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# LEASE ACCOUNTING: ROAD TO COMPLIANCE CHECKLIST

While the FASB recently affirmed the deferral of ASU 2016-02 (Topic 842, leases) for private companies and nonprofits, companies should still forge ahead on the road to compliance. The new standard applies to both lessees and lessors, and it brings significant changes to balance sheets. The extra time granted by the FASB reflects the mammoth task ahead, which will require more work, more resources, and more time than most businesses realize.

Before you even get started on the process, you'll want to ensure your accounting team has been educated on the new standard and understands its implications across the organization. Visit [BDO's Lease Accounting Hub for additional tools and resources](#).

## STEP 1: Identify Your Lease Population

Understand the new definition of a lease.

Identify your known lease population.

Review your contracts and other agreements to identify previously unknown leases – including embedded or in-substance leases.

Work with local offices, plants, distribution centers, etc., for information on leases they may have as well.

Compile a listing of your total lease population, including significant lease terms such as lease payments, term, options to renew or cancel, and initial direct costs.

Document procedures performed to identify your complete lease population for your auditor.

## STEP 2: Technical Analysis and Assessment

With your full lease population in mind, determine your policy elections and practical expedients

Decide on one of the available transition methods and consider discussing these approaches with your financial statement users, stakeholders and peer organizations, if relevant.

- ▶ Modified Retrospective Type 1: Under this approach, you are adopting the new lease accounting standards as of the earliest period presented in your financial statements.
- ▶ Modified Retrospective Type 2 (Effective Date Method): Using this method, you will adopt the new lease accounting standards on the effective date. Your balance sheet and prior period disclosures will show accounting based on the old standard applied to the previous years.

Assess whether your organization's existing systems, internal controls, and processes are adequate or if new systems and tools are required.

Draft a lease accounting policy white paper outlining your policy elections and practical expedients, and how they impact your financials.

Discuss lease policy decisions with your auditor.

## STEP 3: Lease Calculations

If your assessment has determined that lease accounting software will be necessary for your implementation, review vendor options, finalize software selection, and start the set-up process.

Using data from your total lease population, upload lease details into lease accounting software or run calculations to determine appropriate entries.

Consider business process changes that need to be made for the organization's internal control environment around data entry, authority to enter contracts, and review.

## STEP 4: Data Validation

Run a manual test on a population of leases to ensure technology and software systems are accurate.

Run applicable historical transactions through new systems and business processes to calculate the effect on prior periods or the cumulative effect upon adoption date.

Allow time for your auditor to test your restated accounts or cumulative adjustment.

Prepare new disclosures and ensure auditor concurrence.



**BDO can offer guidance, training, and support as you work your way toward compliance with the new lease accounting standard.**

[www.bdo.com/leaseaccounting](http://www.bdo.com/leaseaccounting)

**MICHAEL STEVENSON**

Partner and National Practice Leader  
Accounting & Reporting Advisory Services  
214-665-0707  
mstevenson@bdo.com

**FAISAL JEDDY**

Partner and West Region Practice Leader  
Accounting & Reporting Advisory Services  
408-352-3603  
fjedly@bdo.com

**STUART ABSOLOM**

Partner and Atlantic Region Practice Leader  
Accounting & Reporting Advisory Services  
301-354-2503  
sabsolom@bdo.com

**ROB TRINCHETTO**

Partner and Northeast Region Practice Leader  
Accounting & Reporting Advisory Services  
631-927-1171  
rtrinchetto@bdo.com

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