FASB ASC 842:
Why You Just Can't Afford To Wait

Q&A with Industry Experts

THE TIME TO GET COMPLIANT IS NOW

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AMTdirect

A Conversation with Public Companies & Industry Pros

Challenges, Successes & Timeline of the New Lease Accounting Standard

In mid-July 2019, the Financial Accounting Standards Board (FASB) released an updated timeline for private companies to comply with its ASC 842.

The new date changed from just short of six months to over 18 months: January 1, 2021.

Although private companies get another year on the clock, this move by the governing board to transition the deadline presents some serious questions.

The primary one is why did the FASB decide to initiate this roll back in the first place? It's a tricky question fraught with complications and complexity, much like the new lease accounting standard itself.

One of the reasons is that The American Institute of CPAs (AICPA) formally asked the FASB for a push back on the effective date, saying lease accounting is "significant and complex."

This commentary undoubtedly came from struggles felt by public companies during their implementation.

In fact, many public companies said the FASB ASC 842 execution process took much longer and was much harder than they had expected.

To make the process clearer for private companies, we gathered a team of experts who've successfully executed the new accounting standard: an accounting firm consultant and two public company financial representatives.

They talked about the challenges, successes and timeline of the new lease accounting standard. This eBook outlines their conversation in detail. Our hope is that it makes implementation less expensive, time-consuming and painful for private companies.

- The Team @ **AMTdirect**

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THE PANEL

Meet the Experts

Mike Handley
CPA & Senior Manager at CFGI

CFGI helps its clients with pretty much everything related to finance other than audits: Risk advisory, tax, RPA, finance transformation, technical accounting and reporting. Mike is primarily responsible for the latter. Over the last two years or so, Mike has been focused on helping companies adopt the new leasing standards: ASC 842, IFRS 16 and GASB 87. He's assisted more than 50 companies in adoption.

Patrick Dwyer
Technical Accounting Manager at Element Solutions

Patrick is a CPA with over 27 years of technical accounting project management and operations experience. During his career, he's worked for E&Y, General Electric, Phillip Morris and Xerox. Since 2016, he's worked for Element Solutions, a $2 billion specialty chemicals provider.

Joshua Reisz
Manager of Global Financial Reporting at Kennametal, Inc.

Joshua is a CPA specializing in technical accounting and adoption of new accounting standards at Kennametal, Inc. The company primarily produces metal-working and tungsten-carbide based manufacturing solutions for a variety of industries around the world. In the past, Joshua worked for E&Y in its audit practice primarily focused on manufacturing companies.

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The 5 Challenges of the New Deadline

In a poll taken by AMTdirect, respondents were asked to gauge their lease counts. This includes the number of real estate, equipment and any other leases they managed. The largest portion of respondents (43 percent) said they had 1 - 200 leases.

Only 10 percent of respondents said they had over 1,000 leases, while 29 percent had between 201 - 1,000 leases. Nineteen percent of listeners admitted they just didn't know.

When asked what they thought their biggest challenge would be, respondents overwhelmingly cast their votes for people and resources (54 percent). Only nine percent were worried about finding a technology vendor and dealing with change. Thirty-seven percent had concerns about complexity and time.

These numbers aren't surprising when it comes to the private sector. And it sets the stage for 5 challenges they'll face during FASB ASC 842 implementation.

> **When asked what they thought their biggest challenge would be, respondents overwhelmingly cast their votes for people and resources (54%).**

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Challenge #1:
The Time Conundrum

How did your team look at the timing aspect when putting together your plan to adopt the new lease accounting standard?

Mike

"The key takeaway from the deadline change is that if you're a private company, you don't want to wait another year to kick off your project. That extra time is going to be helpful. Also, if you're adopting the other standards (IFRS 16 or GASB 87), although the guidance itself is going to be unique depending on which standard you fall under, a lot of the challenges of the ASC 842 implementation are going to be the same."

Patrick

"We were fortunate to select our software vendor early in the process. We were able to go to contract with AMTdirect by March 31, 2018. That gave us three full quarters to dive into implementation. We actually felt we were behind. But as it turned out, there were a lot of companies much further behind. I think we faired well by being further along the road earlier than most."

