

# Meet the Challenges of ASC 842 and Stay in Compliance

The webinar will begin in a few moments

# To qualify for CPE:

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- Use a personal computer (no smartphones) and log in with your own information and unique URL
- Be logged into our online software for at least 50 consecutive minutes within the scheduled time frame of the webinar
- Actively respond to at least 75% of the polling questions
- Complete evaluation survey at the end of the webinar



# Presenters today are... ↗

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Managing Director, Consulting  
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Partner, Audit  
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# Learning Objectives

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- Identify how to effectively plan, manage and implement the changes to become compliant
- Recognize requirements and where your organization falls in terms of new reporting standards
- Develop an understanding of how the rules will impact business forecasting, accounting policies, KPIs, financial reporting and budgeting
- Listen to what auditors and consultants are hearing about the adoption of the new lease standard

# Overview of the New Lease Standard

# Changes for Lessees ↖

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Lessees will recognize both Operating and Finance (Capital) leases on the Balance Sheet



Recognize a Right Of Use Asset and Lease Liability



Retains concept of Operating vs. Finance (Capital)



Permitted to not recognize lease assets and liabilities for short-term leases of 12 months or less

# Changes for Lessors

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Accounting applied by Lessors is largely unchanged from current GAAP



Retains concept of operating leases versus finance (capital) leases



Fewer leases will be classified as direct financing

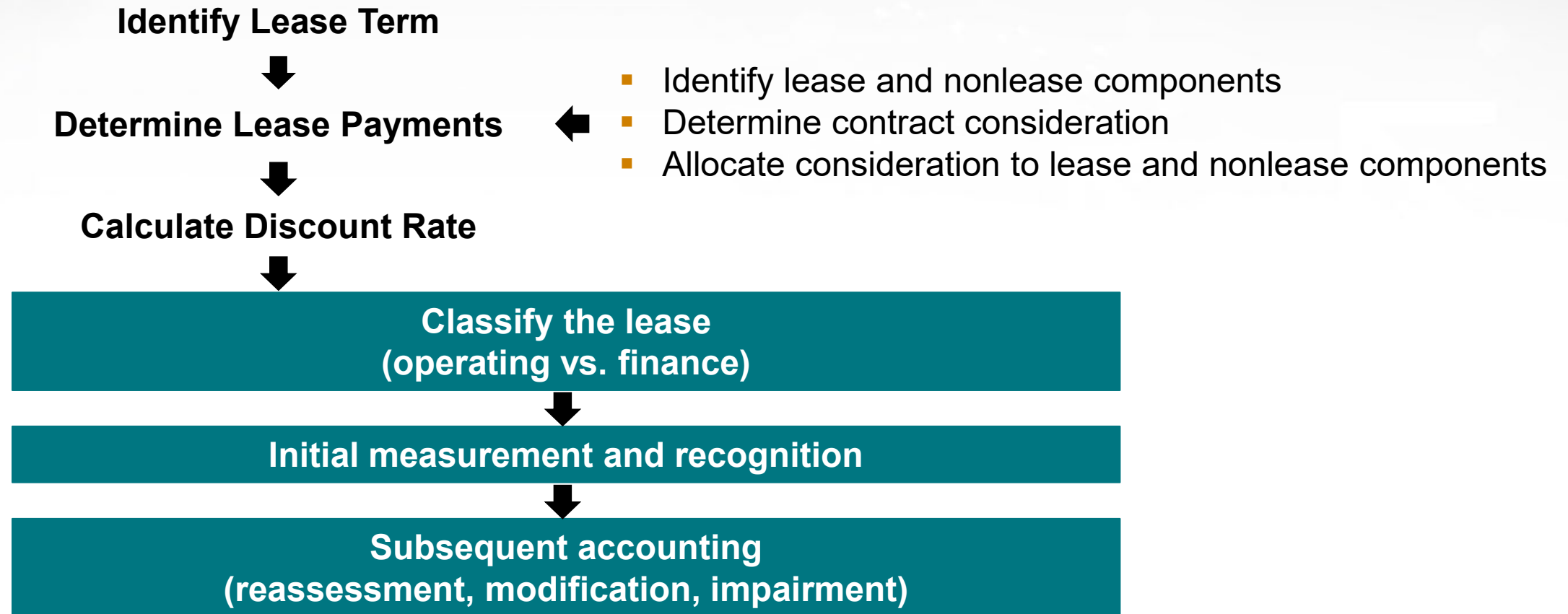
# Effective Dates

Effective date for private companies and nonprofits is fiscal years beginning after December 15, 2021

Early adoption is permitted for all entities



# Lease Accounting Steps



# Lessee Accounting Summary

	Balance Sheet	Income Statement	Cash Flow Statement
<b>Finance</b>	<ul style="list-style-type: none"> <li>Right-of-use asset</li> <li>Lease liability</li> </ul>	<ul style="list-style-type: none"> <li>Amortization expense</li> <li>Interest Expense</li> </ul>	<ul style="list-style-type: none"> <li>Principal repayment presented as financing and interest presented as operating</li> </ul>
<b>Operating</b>	<ul style="list-style-type: none"> <li>Right-of-use asset</li> <li>Lease Liability</li> </ul>	<ul style="list-style-type: none"> <li>Single lease cost recognized on a straight-line basis over the lease term</li> </ul>	<ul style="list-style-type: none"> <li>All cash Payments presented as operating</li> </ul>

## Lease Liability

NPV of future lease payments

## Right of Use Asset

Lease liability, adjusted for:

- + Initial direct costs incurred by the lessee
- + Prepayments of lease payments
- Receipts of lease incentives

# Lessor Accounting Summary

	Balance Sheet	Income Statement	Cash Flow Statement
<b>Finance</b> <b>(Sales Type or Direct Financing)</b>	<ul style="list-style-type: none"><li>Lease receivable measured at net investment in the lease</li></ul>	<ul style="list-style-type: none"><li>Interest income and gain/loss from any sales</li></ul>	<ul style="list-style-type: none"><li>Principal repayment presented as financing and interest presented as operating</li></ul>
<b>Operating</b>	<ul style="list-style-type: none"><li>Continue to recognize the underlying asset</li></ul>	<ul style="list-style-type: none"><li>Lease income, generally on a straight-line basis</li></ul>	<ul style="list-style-type: none"><li>All cash payments presented as operating</li></ul>

# Definition of a Lease:

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

- A contract is (or contains) a lease when two criteria are met:
  - The contract explicitly or implicitly specifies use of an **identifiable asset**
  - The customer **controls** the use of the asset for that period of use

# What Are Our Auditors Seeing?

# Additional Resources

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- [Armanino's Lease Accounting Overview](#)
- [Lease Accounting FAQs](#)

# Questions?

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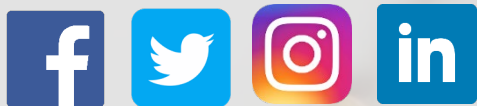
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**NOTE:** Participants will receive an email within 48 hours with a link to the slide deck and recording.