



To the ASC 842 Finish Line and Beyond

A Survey of How Private Companies Are
Preparing for the Lease Accounting Transition





It's Not a Sprint to the Finish Line – *But Companies Should Be Off to the Races*

The road to ASC 842 compliance has been a long and winding one for the accounting industry—especially for private companies who have had many pauses and delays throughout their lease accounting compliance journey, as well as a COVID-19 curveball thrown at them in the middle. But even with the compliance deadline finally in sight, this last leg of the 842 marathon may have more twists and turns than ever.

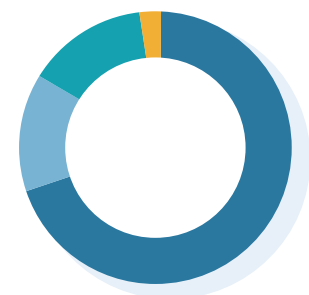
The lease accounting landscape today is defined by contrast: high expectations contrasted against slow execution; knowledge about the length, difficulty, and nuances of the compliance process contrasted against slow adoption—with too many organizations not putting their knowledge into action in a timely manner.

From Wall Street to Main Street, private companies are facing a fast-approaching transition date for compliance under ASC 842. However, that does not mean now is the time to sprint toward the finish line. Rather, it's a time to continue pacing yourself to ensure accurate, confident, and timely completion.

For those companies who find themselves either lagging behind the pack, or stuck at the start line, the focus should remain firmly on the future, with new innovations, services, and engaging new challenges waiting just around the corner.

During the fall of 2021, we surveyed more than 270 respondents from private companies, government entities, and non-profit organizations, about their biggest priorities—and roadblocks—as the FASB ASC 842 lease accounting deadline approaches.

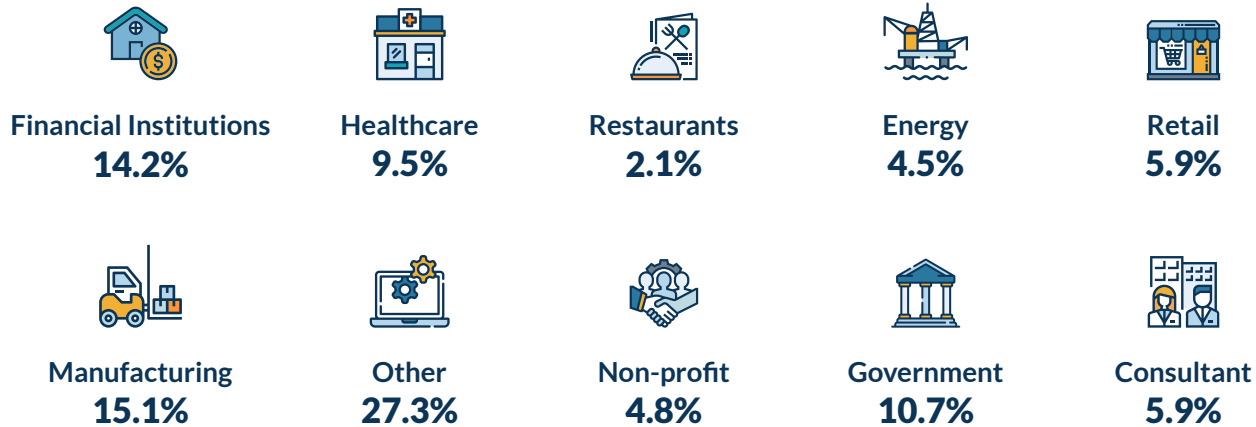
Total Survey Respondents by Sector



- Private - 70%
- Government - 14%
- Non-profit - 14%
- Other (non-public) - 2%

Industry Spotlight

This survey included participants from a variety of industries, all of whom faced more than their fair share of challenges during the pandemic.



Despite industry divides, accounting is a shared language—and many of the challenges faced were industry agnostic as well. The majority of this report will focus specifically on private companies.



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Survey Says...

Although 88% of respondents believe their organization is on track to meet the January 2022 transition deadline ... **more than 40% have not yet started the process or are in the early stages of assessing their implementation plan.**

In contrast, the experience of public companies (who were required to transition to ASC 842 as of January 2019) shows the lease accounting transition was both more complicated and time-consuming than anticipated. So, at this critical time, **we must answer these questions:**

Where are private companies in their transition process?

What are the major challenges, roadblocks, and external pressures slowing the transition down?

What do companies need to clear those last few hurdles? (the staffing, knowledge, and software questions)

And, most importantly, what do companies' priorities say about the post-transition future impact?

