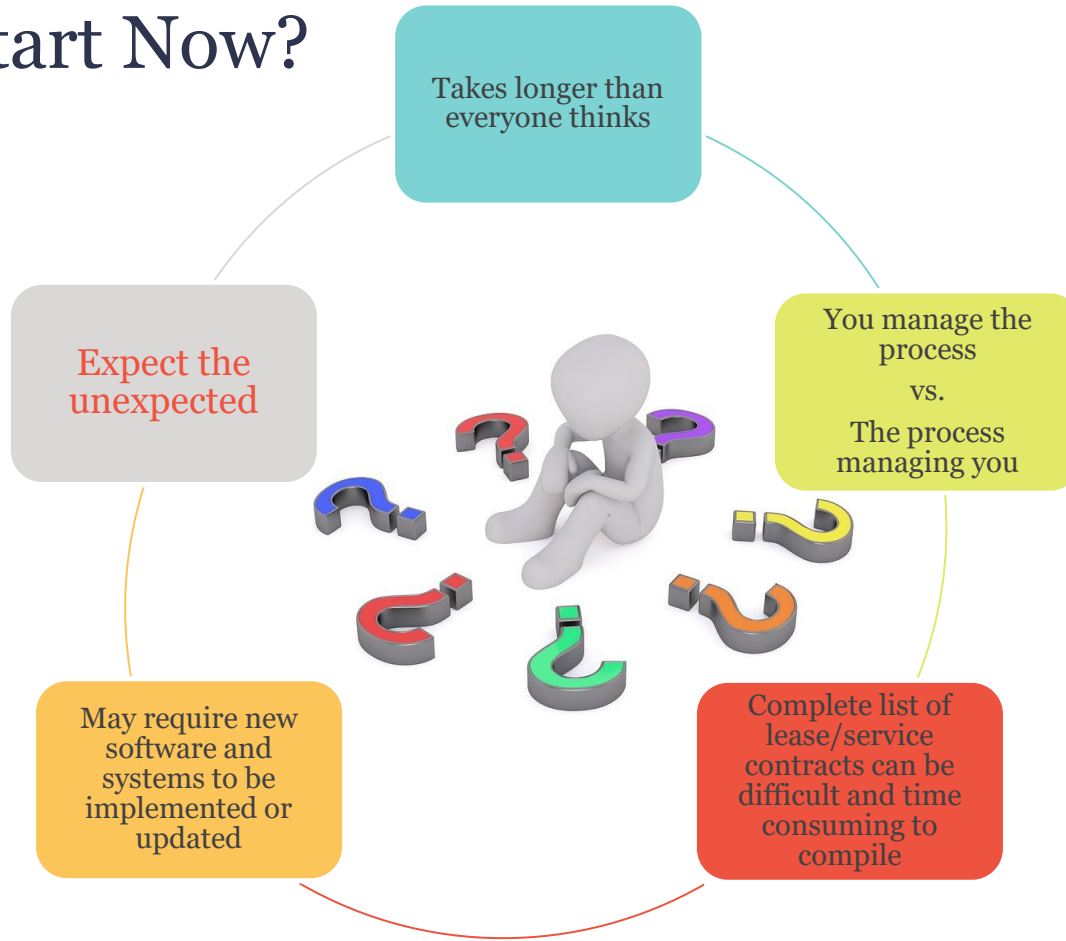


Perform lease
accounting and
update your
financial
processes and
systems to
report

Documentation and Processes



Why Start Now?



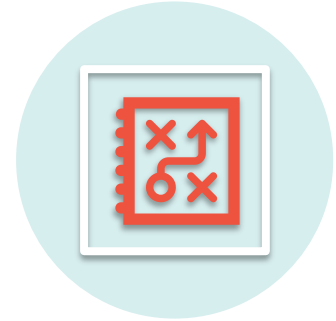
Need Help?



Consulting



**Lease Calculator and
Other Resources**



Turnkey Solutions

Questions?



CLA Can Help!

CLA Lease Accounting Solutions & Insights

<https://www.claconnect.com/services/audit-and-assurance/lease-accounting-standard>



Sign up to receive CLA communications/invitations to complementary events

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