Joshua

"We're a June 30 fiscal year end, so we're in our first quarter right now under adoption. We're not quite as early on our adoption in terms of system selection for a variety of different factors. We signed with AMTdirect in February 2019, so we've had to truncate it down to about two quarters to be ready for go-live."

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Challenge #2:
It's Complicated
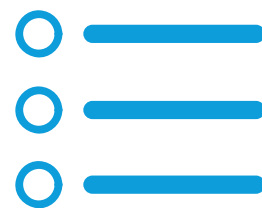
Were there any areas of implementation that were more complex than originally anticipated?

M

"KPMG just released an updated version of its interpretive guide for ASC 842 that's just over 1,000 pages. So there's a lot of guidance out there as it relates to the lease accounting standard. It belabors the point that there are a lot of scenarios out there as it relates to leasing activity. Regardless of the guidance you need to follow, you're going to need to come to the right conclusion and document things correctly. One of the most common challenges is embedded leases and what that entails. It has become more of a focus of auditors given the impact to the balance sheet. Plan early and get ahead of those challenges sooner rather than later."

P

"For most companies who are SEC filers like us, there are reporting companies all over the world. That means many of the leases were in foreign languages. So we went through a process where we translated the real estate leases, which typically have the highest value in the portfolio, into English. That allowed us to go through the fine print and be comfortable we had the right data to implement."

J

"We had to spend a good amount of time analyzing purchase arrangements and service agreements. We worked very closely with our auditors - even going all the way up to their national office - with respect to this challenge. Another hurdle was trying to understand the way we think about leases and what types of arrangements contain leases. For example, we spent a fair amount of time on some of our IT arrangements. The earlier we engaged with the auditors, the more luck we found in terms of getting to reasonable and supportable conclusions."

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Challenge #3:
Teams Are Tapped Out
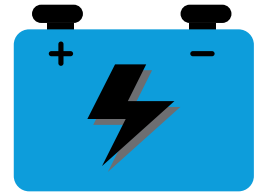
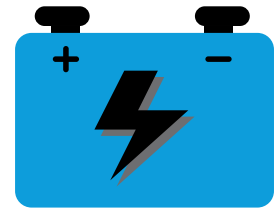**Any input into how your team managed the additional work and set priorities?**

M

"Accounting teams have enough to keep them busy with their day-to-day jobs. Throwing on additional requirements like this is always going to be a challenge. You have to ask yourself the question: how do you prioritize and how do you make sure you're keeping up with the planned project timeline? Also, this isn't an accounting-only project. As you move forward, you're going to need to involve stakeholders across your organization in order to be compliant for your day-one impacts. But you also have to think through to the day-two changes to processes. Make sure you get all the relevant information you need to keep up with the standard in a timely manner for reporting purposes."

P

"It was really critical to be organized about the implementation, so we formed a charter. We brought the stakeholders together for the level-setting. And then we brought the field controllers into the process to explain the information that was required. They had time to reach out to their professionals to collect lease documents. One of the great things about AMTdirect is its document repository feature. This allowed us to show off some of the management aspects of the implementation effort in the early stages. Our team became excited about leveraging some of the tools we were bringing into the project for the implementation."

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Challenge #3:
Teams Are Tapped Out *(continued)*

Any input into how your team managed the additional work and set priorities?

J

"The important thing for us was to level-set the organization with respect to responsibilities. This meant ensuring people in finance and accounting were on the same page about the rules changing with respect to leases. They had to understand they might have to get certain types of data in different ways. And they needed to know we had to have a certain level of rigor around the data collection and what we do with that data. The challenge is going beyond the finance and accounting function to get procurement, legal and real estate involved. And that's just the tip of the iceberg. It was hard convincing and demonstrating to these teams why it was important for us to go about these endeavors and why this information had to be of such high quality, more so than it was before. Setting expectations for other departments beyond finance is really the key to success. Without the buy-in and cooperation of those groups, we wouldn't have been able to make the progress that we had in the time that we did."