Expectations vs. Reality

It's a fact that **FASB ASC 842** represents the first major change to lease accounting regulations in decades. Public companies who completed their ASC 842 marathon in 2019 have warned that the implementation journey was more challenging than expected, and the balance sheet disruption caused by the increase of lease liabilities along with the addition of right-of-use (ROU) assets is proof.

The gap between those private companies who believe they are on track to complete their race to compliance and meet the tight transition deadline and those who have actually begun the process is surprising, especially given the firsthand experiences shared by public companies.

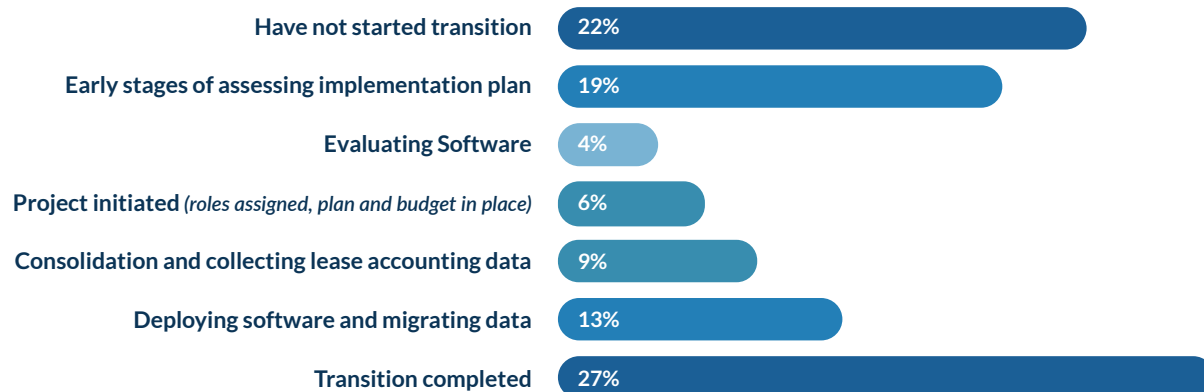


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We've learned that transitioning is a long and intense journey. And—just like marathon training can't happen overnight—an organizations' race to compliance is best tackled as a slow and steady one, too.

Where are companies in their lease accounting transition process?

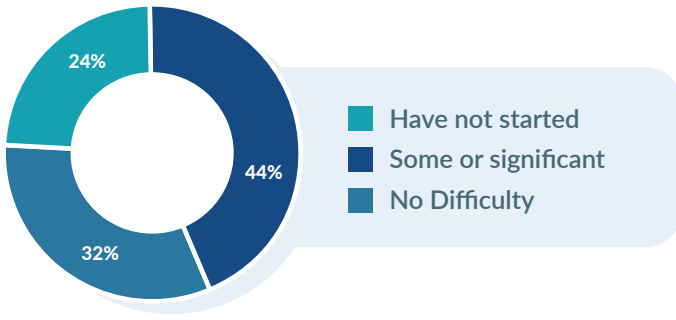


Private companies need to ensure they hit all the stops along their road to transition. Following each step will help organizations feel more confident throughout their ASC 842 compliance journey. The time invested in the process will pay off with efficiencies in the overall day-to-day workload.

Late to the start? Here is the go-to transition checklist that can help you find your way:
ASC 842 Transition Checklist

A Difficult Road Ahead

For those private companies who have started their ASC 842 transition, most say it has been difficult to some degree.



Prior to the announcement of the new lease accounting standard, most companies had a higher materiality threshold when considering leases as many recorded disclosures in the footnotes and/or the expense recognition on the balance sheet was the same for operating leases whether they were identified or not. However, as companies adopt the new process, that sentiment is changing drastically. While transitioning was always a monumental task, in correlation with the new significant changes to the face of financials, private companies have added a list of new concerns to their plate as the deadline nears.

Our survey uncovered these top three concerns that may impact lease accounting compliance:

- 1** COVID-19 pandemic lease modifications
- 2** Staffing and talent challenges
- 3** Going it alone

The COVID-19 Pandemic

2020 made history on many levels and marked a turning point for companies across every industry. Whether customer demand stalled or surged, organizations were forced to take a close look at their overall strategy and make critical adjustments.

As the business case for health and safety above all else was clear, nearly three-quarters of companies (**73%**) said the lease accounting transition was deprioritized, or that resources were deployed to other priorities during the pandemic.

While a general deprioritization of the lease accounting transition process was the case for **37%** of the companies we spoke with, others shared insights into the specific COVID-19 repercussions that most commonly held them back from reaching the compliance finish line:



22%

Remote Work Challenges



25%

Staffing Resources

Deployed to other priorities



12%

Financial Resources

Deployed to other priorities



6%

Changes to Lease Portfolio

Throughout 2021 companies are learning to settle into a new reality. However, a new reality brings on new hurdles holding them back from completing their ASC 842 transition. Many companies are taking more proactive steps forward as they start bringing other priorities back into focus.

