

# LEASE STANDARD IMPLEMENTATION & ACCOUNTING SERVICES



**Proactive services to navigate the  
impact of the new reporting  
requirements on financial statements**

## LEASE STANDARD IMPLEMENTATION & ACCOUNTING SERVICES

*Replacing existing lease guidance contained in US GAAP, the new lease standard is poised to have a wide-sweeping effect on private companies and not-for-profit organizations.*

The adoption of the new standard has broad implications and may impact many parts of your organization including financial statements, internal controls and processes. Impacted businesses will be required to reassess leases through the new standard's guidance on what is considered a lease as defined by the standard.

Dopkins has experience assisting clients as they adopt the new lease standard including assisting management with the implementation, as well as providing suggestions with respect to modifications to systems, internal processes and internal controls.

### TIMING

For private companies and not-for-profit organizations, the new lease standard (ASC 842) takes effect for the calendar year ending December 31, 2022 or for fiscal year ending after December 15, 2022 and requires consideration of impact on periods previously reported.

### DEFINING A LEASE

When defining a lease under ASC 842, the company now will need to identify whether a contract contains a lease when it is initiated. A **contract** can be defined as a lease if the contract gives a customer the right to control the use of the identified fixed asset for a period in exchange for consideration. **Control** can be defined as the right to obtain substantially all of the economic benefit from use of an asset or right to direct the use of the asset. The difference between the existing definition and the new standard is the entity is required to determine if it obtains the right to direct the use of the asset.

With no change from legacy guidance, ASC 842 still requires the company to identify non-lease components of any contract containing a lease.

### IMPACT ON LESSEE

Under ASC 842 most leases must be recorded on the balance sheet. Shorter leases, defined as 12 months or less, may be exempt if the lease meets certain qualifications and the company adopts an accounting policy to do so.

When a lease is recorded a liability must be recognized based on the present value of future lease payments (Right-of-use liability), with an offsetting entry to recognize a right-of-use asset. The lessee's incremental borrowing rate or the implicit rate in the lease will determine the present value.

The expense recognition will be determined by the classification of the lease (finance vs operating). Financing leases will recognize interest expense and amortization expense while the operating leases will recognize lease expense on a straight-line basis.

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## KEY QUESTIONS

There are some critical items to take into consideration when preparing for adoption:

- **Leases** – Do we have a complete population of all leases?
- **Lease payment** – Does our company have fixed and variable lease payments?
- **Leases** – Do our current contract or lease agreements contain multiple lease components?
- **Lease terms** – Does our company have the right to exercise a renewal options on any of our leases?
- **Discount rate** – Do our leases have fixed rates?
- **Support** – Do we have the training and support for the ongoing maintenance of the lease standard?
- **Time** – Do we have an adequate amount of time to prepare, assess, and implement our plan?
- **Technology** – Can this be handled in house? Do we need new or upgraded software? What are our options?
- **Reporting** – How does this affect my reporting metrics? Does this affect any of my loan covenants?
- **Processes and Controls** – Will this add new and more procedures to my reporting team? What controls will we need to consider?

## OUR SOLUTION

As implementation is approaching there are many questions that will arise, and Dopkins offers a variety of solutions customized to your needs. In our experience, this implementation can require significant attention and investment of time from multiple departments, and potentially include the consideration of new or upgraded technology. Whether you require complete outsource assistance with the lease adoption or a single consultation we have the right service offering to fit your needs.

## INDUSTRIES SERVED:

- Auto Dealerships
- Charities and Tax Exempt Organizations
- Construction
- Financial Services
- Family Owned Businesses
- Food and Beverage
- Health Care/Medical Industry
- Insurance Companies
- Information Technology Security
- Life Sciences
- Manufacturing/Wholesale Distribution
- Real Estate Developers

## YOUR LEASE STANDARD IMPLEMENTATION TEAM

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Nick provides assurance and consulting services to clients from a diverse mix of industries, including health care providers, hospitals, health and life insurance, charities and tax exempt organizations, manufacturing and financial services.



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Jim spends a significant amount of his time on risk and internal control assessments, audit management as well as developing and implementing control gap remediation plans. He serves clients from diverse breadth of industries, including not for profit, healthcare, group self-insurers, construction, service, distribution and manufacturing sectors.



### **Bart F. McGloin, CPA, CFE, CFF**

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Bart serves as the partner-in-charge of the Firm's Assurance Services Group. He specializes in forensic accounting matters including fraud and embezzlement cases, litigation support services, and fraud prevention techniques.



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Tyler's technical expertise is focused on large, complex audit and consulting engagements. He serves clients from a variety of industries and has specialization in serving dairy cooperatives and large manufacturers.



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Andrew concentrates his practice on audit engagements also developed a specialization in internal controls and acquisitions. He has also built a niche practice with emphasis on employee benefit plans. He serves clients in the healthcare, cooperative, not-for-profit and manufacturing industry sectors.



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Mark primarily focuses on consulting engagements assisting clients by performing risk assessments, evaluating and improving internal controls, developing fraud prevention programs and facilitating change management and process improvement.