

# Implementing the New Leases Standard

## Private companies need to plan and prepare now for 2022.

While FASB issued ASC 842, *Leases*, in 2016 — a standard that will impact organizations across all industries that have leases and issue any type of financial statement under GAAP — private companies and not-for-profits will have to implement the standard beginning in 2022. These organizations will need to record on the balance sheet both a right-of-use asset and a lease liability for substantially all leases.

A complex standard to implement for many reasons, a July 2021 survey of our private company clients showed that approximately 90% have not yet adopted the new standard, and roughly 85% have either not begun thinking about, or are in the very early stages of thinking through, the process. For those in this stage, creating an implementation plan now will be critical to getting to the finish line on time.

The bright side is that private companies can find efficiencies learning from public companies who were required to adopt the standard for calendar year 2019. The “grossing up” of balance sheets, analyzing the effects to covenant compliance and potential impact to EBITDA, and identifying embedded leases are just a few of the pitfalls private organizations can be prepared to navigate. Regardless of where you are in the process, executing a well thought out plan now will help your organization be compliant in 2022.

### What You Should Know

#### ***Begin preparing by doing the following:***

1. Identify lease agreements under the new requirements of ASC 842
2. Separate lease and non-lease components
3. Review abstract data (terms, lease payments, discount rate, etc.)
4. Account for the lease as a lessee or lessor and subsequent recognition
5. Present and disclose financial reports

#### ***Key action items and discussion points to coordinate with your accounting team***

- ◆ Determine the right balance of internal versus external resources
- ◆ Take a complete inventory of all current capital and operating leases
- ◆ Retain all lease documents in a central location; review each, extracting all information needed for calculations
- ◆ Discuss accounting policy elections and practical expedients in the standard and document your decisions
- ◆ Calculate the right-of-use assets and liabilities that will be added on the balance sheet
- ◆ Review and consider the impact to current loan covenants (and expiration dates)
- ◆ Establish and document policies/procedures/controls for reviewing, classifying and accounting for leases, including modifications and reassessments

*(Continued on next page)*

### Critical Considerations

- ▶ Are you including the right people beyond your finance team?
- ▶ Have you considered options related to buy vs. lease, or renegotiating existing leases?
- ▶ Do you have embedded leases not currently identified as leases?
- ▶ Do you have the right software/tracking mechanisms in place?
- ▶ How does your bank expect you to present financial statements and any potential impact on covenants?
- ▶ Have you considered necessary changes to internal controls?
- ▶ Have you factored in enough time?

## How we can make a difference

### Deep, targeted expertise

- ◆ Big 4-level expertise and hands-on partner involvement
- ◆ Hands-on dedicated team of experienced accountants focused exclusively on private companies
- ◆ Have spent considerable time helping clients assess their situation and get prepared
- ◆ National-level knowledge and expertise
- ◆ Personal attention and flexibility generally experienced only with boutique firms

### Efficient, tailored approach to fit private company needs

- ◆ Developed a tailored and scalable approach specifically focused on the needs of private companies
- ◆ Work directly with company and external auditors to lower internal burden of adoption

### How we can help with the new leases standard

#### *We offer a full service or à la carte approach.*

- ◆ Identify and document current lease classifications and calculations for the transition date and subsequent reporting periods
- ◆ Assist with identifying embedded leases
- ◆ Assist with formally documenting lease policies surrounding reviewing, classifying and accounting for leases, including lease modifications and lease reassessments
- ◆ Assist in preparing required disclosures
- ◆ Assist management with the impact of the adoption of the new standard at the transition date
- ◆ Assist with selecting and implementing software
- ◆ Assist with tax compliance
- ◆ Conduct incremental borrowing rate (IBR) analyses
- ◆ Evaluate impact to other areas of the business
- ◆ Provide supplemental training and education to company staff

## It starts with a conversation

We'd love to help you implement this new standard smoothly and efficiently. Contact your Cohen & Company service team or one of our leases standard leaders below.



**Gino Scipione, CPA**  
**Partner, Assurance**  
216.923.5136  
gscipione@cohencpa.com



**Kristen deMoulied,**  
**CPA, MBA, MST**  
**Partner, Tax**  
216.774.1187  
kdemoulied@cohencpa.com



**Aaron Sulzer, CPA, MBA**  
**Senior Manager,**  
**Assurance**  
216.774.1248  
asulzer@cohencpa.com