Staffing and Talent Challenges

Talent acquisition and retention is an undeniable pain point for companies at the moment, regardless of industry, size, or structure. From the Great Resignation to employee burnout and everything in between, it can feel like there just isn't enough staff to get everything done. This is especially true as compliance deadlines approach, resulting in the need for changes in processes within an organization. Companies are preparing for their processes to be reimaged, redesigned, and redeployed.

25%

A quarter of companies report having to deploy staffing resources to other priorities during the pandemic.

Short of the ability to add more hours to the day, companies have been doing their best to increase staff to address recent lease accounting challenges. In planning for the lease accounting transition ...

26% of companies report that they either added—or are currently trying to add—someone to their team to manage the lease accounting transition process.

50% added 1-2 permanent staff members to their teams during the lease accounting transition process; a further 5% of companies added between 6-9 employees to their permanent teams in preparation for the transition.

45% of respondents added 1-2 temporary consultant staff members to their teams as part of the lease accounting transition process

Accounting work can be tedious, especially during busy or stressful times – such as a complicated accounting compliance transition. This is even more reason for companies to choose the right software partner to help with the lift, as well as to ensure their staff is engaged, consulted, and considered as new systems are put in place.

New automation tools built purposefully for lease accounting can increase teams' efficiency while allowing them to upskill and focus on challenging, more engaging work that reaches beyond recording journal entries or sifting through piles of contracts to uncover lease information.

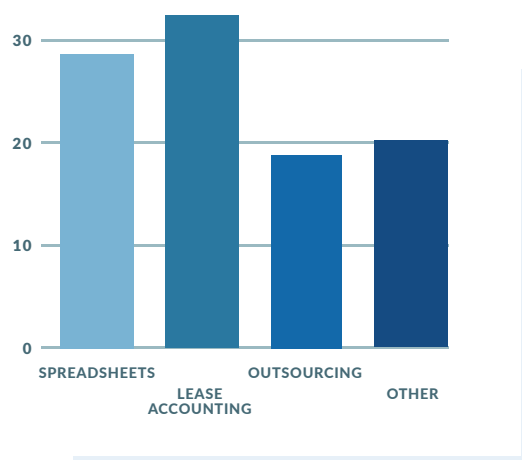
A smooth and successful transition to ASC 842 could aid in retaining or recruiting employees. The processes being put in place now to streamline lease accounting and financial reporting will have a huge effect on your department's morale and the future health of your company – which is all the more reason to ensure you get it right.

Going It Alone

Although **74%** of survey respondents indicated they did not feel the need to add someone to their team to help the lease accounting transition, nearly **16%** ended up adding to their team and another **10%** are actively searching for the right person(s).

Ultimately, deciding to add new team members to help cross the ASC 842 finish line may come down to the way companies use technology or lease accounting partners.

What type of technology are companies using for their transition?



The graph above demonstrates those still in the early stages of transition shouldn't wear rose-colored glasses when reviewing the data from others' success stories. Instead, organizations need to focus on having the right partners and software on their side, as both play major roles in the required time and success of your transition.

Questions to ask your transition team

1 If using Excel or other spreadsheets for transition, have you started thinking about...

- The security of your data?
- How you will consolidate your lease information into the required disclosures?
- What controls can be put in place to protect yourself from manual error?

2 If you're planning to use software, have you...

- Identified the "must-have" vs. "nice-to-have" functionalities?
- Gotten approval from management?
- Chosen one yet?

3 If you've chosen a lease accounting solution, have you...

- Identified your lease portfolio?
- Named the solution administrator?
- Determined and which practical expedients you will apply?
- Completed your implementation yet?

Helpful resources



Lease Accounting Transition Checklist



Why Lease Accounting in Excel Will Set You Up for Non-Compliance



How to Choose the Right Accounting Software for Your Business



Lease Accounting Transition Advice From the Experts



Beyond Compliance: The Hidden Benefits of Lease Accounting Software

Making the Case for Technology Enablement

Organizations with lease accounting software already in place are taking advantage of the tool's features, like custom reporting, that enable them to make more informed financial decisions. They're also staying on top of lease renewals, notification deadlines, and rent decreases with configurable, automatic email notifications.

Businesses are spending less time on the adoption date, since transition entries, as well as the necessary amortization schedules and disclosures, are instantly available at the moment of transition. Finally, organizations using a trusted partner and lease accounting solution before the transition to ASC 842 are seeing the added benefit of ensuring compliance with legacy accounting standards, combined with a simplified year-end disclosure process.

