



# LEASE ACCOUNTING 90 THINGS TO DO IN THE LAST 90 DAYS

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**SECTION 1****ACCOUNTING POLICIES, ELECTIONS, AND TRANSITION STRATEGIES**

Prior to the effective date, organizations will need to update accounting policies and elect practical expedients. Accounting teams should solicit feedback from external auditors to ensure they are applying the new standards correctly.

	Issue	Validation	Status	Notes
1	Accounting Policies	Have you updated your accounting policies and position papers for topics such as lease definition, lease classification, short term leases, and low value leases to reflect options available under the new standards?		
2	Practical Expedients	Have you finalized your choice of practical expedients like separating lease and non-lease components and the “package of three” for lease classification, embedded leases, and initial direct costs?		
3	US GAAP vs IFRS Options	Have you reviewed the different policy options and practical expedients available under ASC842 and IFRS16? Have you compared the differences and impacts between the two?		
4	Judgments	Have you documented significant judgments associated with the historical lease portfolio?		
5	Auditor Feedback	Have you reviewed your updated policies, transition options, and practical expedients with your external auditors?		

Additionally, accounting teams will need to define an overall strategy for transitioning the new standards, including the specific timeline for deploying new systems, policies, and controls.

## LEASE ACCOUNTING 90-DAY COUNTDOWN CHECKLIST

	Issue	Validation	Status	Notes
6	Reconciliation	Have you identified inconsistencies between your historical reporting under ASC 840/IAS 17 and performed the appropriate reconciliations and adjusting entries?		
7	Timing	Do you have a defined date for transition at which you will cut over to a new system and begin accounting with the new standards?		

## SECTION 2

### BUSINESS PROCESS READINESS

Success with ASC 842 and IFRS16 will require companies to define future state processes for lease administration and lease accounting. For each of these business processes you will need to have defined responsibilities for each task and assigned ownership to specific teams or individuals. Examples of future state business processes might include:

	Issue	Validation	Status	Notes
8	New Leases	Do you have a process for identifying new leases after they are signed to perform the appropriate initial recognition and measurement?		
9	Changes to Leases	Do you have a process for tracking changes to existing leases that may result in modifications, reassessments, and remeasurements?		
10	Cost Center Changes	Do you have a process for changing cost centers associated with lease contracts and individual assets?		
11	Location Changes	Do you have a process for tracking changes to the location and existence of equipment leases?		
12	Employee Changes	Do you have a process for tracking changes to the employees that are responsible for the leased assets?		
13	End-of-Term Decisions	Do you have a process for tracking end-of-lease renewals, terminations, and asset buyouts to ensure you are performing the appropriate recordation in systems?		
14	Changes to End-of-Term Decisions	Do you have a process to identify triggering events and/or facts and circumstances that		

## LEASE ACCOUNTING 90-DAY COUNTDOWN CHECKLIST

	Issue	Validation	Status	Notes
		impact your initial judgements about your expected end-of-term decisions?		
15	Complex Leases	Do you have processes for identifying leases that might be executed using less common business processes, such as embedded leases, subleases, and sale-leaseback transactions?		
16	Monthly Close	Have you updated your monthly and quarterly close processes to include lease accounting in your cutoff, reconciliation, consolidation, reporting, and disclosure activities?		

## SECTION 3

### ORGANIZATIONAL READINESS

Many companies are establishing leasing centers of excellence within their accounting shared service centers around the world. In some cases these centers will perform both lease accounting and lease administration. In other cases, the scope will be limited to accounting. The centers might be staffed with in-house company resources or the employees of a third-party business process outsourcing firm. Organizations should consider:

	Issue	Validation	Status	Notes
17	Staffing Strategy	Have you determined the staffing for the center of excellence and the right mix of different functional groups that should be a part of the overall program?		
18	Hiring Status	What percentage of the required staff have been hired?		
19	Staff Readiness	What is the state of readiness of the existing staff to support the lease accounting program on day one?		
20	Job Openings	What is the plan to fill open job positions before the effective date?		
21	Additional Budget	Is additional budget required to staff the center of excellence to support post-adoption activities on day two and beyond?		
22	Consultants	Are external consultants involved with supporting the lease accounting program and if so what is the plan to transition to in-house staff?		

## LEASE ACCOUNTING 90-DAY COUNTDOWN CHECKLIST

	Issue	Validation	Status	Notes
23	Outsourcing Options	Have you considered outsourcing the day-to-day management of the lease accounting program to a third party?		