> **The challenge is going beyond the finance and accounting function to get procurement, legal and real estate involved. And that's just the tip of the iceberg. -Joshua**

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Challenge #4:
Change is Hard & Procrastination Is Easy

Did you receive push back from any stakeholders (software implementation, team cooperation, etc.) and how did you deal with it?

M

"Some of the people outside the accounting organization are going to see this as a burden. I've heard, "Why do we have to help out? This exercise doesn't seem like it's worth it." I'd emphasize the importance of being upfront about the requirements that are going to be needed, getting buy-in from upper-level management, and setting a charter. Set the tone from the start that the project is a priority and it's something you're going to need everyone's help with."

P

"We recognized it was going to be important to select the vendor as early as possible. It was key for us to understand what our software requirements needed to be in order to meet the accounting standards. We worked with all of our departments to get their support to commit to do our vendor reviews and due diligence. The key stakeholders attended those sessions. We scored all the vendors together, so we had consensus from the beginning. When it came down to the timeline, we really laid out a deadline for when we expected to go to contract with a vendor of choice. We were able to stay on track by getting stakeholders on board early. That benefitted us a great deal for staying on time with the implementation."

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Challenge #4:
Change is Hard & Procrastination Is Easy

(continued)

Did you receive push back from any stakeholders (software implementation, team cooperation, etc.) and how did you deal with it?

J

"We began our process well over a year ago with respect to gathering information and understanding what was needed. Surveys were distributed across our global offices to identify where our leases existed and the nature of those leases. We were working with a different partner for a different type of solution. It claimed one of its offerings was lease accounting. We were under the impression it would be able to fulfill that. However, it was not to the level we were needing. That's the main factor behind our timing considerations and the tighter turnaround time we had once we signed on with AMTdirect. It's very important to find the right partner. Choosing AMTdirect as our technology partner was the catalyst for making tangible and quick progress for compliance. Part of that was out of necessity, but if we had signed on with AMTdirect three or four months sooner, things wouldn't have been so under the gun."

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Challenge #5:
Software vs. Spreadsheets

Were spreadsheets a consideration for lease accounting implementation? What are the benefits of software vs. a spreadsheet?

M

"I get this question a lot from our smaller clients who don't have large lease portfolios: "Can I get by without a lease software?" It's a loaded question. There are inherent risks in using spreadsheets. It's no longer a set-it-and-forget-it standard. You're going to have to monitor for reassessment triggers, modifications, and - of course - new leases. And there will be more to update on a go-forward basis. The second aspect is the disclosure requirements. There's a lot more information that's required to disclose. If you're using spreadsheets, you're going to have to rely on formulas and linking throughout spreadsheets. There's a lot that can go wrong. It's something to keep in mind from a risk perspective and a resource perspective in terms of keeping up with those spreadsheets on a go-forward basis."

P

"We'd heard some fairly large companies were thinking about using spreadsheets. We didn't entertain that option. Many of our team members have years of lease experience. They understand the complexity of the calculations that are included in the new standard. We moved passed considering spreadsheets in place of software quickly. Instead, we understood the focus was going to be using spreadsheets to gather inventories of leases to extract the data; organize it in the way the software solution needs to have the data loaded; and build processes that matched up with the ongoing monthly routines that we would need to keep the database current..."

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Challenge #5:
Software vs. Spreadsheets *(continued #Q1)*

Were spreadsheets a consideration for lease accounting implementation? What are the benefits of software vs. a spreadsheet?

P

...One of the things I saw companies struggling with is having a theoretical grasp of the accounting standards, but not a practical understanding. Early on, no one had really turned the corner. No one had actually loaded a balance sheet. And no one had started to go through the monthly roll forward process of figuring out how to keep the portfolio current."

J

"Our organization didn't have to spend too much time thinking about it to realize to do this all in spreadsheets would be audacious, at best. When you think about the volume of leases, the geographical spread, and the amount of hands involved from signing a contract to determining whether it's a lease, it could quickly get out of hand if you're trying to manage this all manually via a spreadsheet. The big things for us beyond the day-one are to be able to follow through and have those calculations happening for many leases automatically. Beyond that, it was important to ensure we could appropriately add new leases as they come into our portfolio and any modifications or terminations. Working through training and designing internal controls over financial reporting to support those efforts was always going to happen, no matter what. Doing that without software means a much harder time demonstrating to your auditors you haven't misstated your lease accounting."