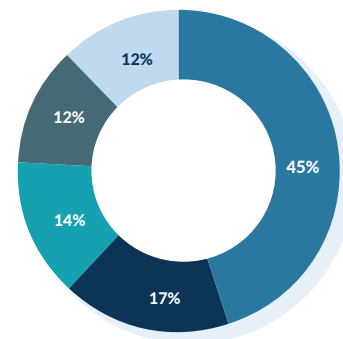
The transition will affect more areas of the business than some may expect, compounded by a lack of budget or staff. This makes prioritizing money and manpower at this stage extremely important, especially for companies that have not yet started.



Managing Your Businesses' Most Valuable Resources: Time, Visibility and Strategy

Where is time being spent most during the transition process thus far?

Most transition guides and advice warn that identifying your leases and gathering your lease information will be the most time-consuming step to adopting ASC 842. We proved this with our **Accountant's Journey toward Lease Accounting Adoption Survey**, which polled more than 200 accounting professionals who told us the transition took longer than expected - and now, we can expect to see it again. If you have not started your transition, gathering your lease information now will set you up for transition success in the future.



- Inventorying leases and all pertinent data
- Re-evaluating existing leases
- Determining policies and practical expedient elections
- Evaluating and implementing software
- Identifying embedded leases

After the race is won

The new lease accounting standards are in place to ensure an appropriate level of transparency and consistency across all types of organizations' financial statements. Although the transition may fuel questions and anxiety around its complexities, it's time businesses look beyond the finish line and embrace the actual benefits realized throughout the compliance journey.

Better visibility into full lease portfolio: With an accurate view into everything from lease-by-lease detail to summarized lease balances anywhere and at any time, organizations can now better understand the overall picture and gain insight by pulling the information that means the most to them - at any given moment.

Ongoing efficiencies through lease accounting software: Although the new standards are complex and may feel overwhelming, implementing technology streamlines processes and allows lease accounting to be completed in just minutes per month with standard and customized reports available at the touch of a button.

Uncovering savings through contract analysis: As businesses face increased liquidity issues and look ahead to more strategic investments, many are starting to look for opportunities. Being able to analyze copious amounts of lease data gives accountants more insight into their lease portfolio than ever before (**i.e. lease vs. buy analysis**), facilitating more accurate budgets and forecasts for the future.

What are the top three benefits reported by those who have completed their transition?



66%

Better visibility into lease portfolio



27%

Ongoing efficiencies created through lease software



7%

Uncovering savings through contract analysis

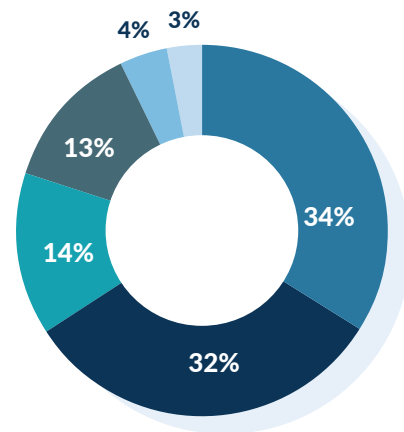
To the Finish Line and Beyond

With the final deadline for the lease accounting transition approaching, companies are starting to shift their focus on day two challenges, and more importantly, what's next for their businesses. Our survey responses illustrate where decision-makers' heads are and what they're keen to prioritize once the books are balanced and the dust has settled.

Don't procrastinate - Start (or accelerate) the process now, to begin reaping the rewards of a post-transition future

Businesses everywhere are thinking about and looking forward to a post-transition future. Don't risk leaving money on the table or closing yourself off from key business insights and visibility that will help you prioritize, plan, and protect your business' future.

Outside of lease accounting, what are accounting departments' top priorities?



- Preparing for year-end
- Leveraging automation to increase efficiency
- Training or upskilling staff
- Hiring additional staff
- Other
- Bolstering data analytics

Get your team together, implement the right technology solution and start unlocking:

- Better understanding of your business today
- Negotiating power for what you want to change or transform
- Enhanced transparency and liquidity you need to invest in tomorrow

To help map out your transition journey, including the insights you can uncover along the way, view our [lease accounting transition guide](#).

About LeaseQuery

LeaseQuery makes accountants' lives easier by simplifying the complex with technology. More than 25,000 financial professionals globally rely on our cloud-based, CPA-approved solutions and in-house accounting expertise to comply with confidence across various FASB, GASB and IASB accounting standards. Our software helps businesses minimize risk, increase efficiency and reduce costs. Learn more about LeaseQuery's core lease accounting solution, which focuses on easing the mandatory transition to ASC 842, GASB 87, GASB 96 and IFRS 16.