While centers of excellence can ensure the accounting is performed accurately, their success is dependent upon collaboration with other stakeholders across the business. Organizations should ensure that critical dependencies upon other stakeholders around the business have been communicated and negotiated prior to the effective date. Examples might include:

	Issue	Validation	Status	Notes
24	Real Estate Owners	Has the scope of responsibilities required by the corporate real estate team been defined and agreed upon?		
25	Equipment Owners	Has the scope of responsibilities for the IT, fleet, operations, and other teams that manage equipment leased assets been defined and agreed upon?		
26	Regional Accounting	Has the division of responsibilities between regional accounting teams and the leasing center of excellence been defined and agreed upon?		

## SECTION 4

### DATA READINESS

Over 100 data elements may be required for each individual leased asset to ensure that the proper accounting is performed. While many of these data elements can be abstracted from the lease, others must be obtained from other internal systems and organizations. Most companies are in various stages of abstracting, collecting, and cleansing the data from leases and uploading it into a lease accounting application. As organizations approach the effective date they should closely monitor the status of data collection efforts including:

	Issue	Validation	Status	Notes
27	Data Capture	What percentage of your lease population data has already been uploaded into the lease accounting application?		
28	Data Quality	How many of the uploaded leases do not have complete information or require additional research?		
29	Concurrent Changes to Data	Do you have a parallel process in place for tracking new leases and changes to existing leases that might occur during the data upload, systems testing, and deployment phases?		
30	Financial Variables	How many key financial variables, such as tax rates, economic lives, equity/debt weights, and foreign exchange rates, have been uploaded into the system?		
31	General Ledger Data	Has the chart of accounts and general ledger codes been uploaded into the system?		
32	Master Data	Has corporate master data, such as legal entities, corporate addresses, geographic		



## LEASE ACCOUNTING 90-DAY COUNTDOWN CHECKLIST

	Issue	Validation	Status	Notes
		regions, and leasing companies been entered into the system?		
33	Incremental Borrowing Rates	Do you have a timeframe for defining the incremental borrowing rates that will be used for transition?		
34	Completeness	Do you have a strategy to validate the completeness of the historical lease population prior to the effective date?		

## SECTION 5

### SYSTEMS READINESS

Most companies are in the process of implementing new lease accounting systems to automate the record-to-report processes for ASC 842 and IFRS 16. In the final stages of the software implementation, companies should focus on testing functionality and performance as well as ensuring that the appropriate level of support from vendors and IT will be available after the effective date.

	Issue	Validation	Status	Notes
35	Product Roadmap	Have you received your vendor's latest product roadmap and identified critical functionality that will not be ready before your transition date?		
36	Quality Assurance	Have you reviewed your vendor's plan for performing quality assurance testing to validate the accuracy of accounting outputs?		
37	Regression Testing	Have you developed a regression testing plan and cadence to validate new releases from your software vendor?		
38	System Performance	Have you reviewed your vendor's plan for transitioning to thousands of ledger entries on the effective date and the potential system performance issues that might occur?		
39	First Close Support	Have you reviewed your vendor's plan for staffing and supporting your organization during the cutover to ASC 842, the first month's close, and the first quarter end?		
40	Information Security	Has your lease accounting software provider satisfied all outstanding information security and compliance risks that were identified during the vendor selection process?		

## LEASE ACCOUNTING 90-DAY COUNTDOWN CHECKLIST

	Issue	Validation	Status	Notes
41	IT Operations Readiness	If you are running an “on-premise” lease accounting application, does your corporate IT team have a plan in place for running the application in production including technical support, system monitoring, incident response, and disaster recovery?		
42	User Accounts	Have user accounts, roles, and privileges been configured in the production environment?		
43	Policy Configuration	Have accounting policy thresholds been configured in the system?		
44	Reporting Configuration	Have the appropriate reports for portfolio trial balance, roll forward, maturity analysis, and weighted averages been configured?		
45	Service Controls Audit	Do you have copies of the most recent SOC 1 and/or SOC 2 audit reports from software vendors?		
46	External Consultants	Have you reviewed the list of issues, risks, and concerns with any external consultants that are supporting the software implementation?		

## FINANCIAL SYSTEMS INTERFACES

Most companies are delaying integration between their lease accounting application and the other financial systems until after the transition to the new standard. Nonetheless, in the meantime companies will need a strategy to keep information in sync between applications to ensure that the accounting remains accurate. At a minimum companies should be considering questions such as:

	Issue	Validation	Status	Notes
47	General Ledger Upload	Do you have a strategy for how you will upload journal entries from your lease accounting application into your various general ledgers at month end?		
48	General Ledger Errors	Do you have controls in place to detect duplicate, erroneous, or missing journal entries following the upload to GLs?		
49	Asset Management Systems	Do you have a plan for how you will keep the details about leased assets in sync between your accounting systems and various real estate admin, IT asset management, fleet management, and fixed asset systems?		
50	Master Data	Do you have a plan for keeping ERP master data such as general ledger codes, foreign exchange rates, and incremental borrowing rates up-to-date in your lease accounting system?		

