

Implementing Lease Accounting under ASC 842

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Introduction:

ASC 842 – *Leases* – We’ve been hearing about it for years, and it’s FINALLY HERE for private companies maintaining their financial records in accordance with Generally Accepted Accounting Principles (GAAP). Adoption date for calendar year-end businesses is January 1, 2022, which means you should already be reporting your financial position and results of operations with the updated lease standard in place.

There are many comprehensive accounting guides for ASC 842; this is not one of those guides. This brief guide assumes you have been exposed to the standard, have an idea of what impact it will have on your business, and are seeking to determine the next steps for your business. However, if you need a comprehensive guide, please contact me and I will send a link to a guide that is best suited for your needs.

During my 18 years as an auditor, I advised a number of audit clients on lease accounting under both the legacy accounting guidance and the updated ASC 842 guidance. As has been said many times, ASC 842 results in some pretty significant changes to an entity’s balance sheet. As I’ve advised clients on ASC 842, I understand the common consensus of small to mid-sized businesses is to take an internal approach to adoption, typically using Excel spreadsheets, to implement, and subsequently track, the accounting for their leases. I get it – I understand that approach and I support it in some circumstances. If that is where you’ve concluded your business is best served, it can be done; but, please see below for some **Risks and Considerations** in using Excel to account for your leases.

For businesses with more complex lease terms or a larger number of leases in place, the implementation of and accounting for ASC 842 will likely be more complicated and time consuming. Maintaining efficiency in the implementation and future accounting processes is a high priority for all of my clients.

Most businesses don’t have available resources to dedicate to this standard, which is why many small and mid-sized businesses are still deferring adoption. If this sounds like your business, please see the below **Call to Action**.

If you’ve reached out to a large accounting firm to inquire about implementation assistance, you were likely hit with significant sticker shock at the quoted cost and a long wait time to have someone start on your project. While this is still the case with the larger firms, there are some opportunities to engage a knowledgeable specialist, like Gregor Accounting, to assist with your implementation at a more manageable cost. See below for a listing of ways **Gregor Accounting can help**.

Further, some of the easiest software solutions to find in a web search will also leave you with similar sticker shock when you see their published pricing. I’ve gathered some data on a variety of software

providers and will share some additional insight on that process in the below [Third-Party Software Solutions](#) section.

Risks and Considerations in using Excel in ASC 842 Accounting

I previously led training courses on data analysis and one of the statistics I liked to highlight was the estimated number of Excel spreadsheets that contain errors is approximately 88%. As a long time auditor and accountant, I have lived my professional life in Excel and found my share of errors in a variety of spreadsheets. Even with a formalized review process, there is an increased risk of undetected errors in Excel files.

As your lease count increases, the complexity of formulas will also increase. In practice, you will likely have one lease per tab in Excel with a summary tab combining the detail tabs on a summary level. For a savvy Excel user, this may be a fun project; but, for the average accounting manager with a variety of tasks always being juggled, the initial preparation and subsequent edit of a spreadsheet may not be highest priority. Add in the consideration of new leases, amended leases, changing rental rates, etc., using a spreadsheet will become complicated with more than a handful of leases to track. Internal controls should also be considered, including access controls, version control, backup, etc. While these should not be new considerations for any Excel based financial record, it still increases the responsibilities of the in-house accounting and IT team.

While there are circumstances where I support the use of Excel to implement this standard, my recommendation is to first consider a third-party software solution, which can help eliminate errors, improve efficiency, potentially reduce cost, and ultimately make their team's collective lives easier. If a third-party software vendor is not right for your business, then my recommendation is to utilize an Excel based lease template, which has been developed and tested with this standard in mind. Contact me for a sample template and a walkthrough of the functionality.

Third Party Software Solutions

In my pursuit of offering the best guidance to my clients, I've explored multiple third-party lease software options and have made an independent assessment of their capabilities, ease of use, and cost. I did this with the intent of saving you and your team time and hopefully reducing the risk of making the wrong choice in a lease software provider. I still encourage you to take the time to view a demo of at least two or three lease software providers to make an informed decision, as this vendor selection is likely to be a long-term relationship for your business.

Knowing different businesses have different needs in a software solution, I can make a recommendation based on the nature of your lease portfolio and your budget. Included in my recommended vendor list are a few ideal options for smaller businesses with limited leases, with a very reasonable entry price point. I also have a higher-end option I will present to you; however, given the common view of this standard being a waste of time and money, with no benefit to an individual entity, I don't expect many clients will be interested in the full scale "bells and whistles" option. To be transparent, I have identified software solutions that start below \$1,000 per year, with user-friendly data entry, comprehensive monthly journal entry reporting, and financial statement disclosure summarization.

Call to Action

If your business has not yet started the assessment phase of adopting ASC 842, the time to start is now. The standard is already effective for private companies, so the potential for further deferral is extremely low. If your team has the capability to handle the adoption, it's time to put together a project plan to ensure the implementation takes place timely to overcome any unforeseen challenges.

If you are strongly against paying for a third-party software program to track your leases, consider the increased time and effort by your internal team to update your lease accounting on an ongoing basis. If your monthly journal entries to account for 10 leases takes one hour to prepare and even 15 minutes to review, that internal cost is likely to quickly exceed \$100 per month. An entry level software solution can easily be well below this cost, making the journal entry process seamless, and in some cases, automated, after the initial setup.

If your business has a handful of leases and a software solution isn't on your list, you should identify a reliable template to use to analyze your leases. Once you have your leases gathered and your templates prepared, ensure a detailed review takes place of the data to help limit the risk of errors in the individual calculations and the respective monthly journal entries.

How Gregor Accounting Can Help

Contact Gregor Accounting today if you are looking for a customized service offering for the adoption of ASC 842. A fully customized approach can include:

- Software vendor assessment and recommendation
- Review of your internal team's implementation process
- Internal control documentation and assessment
- Excel based lease template preparation
- Consultative Q&A sessions
- Full implementation services

If you have further questions or to find out more, contact Gregor Accounting today.



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About Gregor Accounting, P.A.

Gregor Accounting, P.A. is a Winter Garden, FL based accounting firm licensed in the State of Florida. Following 18 years of increasing levels of responsibility as a financial statement auditor, Joe Gregor set out to bring his knowledge and experience to small and mid-sized businesses around the Central Florida market. Gregor Accounting provides customized accounting services, mutually designed to provide business owners/managers with meaningful, useful financial information for use in the analysis of your business operations.