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Challenge #5:
Software vs. Spreadsheets *(continued #Q2)*

For decentralized businesses with locations across the globe, how did you look at setting up processes on a go-forward basis given there's likely more than one user of your system?

P

"We recognized the stability of the data through the implementation was going to be critical to accomplish the software implementation. So, we invited the users into the software, we loaded our baseline data, and asked them to reconcile the data. Once the reconciliation of the baseline data was completed, we had approximately 90 reporting entities that contributed to the consolidated lease portfolio. For those 90 people, we turned the access off for the accounting module and for deleting and editing transactions. We created the desktop procedures of keeping their inventory and abstracting new lease transactions. And then we chose to manage uploading those transactions in a central location, effectively providing service. We extended that through the accounting close process where we had a central location processing the journal entries for the close and then distributing that out to the field. Right now, we're in a steady state and we feel comfortable we have good internal controls on the close process. We've begun cross-training the handover for the accounting close process to those foreign locations. However, we'll probably end up with three shared service organizations handling roughly 30 - 50 reporting units each. As we go through a consolidation process, we'll be rolling up three portfolios rather than having to roll up 90 reporting entities that are autonomous with the monthly processing. That's an efficient model for us. We're going to be able to leverage some of the shared services and the redundancies of having 90 people perform the same function throughout the company."

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Implementation
Best Practices

There's no question that the new accounting standards will be a tough process to implement. Not just at first, but in the long run.

It's important to have a plan of action to follow.

The experts covered three best practices proven to get your FASB ASC 842 project off the ground and running smoothly.

Although implementing the new standards may be complex, working with AMTdirect makes the process simple and worry-free.

"

We recognized the stability of the data through the implementation was going to be critical to accomplish the software implementation. So, we invited the users into the software, we loaded our baseline data, and asked them to reconcile the data. **-P**atrick

"

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BEST PRACTICE #1: GET STARTED NOW

M

"Set a project plan. And identify who your key stakeholders are as soon as possible. There's going to be a lot of information you'll need to gather, so getting started sooner rather than later is key. If you're not sure how to get started, reach out to colleagues or people in your network who've gone through this process already to get their insight. Reach out to your advisors, too."

BEST PRACTICE #2: CHOOSE SOFTWARE

M

"This is something that's really important. It's going to set the tone for the rest of your project. Make sure you're identifying what your needs are internally. It will help you tremendously as a part of your selection process to identify what software vendors are going to meet your needs and which ones aren't. Come to an agreement with all your stakeholders, which is anyone who is going to potentially benefit from or use this software. Get their input. Find out what their needs are. Sometimes those needs are different than accounting. It could be lease administration, real estate, or other departments. There are multiple potential beneficiaries worth thinking through up front. Make sure you're all aligned. Also, understand that there are some providers who haven't been around a long time. They scrambled to put something together in order to offer their services to potential clients for the new lease accounting standards. Once you dig down another level, it's easy to see that they wouldn't be able to provide all the requirements from a compliance perspective. The reporting functionality is huge, not just from an accounting perspective, but also for your finance team. Those reports really go a long way and can provide a huge value-add."

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BEST PRACTICE #2: CHOOSE SOFTWARE
(continued)

P

"A feature that was compelling to us about the AMTdirect software was the robust reporting capabilities. Also, by the time we had our demo, the AMTdirect team was able to show us more than 280 reports that had been developed for various aspects of lease management and the FASB implementation. The software was also designed in a way that made it highly configurable without any additional cost or programming. When we went to implement the software, we were able to get the look and feel of our company's footprint quickly. And it all happened just by working with the AMTdirect implementation team and having them take us through the options for configuration."

J

"When we were going through our RFP process, the key things we were looking for were the basics. These were things like an unqualified SOC report that, from a controls and audit point, we would get coverage on. We also looked at industries each solution served and what kind of expertise the solutions had with companies like us. Finally, we wanted a solid group of people. Although the software is what we're buying as a product, so much goes into it from a service standpoint. From the very beginning and then throughout the project implementation, we've had great interactions and great success with the AMTdirect team. The last qualifier is cost. When we looked at all those different factors in going through our process of diligence and determining the right partner, AMTdirect had the best mix of those things. It has provided us with the optimal value compared to the other partners."

