



ASC 842

Transition Checklist & Implementation Guide

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STEP

1

Educate Accounting Team Members and Shareholders

Setup a task force. Organizations who have been successful with implementation start with a task force. Include internal and external finance professionals with the expertise to assess the impact of adopting ASC 842. Include your auditor in your task force!

STEP

2

Internal Control Considerations

- *Entity Level Controls* - Ensure Management and Audit Committee are involved in oversight of the implementation of ASC 842.
- *Technology*
 - *Leasing Software:*
 - Ensure the software satisfies all necessary requirements.
 - Demo sample setups through the lease technology and evaluate the output for completeness and accuracy of both journal entries and disclosures.
 - Confirm management's understanding of internal controls by use of reports that include Service Organization Control-1 (SOC-1) and Service Organization Control-2 (SOC-2) reports. These reports are available with your technology vendor.
 - *Spreadsheet Software:*
 - Review formulas, test the calculations and the output complies with ASC 842.
 - Ensure output allows for journal entries and disclosures.
- *Compile your Population of Leases*
 - Assess each lease and determine the type of each lease (Financing vs. Operating). Please contact your CPA if you need assistance with assessing the lease type.
 - Review lease term, including extensions, renewals, and early termination clauses. Assess whether any potential rights to a renewal or early termination will be exercised for appropriate lease term.
- *Other Considerations*
 - Document transition elections and policies in accordance with GAAP.
 - Account for purchase options.
 - Identify lease payments.
 - Account for variable lease payments.
 - Determine the discount rate to use when calculating the present value of operating or finance lease payments (e.g., rate charged by the lessor if known, incremental borrowing rate, risk free rate).
 - Leases at the commencement date, with a term of 12 months or less and do not include an option to purchase the underlying assets, can make a formal policy election to not recognize the short-term lease on the balance sheet (The policy must be disclosed in the financial statements).

STEP

3

Document and Record

- After application of step 2, document your methodology (Operating or Finance Lease) and record related journal entries.

1. Operating Lease Journal Entries**Initial Entry:**

Dr. Right of Use Assets (Present Value of Lease Payments)
 Cr. Lease liability (Present Value of Lease Payments)

Monthly Entry:

Dr. Lease/Rent expense
 Cr. Accounts payable/Cash

Dr. Amortization expense (on Right of Use Asset)
 Cr. Right of Use Asset (on Right of Use Asset)

2. Finance Lease Journal Entries**Initial Entry:**

Dr. Right of Use Assets-Finance lease (Present Value of Lease Payments)
 Cr. Lease Liability-Finance lease (Present Value of Lease Payments)

Monthly Entry:

Dr. Interest expense (on Lease Liability)
 Dr. Amortization expense (on Right of Use Asset)
 Dr. Lease liability (on Lease Liability)
 Cr. Right of Use Asset (Amortization of Right of Use Asset)
 Cr. Accounts payable/Cash

STEP

4

Consider the Appropriate Presentation and Disclosure

Operating and finance leases will be presented on the balance sheet and income statement as follows:

Balance Sheet**Assets:**

Right of Use (ROU) Asset-Operating leases (Operating Lease)
 Right of Use (ROU) Asset-Finance leases (Finance Lease)

Liabilities:

Operating lease liability (Operating Lease)
 Finance lease liability (Finance Lease)

Income Statement

Lease/Rent expense (Operating Lease)
 Interest expense on lease liability (Finance Lease)
 Amortization expense on Right of Use Asset (Finance Lease)
 Amortization expense on Right of Use Asset (Operating Lease)

STEP

5

Observe Appropriate Disclosure Requirements

1. Lease policy
2. Lease agreements with related parties (if applicable)
3. When an election is made to account for short-term leases by recognizing the lease payments in the income statement
4. Operating and Financing lease Right of Use Assets are separated from each other and from other assets
5. Operating and Financing lease liabilities are separated from each other and from other liabilities
6. Lease discount rate
7. Disaggregate cost from operating and finance lease. If applicable, include sublease income.
8. Average lease term (See step 2)
9. A maturity analysis of finance lease liabilities and operating lease liabilities presented separately, along with the undiscounted cash flows presented on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years (Note: This requirement is similar to the future minimum rental payments that would be disclosed in ASC 840)
10. A reconciliation of the total payments from the undiscounted cash flow (item 7) to the balance for the finance lease liability and operating lease liability recognized in the balance sheet

STEP

6

Other Considerations for Implementation

1. **Impairment of Right-of-Use Asset.** If there are subsequent events after the commencement of the lease (e.g., economy) that lead to an adverse change in the Right-of-Use Asset to convey benefits over the lease term, an impairment loss is recorded to the income statement.
2. **Leases Denominated in a Foreign Currency**
When a lease is denominated in a currency other than the functional currency of the entity, different currency rates should be applied to the different section of the transactions and balances associated with the foreign currency lease.

Non-Monetary Assets:

Non-Monetary Assets include property plant and equipment and accumulated amortization on the right of use assets account. Non-Monetary assets on conversion to the functional currency should be remeasured at the historical rate or at the commencement of the lease.

Monetary Liabilities:

The lease liability associated with the lease is a monetary liability. Monetary liabilities are a fixed obligation to make payment throughout the life of the lease. Thus, the conversion of a liability from foreign currency should be measured using a current spot rate for each reporting date.

STEP

6

Gains and Losses from Foreign Currency Conversion on Lease Conversion:

Gain & Losses from remeasurement of right-of-use assets and liabilities into the functional currency of the entity are recorded at the current exchange rate. This will be a daily spot rate or a monthly average rate. Recording transactions using the monthly average rate will lead to issues for the accumulated amortization account. There will be differences between the monthly amortization on the right-of-use asset calculated based on the historical conversion rate (commencement date of the lease) compared with the amortization amount using the monthly average rate. Thus, the right-of-use asset will not be fully amortized by the conclusion of the lease. An adjustment for the differences will be needed for the right-of-use asset accumulated amortization amount. The adjustment is calculated by the difference between the historical rate used at the commencement of the lease and the average rate used to convert the amount, multiplied by the amortization expense. The adjustment would be as follows:

Dr. Right-of-Use Accumulated Amortization (Balance Sheet)

Cr. Gain on currency conversion of amortization expense of Right-of-use Assets
(Income Statement)

or

Dr. Loss on currency conversion of amortization of Right-of-use Assets (Income Statement)

Cr. Right-of-Use Accumulated Amortization (Balance Sheet)

3. Sales and Leaseback Transactions

- Review and apply ASC 606 and determine the following:
 - a. The existence of a contract
 - b. Identify performance obligations and when they will be satisfied (e.g. sale of the asset)
 - c. Recognize the transaction price for the sale at the point in time the buyer-lessor obtains control of the asset
- When sale has occurred in accordance with ASC 606, account for the lease in accordance with ASC 842 (Review Steps 2-5 above).
- Disclosure - In addition to all disclosures in step 5, disclose gains or losses arising from the transaction separately from the gains or losses on the disposal of the assets and provide terms and conditions of agreement.

CONTACT

GRF's [Lease Accounting Standard Implementation Task Force](#) helps organizations achieve compliance and meet implementation deadlines. Please contact us for any questions or assistance with the implementation of ASC 842.

> CONTACT US