## SYSTEMS CONTINGENCY PLANS

Very few, if any, companies anticipate having a fully functional software system implemented by the effective date. As a result, many companies are identifying manual “brute force” approaches to handle gaps in software functionality during the first quarter of adoption. Organizations should consider:

	Issue	Validation	Status	Notes
51	Alternative Business Processes	Have you identified which processes will be handled outside of your lease accounting system during the first quarter following adoption?		
52	Alternative Tools	Will you require short-term tools such as spreadsheet-based models to perform activities outside of the lease accounting system post adoption?		
53	Alternative Controls	Have you defined additional controls, testing, and documentation that will be required for manual business processes?		
54	Additional Internal Staff	Do you have resources aligned to perform these manual processes in your lease accounting center of excellence or other parts of the business?		
55	Additional External Resources	Will you require consultants to continue supporting the data upload, testing, or manual workaround procedures during the first quarter following adoption?		
56	Risks	Have you identified the top potential risks that could be introduced by performing accounting outside of the system?		

## SECTION 6

### ACCOUNTING TESTING AND VALIDATION

Accounting teams will want to verify that the outputs from lease accounting systems and manual processes are accurate. Organizations should ensure that the journal entries and quantitative disclosure reports being exported from the leasing subledger produce accurate accounting under ASC 842 and IFRS 16. Potential test scenarios might include:

	Issue	Validation	Status	Notes
57	Variable Rents	Have you tested a mix of different fixed and variable rent payments with different frequencies, timings, and currencies of both high and low value?		
58	Other Lease Payments	Have you tested a mix of different lease structures that include variables such as interim rent, initial direct costs, lease incentives, security deposits, and asset retirement obligations?		
59	Start Dates	Have you tested a mix of different start of lease use cases with varying available for use dates and commencement dates both before and after transition?		
60	Modifications and Reassessments	Have you tested a mix of middle-of-term changes to contracts or “reasonably certain” business plans that would trigger a modification, reassessment, or remeasurement?		
61	Real Estate End-of-Lease	Have you tested a mix of different end-of-lease scenarios for real estate renewals, expansions, terminations, and month-to-month holdover scenarios?		

## LEASE ACCOUNTING 90-DAY COUNTDOWN CHECKLIST

	Issue	Validation	Status	Notes
62	Equipment End-of-Term	Have you tested a mix of different end-of-term scenarios for equipment leases including full and partial renewals, buyouts, returns, and month-to-month evergreen payments?		
63	General Ledger Upload	Have you tested the process of uploading journal entries from your leasing subledger into your general ledger?		

## SECTION 7

### TRAINING PROGRAMS

Organizations will only be successful implementing the new business processes for the future state if they are properly trained. Individuals in both the center of excellence as well as your business units will need to be trained on any changes to processes, policies, and controls. Perhaps the most time-intensive effort will be training power users on the new lease accounting system.

	Issue	Validation	Status	Notes
64	Leasing Center of Excellence	Have you trained lease accountants in the center of excellence on performing the record-to-report processes, including entering new leases into the system, making modifications to existing leases, and performing end-of-month close activities?		
65	Lease Administration	Have you trained lease administrators in your center of excellence or real estate teams on changes to processes related to booking and contracting of new leases and end-of-term recordation for expired leases?		
66	Corporate IT	Have you trained corporate IT organizations on any systems administration activities related to lease accounting applications, such as new systems interfaces, user administration, information security, and business continuity procedures?		
67	Corporate Functions	Have you trained corporate functions such as Procurement, Contracts, and Treasury on changes impacting procure-to-pay, capital sourcing, and lease versus buy activities?		



## LEASE ACCOUNTING 90-DAY COUNTDOWN CHECKLIST

	Issue	Validation	Status	Notes
68	Accounts Payable	Have you trained Accounts Payable on any changes related to invoice capture, validation, matching, or disbursement activities?		
69	Corporate Real Estate	Have you trained corporate real estate teams on any changes related to negotiating leases, processing invoices, exercising options, and sublease management?		
70	Equipment Asset Owners	Have you trained users of equipment leases such as Corporate IT, Operations, Logistics, and Transportation in changes impacting purchase requisitions, asset tracking, and communicating updates to “reasonably certain” end-of-term plans?		