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BEST PRACTICE #3: GETTING YOUR HOUSE IN ORDER

M

"Getting started and pulling together all the information you're going to need is always a challenge. First, get an understanding of the new standard depending on what guidance you fall under. Know what you're going to need to pull together. We see it a lot: There are data gaps. As a part of the new accounting guidance, you're going to pull additional information from your leases that might have been overlooked previously. And if you're going to look at a software, there's a lot of information you can be pulling that will be useful internally. Whether it's accounting or finance, or other people across your organization, if you can be pulling in relevant information as a part of your data abstraction process, getting that started sooner rather than later is always key. Along the same lines is completeness. Make sure you get your arms around all the leases you have. Real estate is typically easier because most companies have a good handle on them. A big challenge here, though, is equipment leases.The third challenge is embedded leases. Most people aren't familiar with the concept of an embedded lease. It's challenging because the agreements you need to look through aren't labeled "leases." They're often service-type arrangements where a third party is using a piece of equipment. A lot of times it's subjective in terms of whether a lease really is embedded within a contract. And if it is, it's hard to know how to account for it. This is an area that's been a focus of the auditors. It's usually one of the first places they start in terms of their audit procedures. This is something to stay ahead of. It will require input from stakeholders across the organization. One of the challenges of a decentralized organization is getting your arms around all those leases that exist across the globe.One thing companies often overlook is leases from a lessor or sublessor perspective. It's something the auditors will look for to make sure you're capturing everything. Finally, make sure you leverage your findings and procedures from day-one to inform how you'll go about completion..."

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...You're going to go through this huge exercise to get to day-one compliance, but you're not going to want to redo all of that effort going forward quarterly or annually. Let your findings inform you of where there are risks and set up a process that's going to be achievable on a day-two basis."

P

"We started with the disclosure for the ASC 840, the operating remaining lease obligation disclosure. We were benefited by having required reporting units to put those inventories together that made up their leases. When we came to the implementation for ASC 842, we simply went to a path of asking them to review their AP ledger information. We had them reconcile through the activity of lease expansion through the P&L to create that comfort that the baseline was complete. That became one of the ongoing internal controls: They would look at new vendors for new lease activity."

J

"We focused on a review of recurring costs and charges that sat in our income statement. Some of the other things we also did to help us get our arms around the population - and demonstrate to auditors we did so - was completing a review of the company's largest contracts. This was regardless of whether we thought they had a lease or not. We engaged with our procurement team to review the terms and conditions in those contracts and to get a good understanding of what it was we were buying. From our perspective, we felt we got coverage from that standpoint. The last area we focused on was the review of documentation for all our material expenditure requests. We have a standard form in the company. Based on the level of money that's to be spent on a project or vendor, this form has to be completed and certain steps must be populated. There's a variety of information including project justification and project finances. "

AMTdirect

J

"We completed a review of those on a material basis going back for a few years. It was another way we could double check ourselves. We didn't necessarily target leases. What we did was open it up to any expenditure request exceeding a certain dollar amount. We knew that was going to get us our best available evidence. It was a three-pronged completeness approach. It was a combination of those things that helped us get comfortable with our population and demonstrate to our auditors that we've captured all the material leases in our portfolio."

66

We see it a lot: There are data gaps. As a part of the new accounting guidance, you're going to pull additional information from your leases that might have been overlooked previously. And if you're going to look at a software, there's a lot of information you can be pulling that will be useful internally. -**M**ike

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Top Questions from Private Companies

How much time does a typical implementation require?

MIKE:

"It's going to depend on a multitude of factors. These include how big your organization is, the type of business you're in, and what your existing lease portfolio looks like. There are a lot of factors driving whether your implementation takes two months or a year or more. That's why setting a project timeline to decide the things you need to achieve and people you need to involve to get compliance right is so important. Laying it out will give you a good idea of how much time this may take. Always be conservative. Things tend to take longer than you think originally. Start with a project plan and work backwards."

