

WEBINAR

Lessons Learned Topic 842 LeaseCrunch Software Demo

LEASE  CRUNCH®

Meet the Team



Stephen Austin

Firm Managing Partner
Swenson Advisors



Joel Colbourn

Lease Accounting Director
Swenson Advisors



Ane Ohm

CEO
LeaseCrunch



Don Mitchel

Managing Principal
Cresa

Bios



Stephen Austin

Firm Managing Partner,
Swenson Advisors

Steve Austin manages audit, SEC, Sarbanes-Oxley, and business consulting engagements with a focus on technology, manufacturing, service, real estate, social media, and non-profit organizations. He is the author of the book "Rise of the New Ethics Class." Steve speaks worldwide on governance, Sarbanes-Oxley, and IFRS matters and writes articles published by the AICPA.

Joel Colbourn

Lease Accounting Director,
Swenson Advisors



Joel Colbourn is a finance/treasury professional with more than 20 years of experience directing accounting and finance operations in global organizations. Joel's experience covers various industries including services, aerospace and defense, technical services and solutions, technology and consumer products.

Bios



Ane Ohm

CEO, LeaseCrunch

Ane Ohm is passionate about helping organizations use technology to be more effective in their daily lives. She is Co-Founder and CEO of LeaseCrunch, a Software-as-a-Service technology that helps CPA firms simplify the rollout of the new lease accounting standard for their clients. In addition to her role as LeaseCrunch CEO, Ane owns a Hartford-based staffing firm and serves as Board Emeritus for the Bread of Healing Clinic, a free clinic in Milwaukee. She has been recognized as a Woman Manager of the Year by Women in Management, Fox Valley Chapter.

Don Mitchel

Managing Principal, Cresa



Don began his career in 1980 representing landlords at CBRE before joining Cresa in 2008. He has transacted over 1,700 leases, 134 sale transactions, and over \$1.75 billion in volume. Don's clients recognize his acute vision for their financial, cultural and growth goals, his in-depth market knowledge, finance expertise, attention to detail, and his ability to organize and respond timely to his client's needs. Don represents national and international clients, some for over 25 years.



About LEASECRUNCH®

Named by Accounting Today as one of the top new products of 2019, LeaseCrunch provides cloud-based lease accounting software for CPA firms, designed to help organizations implement the new lease accounting standards, ASC 842 and IFRS 16.

Designed by CPAs, former Big 4 public accounting auditors, software development veterans and a former member of the FASB staff, the application offers an easy-to-use customer interface that delivers “audit in a box” lease accounting services, reducing the time it takes clients to prepare for an audit.

LeaseCrunch allows companies to identify policy elections for the leasing standard through templates for both US GAAP and IFRS.

About



Swenson Advisors, LLP is a full service accounting, tax, and consulting firm. Since 1998, the Firm has provided comprehensive services to middle-market public and private companies, as well as high net worth individuals throughout Southern California.

The Firm services a variety of industries including technology, real estate, manufacturing, distributing, biotechnology, and nonprofits.

About **cresa** ::

Cresa was established in 1993 as a “tenant exclusive” company. It is the largest pure tenant representation company in the world and has continued to expand our range of service offerings and integrated services that cover every state of the real estate life cycle, from the strategy and planning stages through to move management. These services drive the tactical execution behind our strategic thinking, and they lead directly to solutions that reduce costs, improve operations, and enhance the performance of your workforce.

Cresa covers over 200 locations including offices in Miami and South Florida, as well as in 40 countries and over 1,000 employees, making us the largest pure tenant representation firm in the world.

