

Implementing the New Leases Standard

Private companies need comprehensive resources to understand, plan for and implement ASC 842.

ASC 842, *Leases*, impacts organizations across all industries that have leases and issue any type of financial statement under GAAP. The standard went into effect for private companies and not-for-profits beginning in 2022 and is complex for many reasons.

The bright side is that these organizations 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 is key.

What you should know

Begin preparing by doing the following:

- ◆ Identify lease agreements under the new requirements of ASC 842
- ◆ Separate lease and non-lease components
- ◆ Review abstract data (terms, lease payments, discount rate, etc.)
- ◆ Account for the lease as a lessee or lessor and subsequent recognition
- ◆ 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

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?

Who We Serve

We work with privately held companies ranging from pre-revenue start-ups to mature, multi-billion-dollar enterprises, including:

- ◆ Closely held corporations
- ◆ Not-for-profit organizations

How we can make a difference

Deep, targeted expertise

- ◆ National-level knowledge and expertise with more than 40 years of influencing, interpreting and applying emerging tax and accounting guidance
- ◆ Hands-on partners and a dedicated team of experienced accountants focused exclusively on private companies
- ◆ Have spent considerable time helping clients assess their situation and get prepared
- ◆ 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

Why Choose Cohen & Company

- ◆ National-level knowledge and expertise with more than 40 years of influencing, interpreting and applying emerging tax and accounting guidance
- ◆ Incredible tax depth with more than 200 highly skilled tax professionals that reach into almost every niche
- ◆ Significant expertise in real estate, transaction services, valuation, private equity and management consulting for support on transactions and overall business operations
- ◆ Hands-on partners, personal attention and flexibility generally experienced only with boutique firms
- ◆ Average partner tenure of more than 15 years
- ◆ Internal culture that creates tight-knit teams resulting in a cohesive client approach



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.



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