PATRICK:

"We gave ourselves nine months to get implemented and feel comfortable with it. For smaller companies - with a portfolio of data that's ready to be loaded - estimate a minimum of three months to be realistic. Stretch that out to six months if you want to be fully trained, customize the software, and be confident you can run the software to be compliant with the standard."

JOSHUA:

"It took us four months to implement. Even though we started with AMTdirect seven months ago, we got the ball rolling before that. We started to gather the data to help make sure everything went smoothly once we did sign with a vendor and got familiar with the way the data needed to be uploaded. I would be surprised if someone can complete the project in less than three months. What you'll find is the longer you have beyond that three-month period, the better off you'll be. And the more comfortable you'll be with your compliance."

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Top Questions from Private Companies

Has determining the discount rate to be used for present value calculations been a significant challenge? Can a single discount rate be used for all leases as of a go-live date?

JOSHUA:

"Even though there's a fair amount of judgement involved in determining the incremental borrowing rate (IBR), it hasn't been the highest area of audit emphasis. The bigger thing is the completeness of the lease population.

Using a single IBR depends on the lease portfolio. If all you lease is real estate, and if it all sits in one country, you'll likely be able to justify a single IBR. But if you have vehicle, equipment and real estate leases spread across many countries with different types of macroeconomics (emerging markets, developed economies, etc), it's going to be harder for you to justify a single IBR.

For private companies, you do have an expedient where you can use a risk-free rate. It's something to consider. And the AMTdirect software does allow for you to have multiple discount rates and do an override on those rates."

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Top Questions from Private Companies

How does AMTdirect handle day-two reporting? What functions are available and are they automated?

AMTDIRECT:

"There are ways in the system to handle payment adjustments, as well as CPI and variable payments. These can be handled at the lease level. As far as non-lease components, AMTdirect has the ability to separate those non-lease components out. Or if you happen to have a gross lease where it's rolling everything up into one, you can back out those non-lease components by either a dollar amount or percentage. In terms of modifications, it's an automated process. If there are any changes to those payments, it will trigger a modification and record that modification in the system."

PATRICK:

"It's a relatively straightforward exercise for keeping the data fresh, collecting the new lease transactions, loading those in, and processing the journal entries from the FASB schedules the software creates. That's one of the big reasons we're going into training mode to distribute the administration of the software and the accounting requirements to our field."

AMTdirect

Top Questions from Private Companies

Have you done an automated integration with ERP systems?

PATRICK:

"We use a multitude of ERP systems across the 90 business reporting units, primarily versions of SAP and JDE. We chose not to attempt a direct interface with AMTdirect. We found using the software as a source record is basically a master subledger for the right-of-use assets."

JOSHUA:

"For those who are interested in integration by day one - and maybe even administering the actual lease with payments or receivables if you're a lessor - add onto your timeline. The level of effort involved in completing that integration is going to be more work and more effort. If you want to do it, you're going to need to engage with your IT partners as soon as possible."

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ADDITIONAL RESOURCES

Tools	• Lease Administration & Accounting ROI Calculator • The Lease Accounting Compliance Readiness Kit

eBooks	• The Complete Guide to FASB ASC 842 Implementation Challenges • CFO Magazine's Lease Accounting: Compliance & Beyond • The Quick Guide to the New Lease Accounting Standards

Blog Posts	• FASB ASC 842 Implementation - 5 Common Mistakes • Lease Accounting Compliance and FASB Lease Accounting Changes • FASB Lease Accounting Software as an Alternative to Excel • 7 Costly FASB 842 Implementation Misconceptions • 3 Big Lies Lease Management Software Companies Tell

Case Studies	• HEALTHCARE: MedStar Health • HIGHER EDUCATION: Johns Hopkins University • HOSPITALITY: Arby's Restaurants • MANUFACTURING: Olympic Steel • REAL ESTATE: ABS Partners • RETAIL: Famous Footwear

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SCHEDULE A DEMO!

Chat with our experts about how AMTdirect's 25 years of experience and industry-best software can help you execute FASB 842 in the least amount of time, effort, and expense.

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