How to Assemble Your Lease Portfolio

Ben Belk, CPA

The LeaseQuery Story

George Azih
CEO and Founder of
LeaseQuery

Founded in 2011 by George Azih, LeaseQuery was the first lease accounting software **built by accountants for accountants**.

Our **mission is to help accountants** and other finance professionals **eliminate accounting errors** that will lead to material misstatements through our CPA-approved accounting software and implementation process.

Over the past decade, LeaseQuery has grown to a workforce of 300+ representing one of the fastest-growing FinTech companies today.

*LeaseQuery is a <u>minority owned company</u>

2000+	**93**	**99%**	**4.8**/5
CUSTOMERS	COUNTRIES	RETENTION RATE	AVERAGE RATING

LeaseQuery is the #1 Rated Lease Accounting software based on reviews by customers

Ben Belk

Technical Accounting Manager

Professional Background

- Masters of Accounting from Wake Forest University

- Former Senior Auditor at Deloitte

- Technical accounting with an emphasis on lease accounting

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Agenda

Polling Question #1

How do you currently plan to (or how did you) comply with ASC 842?

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." (ASC Master Glossary)

Identified asset

Right to control
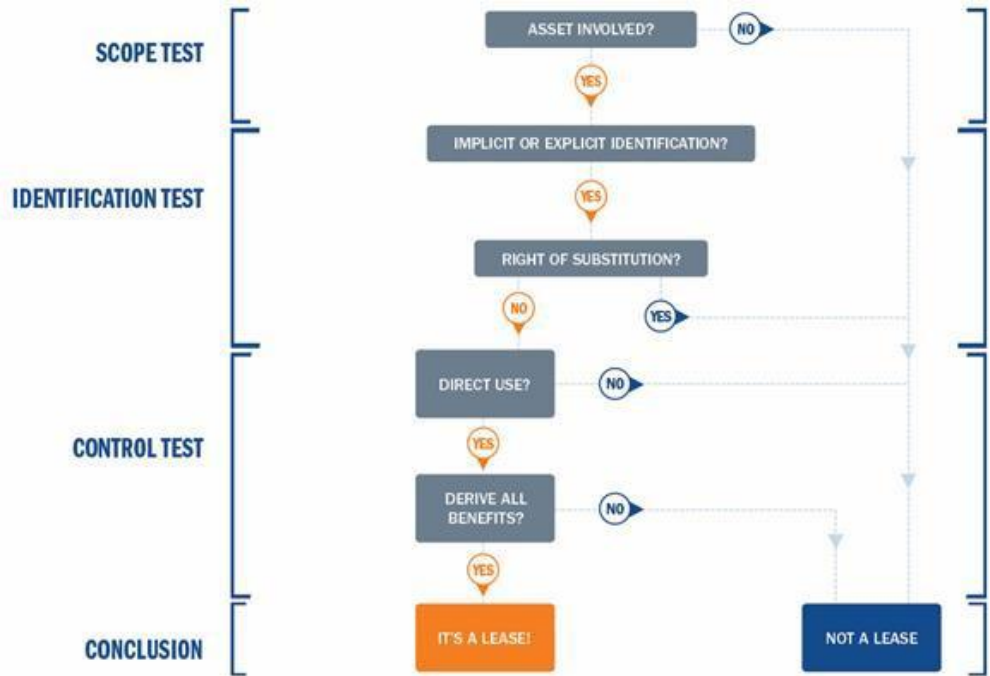
What isn't a lease under ASC 842?

LEASED ASSET		RELEVANT GUIDANCE
Intangible assets		ASC 350, Intangibles - Goodwill and Other
Rights to explore for or use minerals, oil, natural gas, and similar nonregenerative resources		ASC 930, Extractive Activities - Mining, and ASC 932, Extractive Activities - Oil and Gas
Biological assets, including timber		ASC 905, Agriculture
Inventory		ASC 330, Inventory
Assets under construction		ASC 360, Property, Plant and Equipment

Don't forget embedded leases!