## SECTION 8

### AUDIT READINESS

Under ASC 842 and IFRS 16 most operating leases are moving to right-of-use assets and liabilities on the balance sheet. As a result, there will be additional scrutiny from external auditors to ensure the accuracy of accounting under the new standards. Organizations should ensure they have implemented the appropriate controls to satisfy auditor concerns about existence and occurrence, completeness, valuation and allocation, rights and obligations, presentation, and disclosures.

	Issue	Validation	Status	Notes
71	New Leases	Do you have controls in place to limit who can enter into a lease and in what business scenarios leases should be executed?		
72	Contracts	Do you have controls in place to manage individual real estate and equipment lease contracts and all inherent activity?		
73	Assets	Do you have controls in place to manage individual leased assets for real estate and equipment and all inherent activity?		
74	Contract Terms	Do you have controls in place to ensure that contract terms of leases are adhered to?		
75	Cutoff and Close	Do you have processes in place to confirm at period end that all lease contracts and individual leased assets are accounted for?		
76	Responsibility Centers	Do you have processes in place to accurately assign lease expenses across entities, geographies, departments, business units, and cost centers as necessary?		

## SECTION 9

### BOARD AND EXECUTIVE COMMUNICATIONS

As the effective date gets closer lease accounting project leaders will need to provide additional updates to the CEO, CFO, and internal and board audit committees on the status of the project. Issues that the executive leadership and board members will be concerned with might include:

	Issue	Validation	Status	Notes
77	Financial KPI Impacts	Have you shared pro-forma financial statements and disclosures which highlight the expected impact of new standard?		
78	Implementation Risks	Have you shared any potential implementation delays, issues, and risks that might be caused by resources, systems, or external vendors?		
79	Auditor Feedback	Have you shared the risks identified by external auditors and the plan to address the issues?		

## SECTION 10

# PRESENTATION AND DISCLOSURES

Organizations will need to identify the key presentation and disclosure requirements resulting from the new standards. These include not only updates to balance sheet presentation, but also additional quantitative and qualitative disclosures. While the majority of the requirements impact financial statements that will be issued following the effective date, there will also be disclosures required in the current year filings as well. Factors to consider include:

	Issue	Validation	Status	Notes
80	SAB 74 Disclosures	Have you updated your SAB 74 disclosures for your upcoming Q4 and annual 10-K filings to reflect the latest insights on the impact of the standard to your financial statements and the methods of adoption planned?		
81	MD&A	Have you prepared management discussion and analysis for your upcoming annual 10-K to include remarks about the impact of adopting ASC 842?		
82	Statutory	Have you identified local country statutory presentation and disclosure requirements that will be impacted by the new standards?		
83	Frozen GAAP Requirements	Have you identified any requirements to continue reporting in ASC 840 and/or IAS 17 to support debt covenants, insurance contracts, or regulatory requirements?		
84	Frozen GAAP Ledgers and Reporting	Do you have a strategy for continuing to maintain a general ledger in ASC 840 and/or IAS 17?		

## INVESTOR COMMUNICATIONS

In addition to prepared disclosures, investor relations teams should be prepared to proactively and reactively communicate with ratings agencies, institutional investors, debtholders, and other users of financial statements about matters related to the adoption of the new lease accounting standards.

	Issue	Validation	Status	Notes
85	Ratings Agencies	Does the investor relations team have a plan to communicate expected changes to financial KPIs to market and ratings agencies?		
86	Shareholder Communications	Does the investor relations team have a preliminary communications plan for responding to investor inquiries following the release of your upcoming 10-K and first 10-Q under ASC 842?		

## SECTION 11

### OTHER BUSINESS IMPACTS

There are a number of other potential business impacts to the organization as a result of the new standards. Project teams should ensure issues such as tax accounting, debt covenants, compensation plans, and leasing strategies have been satisfactorily addressed:

	Issue	Validation	Status	Notes
87	Tax Impacts	Is your corporate tax organization prepared for the impacts to tax accounting methods, deferred tax accounting, state taxes, transfer pricing, tax processes, and systems?		
88	Debt Covenants	Has your corporate treasury organization identified, researched, and resolved any issues that might be associated with debt covenants impacted by the introduction of the new standard?		
89	Compensation Plans	Has the human resources organization updated any executive compensation plans with new metrics impacted by the transition to the new standard?		
90	Leasing Strategy	Have the sourcing and corporate treasury organizations evaluated the impacts of the new standards to the corporate lease versus buy strategy?		