New lease standard effective dates for FASB:

public companies

years starting
after 12/15/18

all other organizations

years starting
after 12/15/19

Agenda

- ASC 840 to ASC 842: Differences, Similarities, and Timeline
- Surprises with the New Lease Standard
- Common Mistakes to Avoid
- Unexpected Business Impacts
- Tips to Simplify Implementation

ASC 840 to ASC 842: Differences and Similarities

Differences

- Operating leases on balance sheet
- Finance leases
- Lease classification
- No deferred or prepaid expense
- Initial direct costs
- Cash flow statement
- Footnote disclosure
- Centralized recordkeeping

Similarities

- Income statement unchanged
- Capital and finance lease calculations
- Renewal criteria: Reasonably assured = reasonably certain

Pre-01.01.20

Applied the Practical Expedients vs. Restatement of Prior Years

- Does arrangement contain a lease?
- No lease classification assessment as to finance vs. operating
- No recognition of initial direct costs
- No applicable of hindsight events
- Non-recognition of lease 12 months or less
- Maintain current accounting for easements

January 1, 2020

Post-01.01.20

Review All New and Amended Leases for:

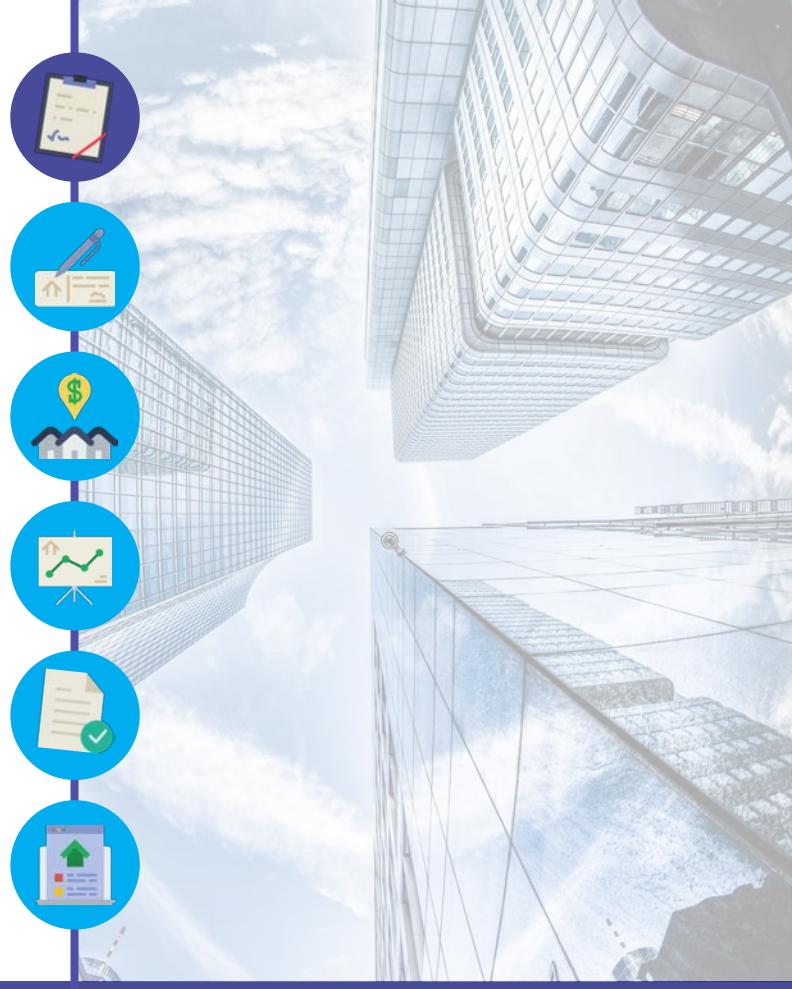
- Lease classification as to finance vs. operating (5 criteria)
- Contracts that contain a lease (5 criteria)
- Assessment of material direct costs
- Associated non-lease cost assessment
- New SOX controls/footnote disclosures/continuous updating of leases database for change

Surprises with the New Lease Standard

Surprises

Embedded Leases

- Service contracts with assets that qualify as a lease
- Time to review = HIGH
- Number of resulting leases = Low
- Valuations are challenging



Surprises

Real Estate Leases

- Operating leases with big impact
- Example: 10-year lease, \$10,000 monthly payment = \$1MM ROU asset and lease liability
- Need for real estate expertise



Surprises

Equity Rarely Affected

- No use for our Cumulative Effect or Change in Account Principle account
- No Deferred Rent or Prepaid Lease Expense: It all flows through the ROU Asset



Surprises

Calculations

- Incremental Borrowing Rate
- Economic Life
- Fair Value



Surprises

FASB: No Materiality Explicitly Included

- IFRS 16 has individual lease materiality of \$5,000
- Some organizations follow their Property, Plant and Equipment materiality standards



Surprises

Related Parties

- Contract provisions rule, especially for lease term
- It's about the economic incentive, not relationships



Surprises



It's all leases!