Embedded leases are not easily identified at first glance - they are a lease that exists within a contract.
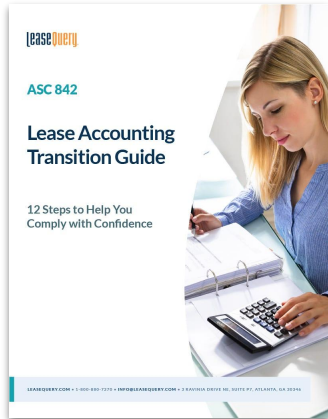
Embedded Lease Test

SCOPE TEST

ASSET INVOLVED? — NO

YES

IDENTIFICATION TEST

IMPLICIT OR EXPLICIT IDENTIFICATION?

YES

RIGHT OF SUBSTITUTION?

NO — YES

CONTROL TEST

DIRECT USE? — NO

YES

DERIVE ALL BENEFITS? — NO

YES

CONCLUSION

IT'S A LEASE!

NOT A LEASE

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Create an inventory of leases

Copies of contracts from all entities, departments, locations, etc.

Transition Resources

Transition Guide
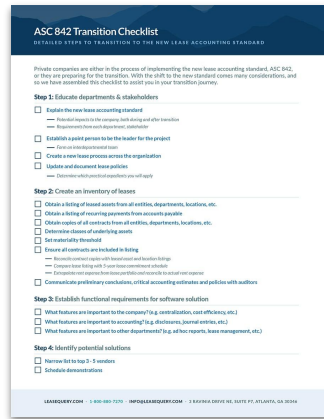
ASC 842 Transition Checklist

Lease Accounting Transition Advice from the Experts

How to Transition to ASC 842: A Step-by-Step Guide
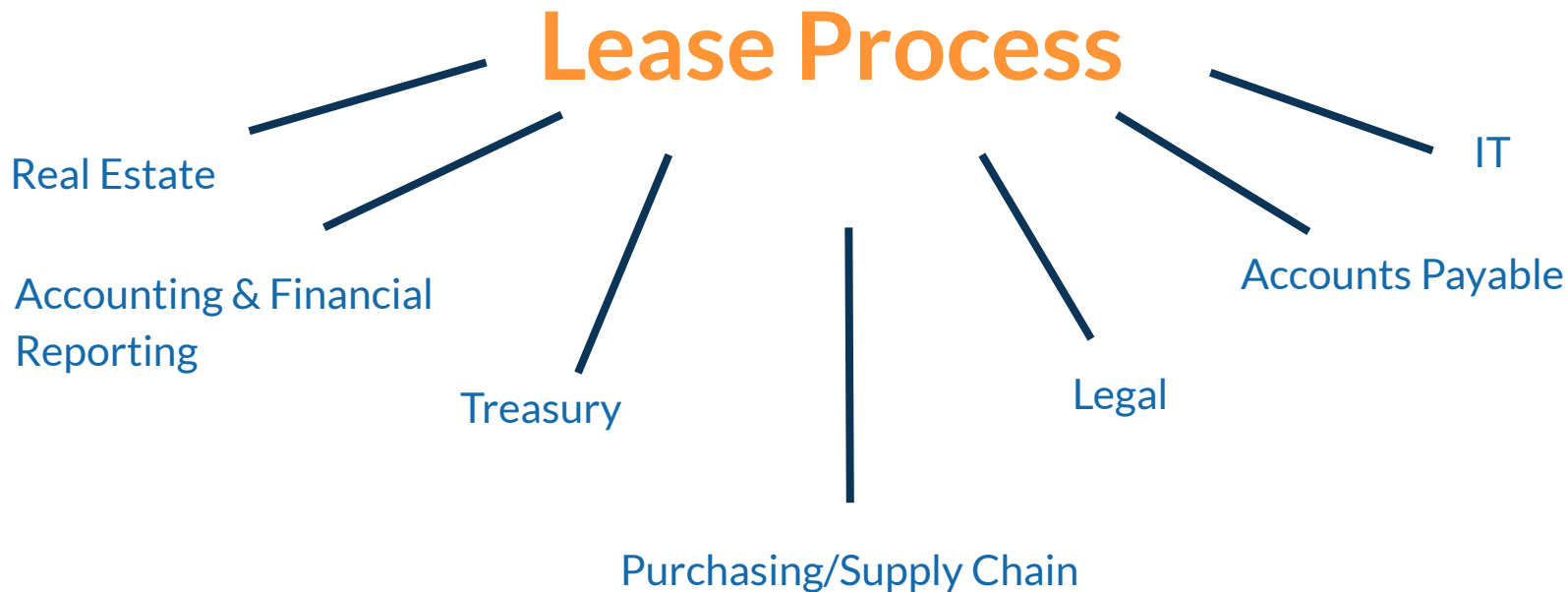
LeaseQuery®