- Not just real estate
- Photocopiers, vehicles, equipment



Common Mistakes to Avoid

Common Mistakes to Avoid

Timing of Systems vs. Process

- Don't leap straight to entering leases in a system.
- Priorities should be:
 - Thoughtful policy elections
 - Understand lease payment process and GL accounts
 - Identify full lease portfolio by asset class



Common Mistakes to Avoid

Booking a Cumulative Effect of Change in Accounting Principle

- Adjust ROU Asset instead
- Certain it goes to equity? Contact your CPA firm.



Common Mistakes to Avoid

Use of Spreadsheets

- Error prone
- Quantitative footnote disclosure is complicated
- Lease revisions - difficult to “freeze” spreadsheet reporting
- CPA firms might charge more to audit a spreadsheet

Common Mistakes to Avoid

Lease Term Renewals

- Not just “I think we’ll renew”
- High bar - economic incentives matter
- Related party - relationship doesn’t matter for term



Unexpected Business Impacts



Maturity Analysis Includes More Leases

- Not just real estate and office space
- Smaller leases add up

Debt Covenants

- Dependent on individual terms
- Work with bank early
- Could impact availability or cost of capital

Tips to Simplify Implementation

Simplify Implementation

Be Organized

- Project management
- Lease inventory by reviewing payments
- Embedded lease assessment



Simplify Implementation

Inclusive Decisions

- Transition vs. Ongoing Identification
- Not Just Accounting
 - Procurement, Location Managers, Finance



Simplify Implementation

Hire an Expert

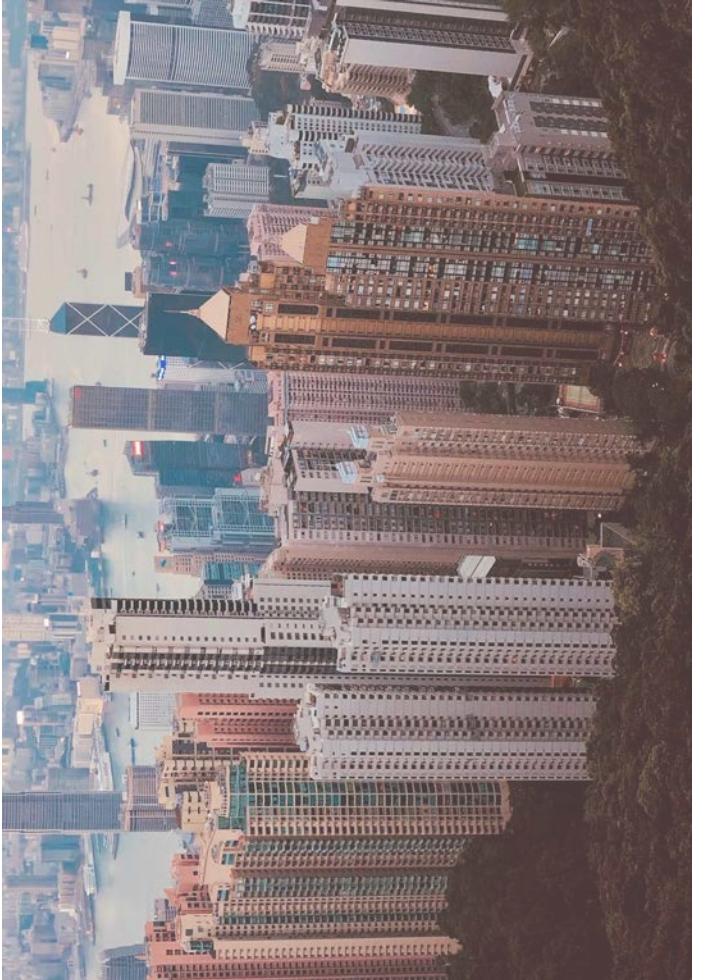
- Outsourcing works!
- Stay involved



Simplify Implementation

Start Early

- Still should be plenty of time - if you don't wait.





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