How to build your lease inventory

Tips for gathering your lease inventory

1. Understand the requisition and purchasing process

2. Review rent expense recorded in the general ledger

3. Review recurring payment schedules

4. Request lists of known leases from each department

5. Review contract listings

Create an inventory of leases

List leased assets from all entities, departments, locations, etc.

	A	B	C	D	E	F	G	H	I	M	N
1											
2	**LeaseQuery**			**Leased Asset Tracker**							
3											
4	BUILT BY ACCOUNTANTS FOR ACCOUNTANTS										
5			Contract Information				Contact Information of Contract Owner			Lease Information	
6	Landlord/Lessor	Lease Description	Leased Asset Location	Start Date	End Date	Name	Department	E-Mail	Phone	Type of Lease	Embedded?
7	ABC Company	Forklift 4567	Warehouse A	01/01/20	12/31/25	John Doe	Facilities	john.doe@def.com	(770) 555-1234	Operating	No
8											
9											
10											
11											
12											
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14											
15											
16											
17											
18											

Validate completeness & accuracy of lease inventory

Ensure all contracts are included in lease inventory

Reconcile contract copies with leased asset and location lists

Annual extrapolated contract cost > All rent expense line items

> **May indicate you have identified more embedded contracts**

All rent expense line items > Annual extrapolated contract cost

> **May indicate you have have not identified all of your rental (lease) contracts**

Polling Question #3

How would you describe your understanding of ASC 842?

Establish lease accounting policies

Package of practical expedients

No re-assessment of lease classification

No re-assessment of initial direct costs

No re-evaluation of embedded leases

Pros

- Reduces the amount of time spent re-evaluating leases for transition

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Cons (if no)

- Re-evaluate each lease under the lease classification criteria of ASC 842
- Re-evaluate existing or expired leases (i.e. embedded leases or omitted leases agreements)
- Reassess initial direct costs, which may lead to an equity adjustment

Combining lease & non-lease components

This expedient allows lessees and lessors to account for each lease and non-lease component as a single lease component

Pros

- Save time, whether applied by class of asset or the entire portfolio

\>

Cons

- Produces a higher lease liability balance

Discount rates

FASB has provided companies with alternative to determine the rate for calculating the present value of lease payments:

- Incremental Borrowing Rate (IBR)
- Risk-Free rate*

Pros

- minimize the legwork required to evaluate the implicit rate
- cost efficiencies

>

Cons

- higher lease liability balance

Materiality Policy

Main Takeaways

Establish a policy with a threshold for your leased assets that you deem appropriate.

This will reduce time and expense on the front end.

Write a memo about the reasoning behind your decision, and ensure you have the buy-in from your auditors.

Communicate accounting policies

- Materiality

- Determine lease accounting software solution policies

- Create interest rate guidelines

- Develop and document control and output testing procedures

Polling Question #4

Would you like a demo of LeaseQuery?